



## On Rationality, Ideal Types and Economics: Alfred Schütz and the Austrian School

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**Abstract.** A comparison is made of the views on economic theory and method of the Austrian philosopher and sociologist Alfred Schütz (1899–1959) and those of his mentor, the Austrian economist Ludwig von Mises (1881–1973). Schütz basically agreed with the fundamental parts of the Austrian program, but he also had disagreements with Mises on the epistemological character of the core assumptions, on the formulation and status of the rationality principle, and on the use of ideal types in economic analysis. In several of these aspects Schütz had important points of value not only for the use of ideal types in economic modeling, but also within political science and sociology. In the end, however, there is more which unites than separates Schütz and Mises.

Action is, by definition, always rational.

Ludwig von Mises ([1933] 1981:35)

Action is behavior based on an antecedent project. Since every project has an “in-order-to” or “for-the-sake-of-which” structure, it follows that every action is rational.

Alfred Schütz ([1932] 1967:239)

### Introductory Remarks

The Austrian-born philosopher Alfred Schütz (1899–1959), the founder of phenomenological sociology, is often seen by sociologists as the anti-thesis of everything economic. Interpretive sociologists, ethnomethodologists, anthropologists, hermeneuticist philosophers

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and even strands within ‘post- modernism’ have claimed his sociology of the everyday-life. In contrast, the Austrian economist Ludwig von Mises (1881–1973) is often viewed as being the most radical of all economic ‘imperialists’. Mises always championed that all human action should be analyzed in terms of such economic categories as purpose, choice, utility, costs, economizing, etc., and, on top of it, argued that all action necessarily is rational.<sup>1</sup>

In recent years this contrast has been seriously challenged in a number of ways. It has been shown that Schütz, through his participation in Mises’ *Privatseminar* was much closer affiliated with one particular branch of economic thought than usually acknowledged, namely the very Austrian School of Economics to which Mises belonged (Prendergast 1986, Helling 1988, Kurrild- Klitgaard 1997a). Furthermore, it has also been shown that important aspects of Schütz’s insights and those of the Austrian economists are compatible or may be integrated (Rothbard [1973] 1979, 1976, Boettke, Horwitz, and Prychitko 1986, Ebeling 1987a, 1987b, 1987c, Eberle 1988, Koppl 1997, 1998, O’Driscoll and Rizzo 1985, O’Sullivan 1987, Prendergast 1993).<sup>2</sup> Indeed, it has been demonstrated how the most important aspects of Schütz’s approach can be reconstructed as being basically identical to the rational choice approach broadly conceived (Esser 1993a, 1993b).

The present study wants to add further to this emerging view. This will be attempted by, first, briefly introducing Schütz’s writings on economics, several of which have not been generally accessible until recently (Section 1). Second, a discussion will be undertaken of some of the main points of potential agreement and disagreement between Schütz and the Austrians (Section 2). In particular special attention will be given to the different ways in which Schütz and Mises viewed the delimitation of the field of economic theory and the usefulness of ideal types. It will be shown that a number of differences may be seen to exist between the two, but also that Schütz on some points saw disagreement where none necessarily exists, and that he on some points possibly misunderstood his mentor, Mises. Indeed, Schütz’s criticism of Mises may be due to a partial confusion of Mises’ concept of *homo agens* with the more standard neo-classical *homo oeconomicus*.

It will also be indicated how these points may have wider importance than merely for the history of the Austrian School, i.e. for economic theory in general and for the application of rational choice-like analysis outside the field of economics, e.g., to political science and sociology.

In this course, it will, however, be necessary to take certain knowledge of the approach of the Austrian School and the basic concepts of Schütz’s phenomenological sociology for granted. This is, of course, less than satisfactory, but given the circumstances unfortunately necessary.

## 1. Schütz’s Writings on Economics

The first thing to note when aiming at a comparative analysis of the phenomenological sociology of Alfred Schütz and the approach and theories of the Austrian School of economics is that the two are in fundamental correspondence to each other. Schütz’s scholarly pursuits may indeed be seen as an integration of Weber’s interpretive sociology with Husserl’s phenomenology in order to support and further develop the economics of the Austrian School (Prendergast 1986).

Whenever Schütz wanted to point towards, what he considered to be an ideal case of how social scientific theories should be formulated, and what errors to avoid, he repeatedly pointed towards the Austrians as authoritative.<sup>3</sup> When he spoke of “pure economics” as being the “perfect example of an objective meaning-complex about subjective meaning-complexes” ([1932] 1967:245), he was clearly referring not just to economics in general but explicitly and specifically to Misesian Austrian economics. Schütz’s view of economics could indeed be summarized in his own words to his economist friend, Adolph Loewe: “[My] scanty knowledge of economics is based on what I learned in Vienna some 25 years ago as economic theory and this was based on the particular brand of marginal theory developed by the Austrian school.”<sup>4</sup>

There is, it must be admitted, very little evidence of a direct and obvious influence specifically from the Austrian School in Schütz’s work, but this is no doubt first and foremost due to the fact that Schütz wrote so little on economics as such. Schütz was, as he himself stressed on various occasions, not really an economist by education, and he never considered himself to be so *per se*. Rather Schütz’s interest in economics was, on one hand, through his professional life as a banker, and on the other hand, due to his general interest in the social sciences, with economics being, in Schütz’s opinion, perhaps the most fully developed of these. Economics thus, as his intellectual biographer has put it, next to sociology “ranked second in his private scale of the relative relevance of the various disciplines for his work” (Wagner 1983:164).

But Schütz never published any essays on specific economic issues, and even his essays on methodology were, at the most, indirectly on economic theory. Of course if economics, as Mises ([1933] 1981:xvi) originally saw it, is simply a branch of general sociology, then one could say that all of Schütz’s writings are related to economics, in so far as they almost all deal with social scientific methodology in relatively broad terms.

Some of Schütz’s writings have, however, dealt more explicitly with economic themes and issues than others. This is in particular the case with his lecture for Mises’ *Privatseminar*, “*Verstehen und Handeln*” (“Understanding and Acting”) ([1930] 1996), long passages in *Der sinnhafte Aufbau der sozialen Welt* ([1932] 1967), and his very favorable review of Mises’ *Grundprobleme der Nationalökonomie* ([1933] 1981). It is even more so the case with his two unfinished attempts at writing an article on his views on economic methodology, “*Nationalökonomie: Verhalten des Menschen im sozialen Leben*” (“Political Economy: Human Conduct in Social Life”) and “*Untersuchungen über Grundbegriffe und Methoden der Sozialwissenschaften*” (“Investigations into the Fundamental Concepts and Methods of the Social Sciences”). Most important are Schütz’s written reflections and response to the draft of his close friend and fellow *Miseskreis*-member, F.A. Hayek’s essay “Economics and Knowledge” ([1937] 1949), “*Über Wissen und Wirtschaft*” (“On Knowledge and Economics”) ([1936] 1996). Later came published articles, which dealt in great detail with the questions of choice and rationality in the social world, often with reference to economic questions. These include, e.g., “The Problem of Rationality in the Social World” ([1943] 1964),<sup>5</sup> “Choosing among Projects of Action” ([1951] 1962), “Common-Sense and Scientific Interpretation of Human Action” ([1953] 1962) and the partly posthumous “Choice and the Social Sciences” (1972). Finally, in his correspondence with friends and colleagues Schütz often discussed issues and concepts fundamental to economic theorizing, e.g., with

F.A. Hayek, Fritz Machlup and Gottfried Haberler.<sup>6</sup> This was in particular the case with a series of interesting letters exchanged in the mid-1950s with his colleague at the New School for Social Research, the institutionalist economist Adolph Loewe, with whom he taught a seminar on methodology in 1955.<sup>7</sup>

These works are together the works which must be considered, if one wants a true understanding of what Schütz saw as his own views on economic theory.

## 2. Schütz on Economics

What is obvious from these writings is that Schütz shared all the basic points of the economics of the Austrian School of the inter-war period. This was so, even if he more often than not used a terminology quite different from that of, e.g., Mises and Hayek. In the following this will be demonstrated as relating to three of the central elements of the Austrian approach:<sup>8</sup> The questions of (1) methodological subjectivism and methodological individualism as the proper starting points of the social sciences, (2) the focus on human action and the principle of marginal utility, and (3) the axiomatic–deductive character of general economic theory.

### 2.1. *Methodological Subjectivism and the Universality of Economic Theory*

Schütz's writings clearly demonstrate how he shared both the *methodological individualism* and *methodological subjectivism* of his friends and colleagues among the Austrian economists, and indeed rejected the behaviorist view found among many positivists that economics should only deal with what could be observed. Although his terminology was different his position was fundamentally Misesian:

*All social phenomena can be traced back to actions of actors in the social world who, in turn, may be observed by social scientists. Therefore it is possible at any time to pose the further questions: What possible meanings did the actors connect with these actions which present themselves to us, the observers, as courses of social phenomena? Posing this question we will no longer be satisfied with establishing a certain form of curves of supply and demand. Beyond this we ask, What considerations must have caused sellers and buyers to behave in the market place so that the resulting curves of supply and demand acquired this or that shape? We will no longer be satisfied with the prices of end-products and the statistical establishment of the producers when setting up the plans of production. . . . This perspective of research may appropriately be called the subjective direction, or better the question about the subjective meaning of social phenomena. . . . At no stage of our social-scientific investigations can we be prohibited from referring back to the subjects of the social world. We can object to this information only if, for reason of one or another problem, this turn of attention will yield little information of interest, perhaps none at all. Conversely it can be said that the same turn of attention is unavoidable when we aim at the exact recognition of*

*phenomena* which are not even viable on the level of objective meaning and become thematic only at a deeper level of inquiry. (Schütz [1936] 1996:94–95; italics added)

So while—as we shall see—there are specific points, and important ones, where Schütz disagreed with Mises, he was in fundamental agreement with, or even defending, the Misesian position on this fundamental level. Schütz’s basic adherence to the Austrian program was in fact obvious already in the first known work, where he touches on economic subjects, the *Miseskreis*-lecture “*Verstehen und Handeln*” ([1930] 1996) which essentially was a preview of *Der sinnhafte Aufbau der sozialen Welt* ([1932] 1967). In the lecture Schütz set out with the purpose of investigating—and defending—the view that all the social sciences deal with meaningful (purposive) human behavior in the social world and that one branch, economics, is capable of producing theoretical knowledge consisting of “universally valid propositions” (Schütz [1930] 1996:84). Schütz’s conclusion is that it indeed is possible to gain such an *objective* knowledge of *subjective* actions, despite the problem of intersubjectivity, and the reason is that the abstract propositions of economics deal with aspects of action which are completely interchangeable from one individual to another:

The Thou becomes an impersonal ‘someone’ [*Man*]. I or anyone else can replace this Thou by any real *alter ego* or an ‘ideal type’ or ‘everyone’ without thereby being able to change anything in the context of meaning in which we fit the action. But it is just for this reason that the ‘objective meaning’ of the action, its place in the context of meaning in which we fit the action, its place in the context of meaning of *our* experience, remains invariable in the fact of any context of meaning whatever in which the action happened to be built up polythetically: who executed the action under regard and when it was done is in principle irrelevant for this mode of observation; it is sufficient that such an action does not contradict our experiences.

[The] objective meaning (of an action or sign) is exclusively integrated into a context of meaning in the consciousness of the ‘observer’ . . . Only a science of objective meaning is capable of forming ‘laws of universal validity’. Political economy is a science of objective meaning. It does not deal with action which is built up phase-by-phase in the course of consciousness pertaining to the Thou; it deals instead with the *anonymous processes of actions by an impersonal ‘someone’*. Just this sets off the subject-matter of political economy from that of understanding sociology (and also that of history). (Schütz [1930] 1996:86; italics added)

These “anonymous processes of actions by an impersonal ‘someone’” are simply a quite different way of using the Misesian concept of *homo agens*, Acting Man, and the “laws of universal validity” are, of course, a reference to Mises’ view that economic theory consists of praxeological laws which are *a priori* (Helling 1988:59).

## 2.2. *Marginal Utility and the Open-Endedness of Human Motivation*

Schütz’s adherence to the Austrian program is also clear from his discussions in the mid-1950s with the institutionalist economist Adolph Loewe. In their discussions Loewe had

argued against what Schütz understood as the ‘marginal principle’ by trying to show that it necessarily implied a semi-hedonistic assumption of maximization of satisfaction. Schütz rejected this and argued that the principle was purely formal:

[As] I see it, the marginal principle does not only consist in establishing the maximization of satisfaction as the basic motive of economic action. You reject this function of the marginal principle by good reasons as an appropriate basic method for economics and I feel by no means qualified to oppose your arguments which seem to me highly convincing. It would be preposterous to tell an economist like you what kind of tools he would need. . . . [But] I do not see, until otherwise enlightened by you, why in the marginal principle must needs be identified with maximization of satisfaction. Is it not possible to interpret this principle as a purely formal one?<sup>9</sup>

Now, what did Schütz mean by such a “purely formal” principle? According to Schütz the basic assumption—or, as he also called it, no doubt inspired by Mises, “axiom”—of economic science would be that every actor at any moment of his life is confronted with what he elsewhere called “problematic possibilities” (Schütz [1951] 1962, 1972). This is a choice between a set of alternatives, where these are

- (1) arranged in systems of relative relevance, each “with a particular weight in terms of preferences of this individual,”
- (2) are mutually exclusive,
- (3) are in competition with each other, and thus
- (4) involves the renouncement of all other alternatives standing to choice.

Together these points, according to Schütz, constitute “the core of the marginal principle” when combined with a “second axiom.” The latter is that “the outcome of all these choosing processes has to be anticipated *as if* all the choices were made rationally” (italics added).<sup>10</sup>

This was indeed elaborated in greater detail by Schütz:

The ideal type of social action must be constructed in such a way that the actor in the living world would perform the typified act if he had a clear and distinct scientific knowledge of all the elements relevant to his choice and the constant tendency to choose the most appropriate means for the realization of the most appropriate end . . . [Only] by the introduction of the key concept of rationality can all the elements be provided for constitution of the level called ‘pure theory’ . . . [This implies] that all other behavior has to be interpreted as derivative from the basic scheme of rational acting. The reason for this is that only action within the framework of rational categories can be scientifically discussed. (Schütz [1951] 1962:86–87)

We must, Schütz argued, build our

ideal types as if all actors had oriented their life-plan and, therefore, all their activities to the chief end of realizing the greatest utility with the minimum of costs; human

activity which is oriented in such a way (and only this kind of activity) is the subject matter of your science. (Schütz [1951] 1962:87)

These formal assumptions must in any particular model be filled with specific content so as to be meaningful. The interesting point here is that these points have a significant resemblance with the standard assumptions of standard rational choice theory, e.g., as in game theory—which, incidentally, was partly developed by another of Mises' students and friends of Schütz, Oskar Morgenstern. They are all standard assumptions of choices made among mutually exclusive alternatives on the basis of preferences which are consistent and complete, and that the choices are made given scarcity and constraints (e.g., a budget). In addition it must be assumed in any particular model that preferences are constant for the moment under consideration. This is, Schütz argued against Loewe, a purely formal principle:

Nothing whatsoever is stated as to the specific objects of choice and nothing even as to the principle according to which this choice is made, except that this choice according to the second axiom has to be interpreted as a rational one. The concept of 'satisfaction' or 'maximization of satisfaction' has so far not entered the analysis.<sup>11</sup>

The parallel to Mises and the Austrians is again striking. Mises had gone to great lengths to try to distance his economic thought from those based on any simplistic instinct-based motivation. And so is the immediate inference drawn by Schütz, namely that such abstract, formal theoretical consideration is a necessary prerequisite for any empirical studies:

Now, I submit that an analysis of this kind precedes even any 'descriptive analysis' in your terminology. The analysis outlined above will refer also to other rational actions and our common friend Pareto was, I think, right in so far as he made a distinction between rational and non-rational actions, in stating that the former constitute the realm of economics and that part of jurisprudence which deals with contracts, whereas the latter constitutes the domain of sociology. Of course, he had a highly objectionable conception of rationality.<sup>12</sup>

Mises no doubt would ascribe to this too, although there would seem to be at least a terminological difference—as Schütz was aware of and as we shall return to. For Mises explicitly regarded *all* action as rational and held that one should distinguish between purposive behavior which is rational and non-purposive behavior which is non-rational. But otherwise the twist was the same: That the former constitutes the domain of economics and similar social sciences, while the latter is that of sociology, psychology, etc.

### 2.3. *The Axioms and Levels of Economic Analysis*

Schütz believed that the "principle of marginal utility attains a universal character by marking out theoretical realms of social life" and explicitly advocated that the principle should be placed as an axiom at the foundation of all economic analysis and combined with the use of personal ideal types:

[It] follows that the principle of marginal utility is a postulate directed at economists that can be circumscribed as follows: 1) Supply the conceptual models of actors in the social world as such, which you are to form, with experiences of consciousness (*goals of action and motives*) so that the resulting *actions appear oriented to the principle of marginal utility*; 2) construct *only* ideal types which conform to this postulate. (Schütz [1936] 1996:102; italics added)

Schütz explicitly distinguished between different levels of abstraction in economic analysis, namely on the one hand what he called “the realm of the logic of pure economics” or “general praxeology” and on the other hand what he called “the social economy of exchange” (Schütz [1936] 1996:92, 99). He was here no doubt consciously echoing Mises’ distinction between praxeology as being the “logic of action” and economic theory as being “catallactics”, i.e. exchange relations between individuals. But it is also worth noting that Schütz made this distinction in his comments on the concept of equilibrium in his response to Hayek’s “Economics and Knowledge” ([1937] 1949). Here Hayek had distinguished between “the pure logic of choice” and the study of market interaction and argued that the former alone could not explain the occurrence of equilibrium in the latter.

This was indeed echoed by Schütz in his discussion of knowledge and data in economic modeling:

[As] long as we remain within the realm in which we started [i.e., ‘the logic of pure economics’, *PKK*] we will never encounter the question whether or which data are given to a social scientist. There are no data within the given sphere. Nothing is ‘given’, everything must be determined by *definitions, axioms, so-called tautologies*, or else it must be *derived* from them. The question of data emerges first when the original problem-formation is abandoned (expanded) and when the set of insights gained so far is now to be *applied to other strata of problems*. What formerly was non-problematic now becomes the object of a new theme. Economists<sup>13</sup> regularly encounter the question of data; so, for instance, when they apply insights found in the logic of pure economy to the concrete economy of exchange, or when they apply propositions of the social economy of exchange to the economy of money; or when they are to apply a general proposition belonging to the economy of money to the concrete exchange rate of the pound sterling in 1936. (Schütz [1936] 1996:97; italics added)

### 3. Schütz’s disagreement with Mises

But while Schütz to a large extent can be seen as championing core elements of the Misesian program, there were also difference between the two. On two occasions did Schütz explicitly state his disagreement with his mentor, Mises, first in his “*Über Wissen und Wirtschaft*” ([1936] 1996) manuscript to Hayek and, secondly, almost twenty years later, in one of his letters to Loewe (1955).

Schütz’s critique of Mises’ version of Austrian economics can basically be connected to four points: (1) The epistemological status of the propositions of economic theory, (2) the

extent of the applicability of the logic of choice, (3) the process of choice itself, and (4) the meaning and usefulness of the concept of the ‘ideal type’.

### 3.1. *The Status of the Propositions of Economic Theory*

Schütz did not disagree with Mises, that the propositions of economic theory are of a necessary character; they are, he held, about what necessarily must take place. Schütz actually on several occasions explicitly agreed with Mises’ criticism of Weber’s ideal type methodology in the essay “*Soziologie und Geschichte*”. Weber had failed to recognize that the fundamental laws of economic theory, as Schütz ([1932] 1967:243, [1936] 1996:103) quoted Mises, “are valid always and everywhere if the conditions assumed by them are given.” (Mises [1933] 1981:85–86). But Schütz disagreed with Mises about *why* this would seem to be the case and *the extent* to which propositions about economic phenomena may be seen as being necessarily true.

Mises, a kind of neo-Kantian, in his early works collected in his anthology ([1933] 1981), distinguished between two fundamentally different ways of achieving knowledge in the social sciences, “*Begreifen*” (“conception”) and “*Verstehen*” (“understanding”). In the former knowledge about the categorical character of phenomena is gained by “discursive reasoning,” while the latter seeks the subjective meaning of specific actions through observation and interpretation: “Conception is reasoning; understanding is beholding.” (Mises [1933] 1981:134). Mises held the propositions derived from conception to be true *a priori* and due to the mental thought processes of human beings; it was simply inconceivable that they should not be true—because it is impossible to deny their fundamental assumptions without getting involved in performative contradictions. In contrast, the propositions deduced from the understanding of specific phenomena are only true *a posteriori*. The former is “theory,” e.g., praxeology and economic theory, while the latter is “history.”

Schütz seems to have disagreed with Mises on the epistemological status of the propositions of economic theory, and specifically he seems to have been critical of Mises’ apriorism and rejected, what Barry Smith (1994) has called the ‘impositionist’ character of Mises’ apriorism.

One problem here, however, is that Mises never fully articulated the epistemological basis of his apriorism, and in particular did he not tie these explicitly to any particular philosophical basis, not even that of Kant, despite adopting a number of Kantian concepts. This was in fact something which Schütz, himself primarily a philosopher, on several occasions expressed his desire for. Already in his review of Mises ([1933] 1981) Schütz regretted that Mises “analyzes the character and methods of the social sciences in a fine manner though he abstains from a discussion of the question of a general epistemology basic to the problems of the social sciences” (Schütz [1934] 1996:92). Schütz indeed later admitted to not quite understanding exactly what Mises meant by “aprioristic,” in particular whether it signified something beyond the general validity and universality, which Schütz himself acknowledged, e.g., as used “in the sense of one of the great systems of philosophy” ([1936] 1996:103).<sup>14</sup> If that was not the case then he hoped Mises would explain it in greater detail, or better, suggested Schütz, drop the term and notion of the *a priori* altogether. This so since, in his opinion, it will necessarily lead to confusion, because it

is used in so many different philosophical senses. Furthermore Schütz found the notion unnecessary:

There is no reason why the question of the current philosophical meaning of the *a priori* should intensely occupy methodologists of the social sciences. . . . We social scientists deal with mundane phenomena and their realities *within* the world. We do not ask about the *being of the world as such* but are satisfied that our propositions are of general and universal validity within the pregiven world of mundane phenomena—no matter whether this world hangs together without contradiction as a world of appearance or as one of genuine being. (Schütz [1936] 1996:103; italics added)

Schütz did not himself provide any elaborate examination of the epistemological status and validity of the propositions of economic theory. It would, however, seem that the universal validity which he ([1932] 1967:243–245, [1936] 1996:103)—with explicit reference to Mises—ascribed to the propositions of economic theory for him were only so exactly *qua* commonsensical and by definition:

[It] becomes clear that universal validity is ascribed to these propositions in the sense ‘that they are not an expression of what may occur as a rule but of what will occur always and necessarily’. And that means that such is the case provided the theoretical realm, as delimited by the principle of marginal utility, will not be abandoned. This is nothing but a consequence of the universality of the principle of marginal utility for the realm of invariance defined by it. To the laws of political economy accrue universality and objectivity in the same sense in which the laws of physics are ‘universally valid’—but also *only within their established realms of invariance*. Both types are *hypothetical in character*. (Schütz [1936] 1996:103; italics added)

Schütz accordingly seems to have based his own views on the status of the propositions of economic theory in a commonsense conception of what we as acting individuals know *typically* to be the case, when we are confronted with a problematic choice. The validity of any models—including the most abstract laws of economics—would thus seem to be dependent upon the adequacy of their reference to the subjective meanings of the actors, i.e., upon their empirical grounding in the meaning structures of the commonsense action of the life-world (Schütz [1932] 1967:244, Srubar 1994:36).

This would seem to be much closer to the views of Weber than those of Mises, and Schütz ([1936] 1996:103) was quite clear that such a view was contrary to Mises’. But is it necessarily in conflict with economic theory à la the Austrian School? Some would seem to think so, e.g., Srubar (1994:36ff), but I will briefly indicate two closely connected reasons why I do not think that this is so.

One reason is that the fundamental praxeological laws on which Austrian economists seek to base economic theory need not necessarily be based in a quasi-Kantian apriorism. Rothbard ([1973] 1979:35–36, 1976:29) thus approvingly referred to Schütz in his attempt to distinguish his own Aristotelian grounding of the laws of economics from the Kantianism of his mentor, Mises, by saying that these are based on knowledge which “is ‘empirical’ in the broadest sense” (Rothbard 1976:29, cf. Rothbard 1957:318). Similar to Rothbard

several other theorists sympathetic to Austrian economics have recently pointed towards the possibility of grounding the fundamental laws of economics not in Kantian apriorism but in Aristotelian realism (e.g., Smith 1986, 1990, 1994).<sup>15</sup>

Another reason is that the disagreement is of little or no practical importance. This is so since Schütz seems otherwise to have accepted the basic concepts, axioms and theorems of economic theory. If the same propositions are accepted, and if the employed logic otherwise is the same, then there is little reason to believe that the derived conclusions should be different.

### 3.2. *Rationality, Choosing and the Scope of Economic Theory*

It was previously mentioned that Schütz explicitly agreed with Mises that it is *not* an assumption of maximization of satisfaction, which constitutes the essence of economic theory. Rather it is, in Schütz's formulation, the principle of marginal utility, understood as a formal principle of actors making problematic choices among alternative and mutually exclusive courses of action. Schütz did, however, on several occasions express disagreement with Mises on the latter's claim, that 'economizing' is a characteristic of *all* action and consequently that all action may be analyzed in terms of marginal utility. Indeed, while Schütz almost seemed agnostic concerning the epistemological status of the propositions of economics, he did nonetheless explicitly disagree with one possible interpretation of Mises' *a priori*, and notably one which Mises most likely would have subscribed to. This would be the one that "all acting is economic acting *because* it implicates preferences and planning." (Schütz [1936] 1996:103; italics added).

Now, it is important to be clear about what it is that Schütz objected to, and what it is not. For Schütz the marginal principle—and hence rationality—is the essence of economic theory ([1936] 1996:102); in this respect there is not as such anything contrary to Mises, so it is not at this point that one should locate the disagreement. Furthermore, Schütz also, as previously mentioned, believed that the operationalization of this principle entails modeling all actors as being rational,<sup>16</sup> so it is neither here that the disagreement should be located. The disagreement is rather to be found in the role, which Schütz attributed to the marginal principle as a practical delimitation of what does and what does not constitute economic theory. Having explicitly stated his basic connection and affinity with the Austrian School Schütz stated this in response to Loewe who had criticized the principle of marginal utility:

But, as I see it, the marginal principle performs a second function and this is the *delimitation of the field of economics*. It has, therefore, a determinative character and carries out what I called in a casual remark in one of our last meetings as "actio finium regundorum". It answers the question which kind of human activities have to be considered as economic ones. Although I do not believe . . . that the marginal principle involves necessarily the idea of maximization of satisfaction, I should like to maintain that even if it did so it would tell us something about the kind of human behavior which is a subject matter of economic science (italics added).<sup>17</sup>

It is here that Schütz's qualms with Mises' equation of action and economic action is located. By doing so Mises, in Schütz's view, made economic theory identical with general praxeology, and thus empties the disciplinary delimitation of meaning:

If one wants to qualify all acting as economic, one must state in what way this action differs from other manifest cases of human conduct which are called actions or activities in psychology and philosophy. However, if one does not deprive the term 'action' of its general connotation, one faces in turn the task of deciding what *differentia specifica* are characteristic of economic actions. Whichever alternative I may choose, it seems purposeful to separate acting turned toward so-called economic goods from other acting. (Schütz [1936] 1996:103–104)

This point was later elaborated by Schütz in his discussion with Loewe, on a point about the delimitation of economics vis-a-vis other social sciences. Loewe had criticized Lionel Robbins' definition of economic behavior as "the disposal of scarce means for alternative ends" and instead suggested "the transformation of originally given matter into matter suited for our purposes". Schütz in return criticized Loewe's supposed definition and explicitly raised the question of what he saw as Mises broadening of economics to all areas of human action:

But are not human activities called 'services' also economic activities? And what is the criterion for these specific activities? Neither Robbins' definition nor your own answers these questions unless you take, as my friend Mises does, the shortness of our life and the impossibility of performing everything we would like during a life span as a problem of scarcity; then time, like what you call matter, would be a scarce means for alternative ends. Mises is trying to develop a *general praxeology* which he identifies—*erroneously as I think*—with the theory of economic action, namely an action according to the assumed scale of preferences of the actors. For example, I obviously preferred to put my thoughts on this problem before you in the form of the present letter to my going to the movies or what not. If this were the case *there would be no human action whatsoever which were not an economic action* and if gentlemen prefer blonds they were economic subjects—(the gentlemen, not the blonds!) (italics added).<sup>18</sup>

Here it seems, after all, as if Schütz fairly well captured the essence of Mises' position, albeit only in order to reject it. Schütz thought that such a view would be what Weber had called the "*rabbiat gewordene Lokalpatriotismus der Fachwissenschaften*,"<sup>19</sup> or what we today would call 'economic imperialism'. Schütz gives this reason for considering it a problem:

After all, I could say that all human activities are of legal relevance. Sitting here in my room and writing to you I can do so only because I have rented the room, purchased the paper, etc. I could also refer everything I am doing to attempts of my organism to come to terms with its environment according to the nice scheme of stimulus and response,

and you know that even this idea found advocates in highly esteemed philosophical circles. Nevertheless, the problem remains: Which is the criterion in accordance to which the economist considers certain actions and certain events in the world as falling within his field, whereas he accepts others as mere meta-economical data which he has to take into account but which to explain is the business of his colleague in another department.<sup>20</sup>

This is a valid discussion—and highly so. But it would seem that Schütz here failed to completely grasp Mises' position and indeed was somewhat off mark in his critique. Mises quite clearly made a distinction between what was to be considered rational and economic in his theorizing and what was not, albeit a very broad one: It is only purposive behavior, which is the subject of praxeology and economic theory. And since action necessarily is choice among alternatives and necessarily includes some resources, it must, according to Mises, necessarily be economizing in nature. For Mises the claim that all action is economizing is not a feature imputed to a model of an economic agent (i.e., an individual exhibiting economizing action) but a necessary feature of *all* agents, real or imagined. Neither is the claim—as Schütz believed Mises to hold—the limiting device of economics, i.e., what Schütz elsewhere called the principle of marginal utility. The statement, according to Mises, is of a much more general character; economics—at least in Mises' later formulations and those of Rothbard ([1962] 1970)—is not identical to praxeology as such but rather is a limited part of it dealing with 'catallactics', i.e., human relations based on exchange.

But Schütz may have had another, somewhat more fundamental point than the delimitation of economic theory from, e.g., sociology and psychology. In the same letter in which Schütz declared his basic debt and adherence to the Austrian School he also tried to explain to Loewe where he saw the main difference, in these matters, between Mises and himself:

It is also clear that my attempt of analysing the process of choosing between problematic possibilities has nothing to do with Mises' general praxeology because *the decisive problem involved is taken just for granted by Mises, that is, the problem how it comes that things stand to choice at all*. He overlooks also the difference which seems vital to me, namely on the one hand choosing between objects equally within my reach and on the other hand, choosing between projects of actions which have to be carried out by me.<sup>21</sup>

In this case Schütz truly and explicitly points towards what he sees as genuine differences between Mises and himself. But there would seem to be two separate questions here. Considering for a moment the latter first, it is not perfectly obvious why there would be a categorical difference between the two and why any difference should be relevant for economic theory *per se*. The former—choosing between objects equally within reach—would seem simple, while the latter—choosing between projects of action to be carried out—would presuppose more complicated reasoning, including considerations of time, opportunity costs, etc. But from a praxeological view, it would not seem a categorical difference.

The first of the problems mentioned is that Schütz criticizes Mises for not dealing with how individuals make decisions and why. This is correct in so far as Mises explicitly stated

that praxeology and economic theory does not deal with the *origin* of preferences but exclusively with the logical implications that follow from the fact that individuals have preferences and act to realize these. But this would indeed seem simply to be, more or less, the way in which Schütz himself distinguished between the because-motive and the in-order-to-motive of an action: Sociology, psychology, etc., as sciences deal with how and why individuals come to have particular because-motives, while praxeology deals with how individuals act to achieve their in-order-to-motives.<sup>22</sup> In this respect it would seem—to a large extent—simply to be a question of exactly the delimitation of the economic. Misesian praxeology does not deal with the origin of because-motives, because this is outside the logic of choice.

Nonetheless, there would seem to be a fundamental and important point to Schütz's distinction, namely that economic theory in many instances—and economic history in particular—eventually will need to use insights into “how it comes that things stand to choice at all.” Why is this? The reason is that it might not be quite transparent exactly what should be understood by a choice being rational. A great deal of literature—as well as sophisticated concepts and tools—have been developed since the 1920s and 1930s when Mises developed his praxeology. In order to develop economic theory it is insufficient simply to use a definition of behavior as being rational that it is that action which will convey most utility to the agent (or, as Mises might have said, is believed to alleviate uneasiness the most).<sup>23</sup> For does such a concept imply a simple straightforward maximization of ‘satisfaction’, or is it something more akin to subjective expected utility? Or, how about agents who may be satisficing rather maximizing? Quite clearly these are all relevant ways in which individuals meaningfully *may* make their choices, but how can knowledge of the relevant reasoning be derived from pure reflection upon the abstract nature of action itself? On this issue it would seem insufficient to answer that praxeology does not deal with the reasons why individuals have the preferences they do, since that is an altogether different question. Here Austrian economists would seem to be in serious need for elaborating on exactly what is supposed to be contained in the proposition that individuals choose that action which they believe will give them the most utility.

Schütz, however, also had a deeper point about whether acting necessarily could be seen as being economizing. Now, as indicated, this would as such not be a problem for Mises, who quite explicitly made such a distinction and who certainly must be seen as making a distinction between praxeology and economic theory. Schütz, however, pointed towards a more fundamental problem for starting out with preferences and choices:

Should one—as many philosophers do for pertinent reasons—consider *cogitare* (thinking) a form of acting, then one would arrive at completely absurd results if the intention is to interpret thinking as preferential or selective action. And what kind of acting shall this preferring and selecting be if it is considered acting on its part? ... One cannot be satisfied with the concepts of choosing and preferring without careful analyses. As mentioned before, choosing and preferring themselves are actions.

When I walk with a friend in a park and turn into the left instead of the right path, can I meaningfully say that I preferred the left path? And are not what we call choosing and

preferring complex processes occurring in elapsing time? (Schütz [1936] 1996:102, note and 104)

### 3.3. *Ideal Types*

Probably the most obvious point of disagreement between Misesian Austrians and Schütz is his view of the ideal type, which seems quite different from that of Mises and possibly that of Hayek too. As set forth in “*Begreifen und Verstehen*” the Misesian position on the ideal type was that it is an entirely historical concept. Hayek certainly seems to have followed this, when he wrote to Schütz as a response to the draft of Schütz’s article, “The Problem of Rationality in the Social World” ([1943] 1964), that his own problem with Schütz’s ideal type approach is “still the element of historicism which, at least in my mind, attaches to the concept of ideal type, a concept that to me always suggests a fictitious entity rather than an abstraction”.<sup>24</sup> This is, indeed, also the way that many modern Austrians seem to interpret Mises.<sup>25</sup>

For Schütz *all* social scientific conceptualizations of actors are ideal types, and Schütz’s point was that all such necessarily must be ‘less’ than real, red-blooded human beings, although they may come in various degrees of ‘anonymity’. They are either so-called “formal” (or “course of action”) ideal types where individuals are seen as functioning in particular roles, or they are “personal ideal types” where some motives are described or postulated as being constant. The latter is typically the procedure found in economic theory and, according to Schütz, so out of necessity; it is simply impossible to formulate economic theory without postulating some elements as constants:<sup>26</sup>

The economic subject with which economists deal are not humans of flesh and blood like you and me, Peter and Paul and everyone. They exist only by the grace of economists. The latter created these *homunculi* (artificially animated man-made machines) in order to experiment with them. Such ideal types set into the world in this way cannot know, intend and expect anything else but what has been predestined for them by those economists <who designed them>. It is impossible for them to display any other action or conduct than that for which they were designed. In short, like any other ideal type, the ideal type of economic subject cannot transcend the realm assigned to it; it cannot act atypically. (Schütz [1936] 1996:104–105)

Even the simple “acting man,” *homo agens*, on which Mises and the Austrians base their praxeological analysis, is—in Schützian terms—an ideal type, for it is a conceptual construction, an actor model created by an observer, rather than the actual agent himself, even if it is the most highly abstract imaginable, *homo agens* is still an abstraction, something less than reality. That, of course, is also, and in particular, true of *homo oeconomicus* and “his class-mates,” as Machlup would have put it:

[Neither] I nor you nor anyone in the fullness of his existence is identical with those subjects of economic life of which economists speak. We are related to this construction as to merely one side of our being human, <the side> that responds to those schemes

which economists posit as economic subjects. What economists consider subjects of economic life are not humans in the fullness of their existence, but are rather ideal types. That is, they are fictive beings imagined to be equipped with conscious experiences (goals of action, motives, actions, etc.) and they are considered sufficient for acting out those economic events which the economist considers sufficiently relevant for his problem. (Schütz [1936] 1996:99)

The point which Schütz wanted to make in relation to economic analysis is that ideal types generally will only suffice for one “specific layer of depth” (Schütz [1936] 1996:99), namely the one for which it was formulated. This goes, Schütz explicitly says, no matter whether the actor model—personal ideal type—employed is that of the *homo agens* of Misesian praxeology, the *homo oeconomicus* of price theory or that of an omniscient economic dictator:

[Economists] treat these conceptual models, on the one hand, as though they were humans of flesh and blood like you and I and Peter and Paul and everyone who encounters them in daily life; on the other hand, they endow them with that preknowledge, with those experiences, and even with that specific orientation of interest which are characteristic only for a few, namely the theorizing economic scientists themselves. (Schütz [1936] 1996:99)

To illustrate Schütz’s point about the “relevance” of ideal types we may consider an example inspired by Machlup’s Schützian contrasting of different propositions, all dealing with economic phenomena and having the same logical form but embodying ideal types of different degrees of anonymity (Machlup [1936] 1978:64). One of the examples used by Machlup is that of a central bank director confronted with the choice of whether or not to intervene given heavy withdrawals of foreign deposits. Will he do so or not? Obviously the answer to this question will depend upon the preferences of the central bank director, including his ideology, etc. Equally obvious his choice of action will depend upon his constraints in terms of knowledge, expectations about the possible behavior of others, ranging from those of consumers to those of the cabinet members, and the likelihood of these, etc. “It will make a great difference,” Machlup said somewhat tongue-in-cheek, “whether Mr. Keynes or Professor von Hayek is governor or expert adviser of the central bank.” (Machlup [1936] 1978:68). So to answer the question of whether it is rational for the central bank director to intervene *given* his preferences, constraints, method of reasoning, etc., we will need to introduce the relevant assumptions. But by doing so we are moving beyond the anonymity of the pure *homo agens*—the behavior of anyone—and we are thus no longer dealing solely with the pure logic of choice. Indeed, we are moving beyond the universal validity which may be ascribed to the abstracts laws of praxeology.

Schütz’s point about relevancy may thus be seen to be that, for example, the completely anonymous *homo agens* will be of very little use for the analysis of, say, the decision of a central bank director faced with the choice of whether or not to intervene. It will simply be too anonymous to allow us to formulate propositions about what the choice will be. On the other hand, an ideal type of a Keynesianly inclined central bank director will most

likely be of little use for the analysis of the behavior of consumers responding to changes in supply in, e.g., the food market; it will not be sufficiently anonymous.

The importance of these points is that when the limits of the ideal type are acknowledged, so must the limitations upon its universality. If not, then the analysis will no longer be valid:

Here a fictive world comes into existence alongside the actual world. No danger will arise from this fact as long as the economists keep the rules of typification constant and their types correspond sufficiently to empirical realities. We pursue political economy merely in order to recognize and control this economic reality. Yet economists should avoid the fate of Pygmalion whose sculpture gained a weird life of its own. Economists should not transpose their models into the mundane world and treat them like humans with knowledge, experience, error, and freedom. (Schütz [1936] 1996:99–100)

Schütz's points thus seem to stand; it is necessary to formulate ideal types, and these should be formulated in accordance with the principles of being (1) commonsensically understandable and (2) adequate for the phenomena they seek to explain, and when applied to the field of economics this includes the rationality principle and the principle of marginal utility.

When theorems are deduced from ideal typical modeling, the implications hold, as Schütz liked to quote Mises, “are valid always and everywhere if the conditions assumed by them are given” (Mises [1933] 1981:85–86). But for Schütz they do not do so due to any alleged apriority; rather they do so given that important last part of the quote: They hold so *because* and in so far as the assumed conditions allow them.

But what about Mises' *homo agens*? Would he not be an example of something where no specific preferences are held constant and others omitted? And would it not, simultaneously, be the case that very useful, albeit very general, statements could be deduced, which could be compared to empirical reality? I suppose the Schützian answer would be something like this: Yes, *homo agens* is an example of a highly anonymous ideal type, and it is possible to deduce very general statements from it. In this respect it would seem that Hayek—and some later Austrians—have misunderstood Schütz somewhat: For Schütz even *homo agens* is an ideal type, but one completely emptied for any history whatsoever.

Under closer scrutiny it would, however, even for *homo agens* be necessary to impute *some* motives in order to deduce meaningful statements of empirical relevance, e.g., that he prefers more to less and leisure to work, etc. It is, for example, perfectly possible to imagine actors not considering leisure a consumer good and companies not always pursuing profits, just as it is possible to imagine some individuals not exhibiting entrepreneurial alertness. None of these assumptions can be seen as always and everywhere necessarily being *a priori* present in each human action, as Mises explicitly required in order for the deduced laws to hold with necessity (Mises [1933] 1981:78–79).

This is indeed acknowledged by, e.g., Rothbard, who speaks of the ‘Fundamental Axiom of Action’ being supplemented by “a few subsidiary postulates which are actually empirical.” (Rothbard 1957:315), including leisure as a consumer good.<sup>27</sup> Such “subsidiary postulates” may, as Rothbard (1957:315–316) has argued, be “empirical postulates” which are legitimate in purely theoretical analysis because they are few in number and “so broadly based as to be hardly ‘empirical’ in the empiricist sense of the term.” so ‘broadly empirical’

as to be uncontroversial. But since it is perfectly possible to imagine someone actually preferring work to leisure or less money to more money, they are assumptions which necessarily must be introduced as *auxiliary* assumptions. That in itself necessarily limits the analysis—although, as Rothbard pointed out, probably without much difference.<sup>28</sup>

This does, however, not invalidate the propositions of economic theory; it only means that the conclusions only apply when the relevant assumptions are given as being relevant—but when they do, the conclusions follow with necessity. This is indeed what, e.g., Mises ([1933] 1981) and Rothbard (1957) may be seen as saying themselves.

But how about when we thus move beyond the pure Misesian praxeology—what Schütz called the “formal analysis of action” and Hayek and James Buchanan the “pure logic of choice”—and focus on the interaction on two or more individuals, exchanging goods and services in a money-based market? In that case, Schütz argues, we will very soon need to introduce further assumptions as “data” into our modeling. Schütz was very conscious that as soon as we as social scientists adopt “the subjective direction” of research and move beyond the observable behavior and prices and into that of subjective choice and aim “at the exact recognition of phenomena”. Here we will need to take into consideration the expectations of consumers and producers, their knowledge, their perceptions of risk and possibilities of error, etc. (Schütz [1936] 1996:95).

Mises would, of course, not disagree with the importance—and necessity—of including such concepts; it was, indeed, one of his major points, as Schütz was very well aware. But Schütz’s point was deeper. If, for example, we want to develop a theory of how the market works or study a specific, actual market, then we must *necessarily* include assumptions about, e.g., the role of knowledge and expectations. Surely, these concepts may be viewed, as what Mises would have called praxeological categories, or concepts belonging to the category of action. Koppl (1997, 1998) has in his comparisons of Mises and Schütz made these points as regards expectations:

If Mises was right to contrast conception and understanding, there can be no *theory* of economic expectations. Expectations are formed through the unfolding of the market process. They are a matter of entrepreneurial *understanding*. Thus there is an essential extra-rational element to them. Given Mises’s epistemology, a theory of expectations would have to be a matter of discursive reason. But we can have no discursive conception of acts of understanding except to recognize them as such. We can only ‘behold’ entrepreneurial expectations through acts of understanding. Here conception cannot penetrate. Thus no ‘theory’ of economic expectations is possible for Mises. (Koppl 1997: 67; italics added)

Similar points may be made about the knowledge of the actors more broadly. Indeed, the perhaps most important aspect in the modeling of agents, according to Schütz, is the question of knowledge. For Schütz the methodological subjectivism which he, Mises and the other Austrian economists shared, represented nothing less than a “Copernican turn”: “Once this turn is carried out, the question of the problem of knowledge in economics expands itself to that of grasping the knowledge characteristic of one economic subject or else some or all of them at a specific time.” (Schütz [1936] 1996:99). But whether the actors of a model (or reality) have perfect knowledge, some knowledge or no knowledge cannot be deduced

from the concept of *homo agens* and the category of action alone. It must necessarily be introduced through some form of auxiliary assumptions, and what is introduced will have considerable significance for the resulting theorizing. Schütz may actually very well be seen as embracing an argument for the relevance of what today might be called ‘the economics of knowledge’:

An especially good example of the importance of such reflection is the problem of ‘data’ in political economy. It is certainly time to stop using the concept of ‘data’, or even of the ‘given datum’, as a refuge for ignorance. The definitely legitimate question is: To whom are such data given? To me, living my daily life, the whole environment is, as it were, given as an environment of data. It is a datum for me that the sun will rise tomorrow, but also that the streetcar will work, and that I can buy merchandise in a store for my money. It is a datum for me, further, that the stockmarket in Paris is in disorder and that the price of tea will rise because of the poor harvest in India. In this sense, all my experiences of the external situation on which I have no influence are data.

According to my given situation of interest, I will pay attention to one or another factor; I will even analyze sufficiently the phenomena of importance for me to the extent called for by the situation and allowed by my experience. For instance, it will suffice for me as passenger to be informed about travel-times and frequencies of the streetcar lines. However, if I am not a technician and if it is not relevant for me for other reasons, I am not concerned with the construction and technical layout of the electric streetcar—even those these too are data for me. Thus, what is a datum for us in daily life and what we keep in view of our considerations is what is relevant for us in the given case. We are ready to analyze it and do this either on the basis of a review of the annual stock of our experiences in the matter or on hand by way of potential information. (Schütz [1936] 1996:96)

While Austrian economists over the last decades in increasing degrees have paid attention to the role of knowledge, it is certainly an area which needs to be more fully integrated into the Austrian corpus.

Does this have any negative consequences for Austrian economic theory? What should be clear for the present purposes is that Schütz does *not* deny the possibility of formulating abstract laws applicable to the field of economics à la those of Austrian economics (cf. Schütz [1932] 1967:245ff, Srubar 1994:39). The point which Schütz tried to make in his criticism of Misesian economic theory is that the praxeological theorems constituting the core of economic theory can maintain the universal validity desired by Mises and the Austrians *if and only if* the actors remain completely anonymous, i.e., only as long as the individuals simply are seen as doing what they do, because that is something which they prefer to not doing so. But, in contrast, *if* further assumptions are added then the universality and necessity must give way to less general validity. They may, however, be very close to being universally valid, since it probably is true—as Rothbard argues—that such assumptions are so broadly empirical as to be uncontroversial. Indeed, as Schütz himself said: “The principle of marginal utility does not contain inner contradictions and agrees with the postulate of

possibility. And more: a *good chance* exists that *you and I and everyone* orients his conduct to it.” (Schütz [1936] 1996:102; italics added).

### Conclusion

The present study has demonstrated several things:

First, Schütz should definitely be seen as being not just sympathetic to economic reasoning and what today would be called rational choice theory but indeed largely as a contributor to and even a proponent of that approach. In this way the paper is in line with a number of the more recent studies, and perhaps even takes the points further.

Second, Schütz may, however, be seen as only admitting a limited role to rational choice analysis. The use of simple and anonymous rational choice models for the explanation of phenomena, such as those typically found in economic theory, may be relevant and sufficient in some cases, but the more specific the situation the more rational choice analysis *alone* becomes insufficient.

The Schützian “message” to economists—Austrians as well as others—may thus be boiled down to the following points:

- The completely tight distinctions between “conception” and “understanding” and between “theory” and “history” do not hold (Koppl 1998). There is only a matter of degrees (albeit many so) between, on the one hand, “the logic of pure economics” (Schütz), the “pure logic of choice” (Hayek), and “praxeology” (Mises), and, on the other, the formulation of more or less specific models of complex phenomena.
- In the more full and complete analysis of specific situations of choice it may be insufficient merely to consider what follows given that individuals act on the basis of given preferences and constraints. The more empirically oriented the analysis, the more the scientist will need to incorporate assumptions about a number of issues, e.g., the particular form of reasoning of the agent, his beliefs, knowledge, expectations, etc.

These are points of relevance for the study of economic phenomena, but also for the application of rational choice models to such related disciplines as political science (Langlois 1988, Kurrild-Klitgaard 1997b) and sociology (Esser 1993a, 1993b).

Would Schütz’s criticism of Mises indicate that he should not be seen as—even remotely—a member of the Austrian School? Some contemporary Austrians might think so, but they would—in my opinion—then also have to discard of, e.g., Hayek, Haberler, Machlup and several other of the most important inter-war members of the school. Whatever one might think of Schütz’s points of disagreement with Mises, one must remember two things. First, Schütz’s intellectual project may to a significant extent be seen as an attempt at supporting the Austrian program against its increasing number of opponents rather than the opposite (Prendergast 1986). Second, it would seem that Schütz otherwise was in general agreement with all the core points of what in the 1920s and 1930s was seen as constituting the Austrian program (Kurrild-Klitgaard 1997a, Koppl 1998).<sup>29</sup>

Some contemporary Austrians may find many of Schütz’s points hard to swallow, even if, e.g., Mises and Rothbard in general endorsed his work. But one certainly does not need to agree with all Schütz’s points in order to appreciate that the questions he raised were

original and of a fundamental importance to the development of Austrian economics, or for that matter for the discipline of economics itself. Without greater attention to these, some serious lacunas may remain.

## Notes

1. This point is actually noted indirectly by one of the leading ‘economic imperialists’, public choice school co-founder, Gordon Tullock. He has on a number of occasions, e.g. Tullock (1994:53), pointed to his early reading of Mises’ praxeology as being the primary inspiration for his own application of economic reasoning to political processes. For a criticism of hermeneuticist philosophy from a student of Mises sympathetic to Schütz’ work, see Rothbard (1989).
2. For a dissenting view, indirectly opposed to such an interpretation and instead favoring a ‘postmodern’ version of economics, supposedly inspired by Schütz, see the works of Pietrykowski (1996, 1999). It is, however, worth noting that Pietrykowski undertakes this interpretation without utilizing any of Schütz’s writings on economics or economic methodology and only relies on some of the very late essays by Schütz.
3. See, among several other examples, e.g., Schütz ([1932] 1967) pp. 197n, 199n, 212, 227 and—in particular—pp. 242–246, as well as Schütz ([1934] 1996).
4. Alfred Schütz, Letter to Adolph Loewe, 7 December 1955 (Beinecke Library, Yale University).
5. It may be noted that Schütz originally gave this important paper as a lecture in 1940 at the Faculty Seminar at Harvard, headed by Talcott Parsons and Schütz’s countryman, Joseph Schumpeter, and with Gottfried Haberler as the middleman (cf. Wagner 1983:74, 82).
6. Gottfried Haberler’s, F.A. Hayek’s, and Fritz Machlup’s archives are located at the Hoover Institution, Stanford University, and in particular the Machlup archives contain much of the correspondence with Schütz. Schütz’s part of the correspondence is located at the Beinecke Library, Yale University.
7. This correspondence, which is located in the Schütz archives at Beinecke Library, Yale University, includes a number of interesting letters from 1955–56, e.g., a letter from Schütz dated 17 October 1955.
8. Cf., e.g., Machlup (1981) who on several occasions identified these issues as being “the essential distinguishing characteristics of Austrian economics” and “the most typical requirements for a true adherent of the Austrian school”: (1) Methodological individualism, (2) methodological subjectivism, (3) an emphasis on tastes and preferences, (4) opportunity costs, (5) the principle of marginal utility, (6) the time structure of production and consumption, (7) consumer sovereignty, and (8) political individualism (Machlup 1981:21–22). As Machlup noted some of these tenets have since been become parts of mainstream economics.
9. Alfred Schütz, Letter to Adolph Loewe, 7 December 1955 (Beinecke Library, Yale University).
10. Alfred Schütz, Letter to Adolph Loewe, 7 December 1955 (Beinecke Library, Yale University). See also Schütz (1972:584–587).
11. Alfred Schütz, Letter to Adolph Loewe, 7 December 1955 (Beinecke Library, Yale University).
12. Alfred Schütz, Letter to Adolph Loewe, 7 December 1955 (Beinecke Library, Yale University).
13. The translation erroneously says “Political scientists.”
14. This lack of understanding of the meaning of the *a priori* might surprise contemporary students of Mises, who are familiar with Mises’ books ([1949] 1966, [1957] 1984, [1962] 1978). Schütz, however, explicitly pointed out that his lack of understanding was based on “the works of von Mises published *so far*” ([1936] 1996:103; italics added). Here it must be kept in mind that at the time Mises’ only writings on economic methodology were the essays collected in his anthology on the subject ([1933] 1981). Furthermore, there are, as I hope to explore further at a later point, indications that Mises radicalized his views on the extent of the *a priori* character of the laws of economics.
15. Such a modern Aristotelian realism might indeed be the bridge between Mises’ aprioristic but semi-essentialist analysis of the logic of action and Schütz’ brief remarks about the possibility of formulating ideal types and derived propositions not necessarily based exclusively in “empirical” knowledge in the sense of “derived from the senses”. Such knowledge, according to Schütz, is “eidetic” knowledge which is “derived from essential insight.” (Schütz [1932] 1967:244).
16. Cf., e.g., Schütz ([1932] 1967:239, [1936] 1996:102, [1951] 1962:86–87, 1972:584–587) and Alfred Schütz, Letter to Adolph Loewe, 7 December 1955 (Beinecke Library, Yale University).

17. Alfred Schütz, Letter to Adolph Loewe, 7 December 1955 (Beinecke Library, Yale University).
18. Alfred Schütz, Letter to Adolph Loewe, 7 December 1955 (Beinecke Library, Yale University). Cf. also: “Authors who consider all acting ‘preferential acting’ do not realize that with this thesis they provide a definition of acting as such and that thereby <unwittingly> have set themselves the task of separating this acting from other manners of human existence.” (Schütz [1936] 1996:102, note).
19. Alfred Schütz, Letter to Adolph Loewe, 7 December 1955 (Beinecke Library, Yale University).
20. Alfred Schütz, Letter to Adolph Loewe, 7 December 1955 (Beinecke Library, Yale University).
21. Alfred Schütz, Letter to Adolph Loewe, 7 December 1955 (Beinecke Library, Yale University).
22. Cf., e.g., Alfred Schütz, Letter to Adolph Loewe, 7 December 1955 (Beinecke Library, Yale University), and Eberle (1988:86).
23. Rothbard does not answer this either. His most elaborate statements would seem to be these: “All action is an attempt to exchange a less satisfactory state of affairs for a more satisfactory one. The actor finds himself (or expects to find himself) in a nonperfect state, and, by attempting to attain his most urgently desired ends, expects to be in a state.... Therefore, *all action involves exchange*—an exchange of one state of affairs, *X*, or *Y*, which the actor anticipates will be a more satisfactory one (and therefore higher on his value scale). If his expectation turns out to be correct, the value of *Y* on his preference scale will be higher than the value of *X*, and he has made a *net gain* in his state of satisfaction or utility. If he has been in error, and the value of the state that he has given up—*X*—is higher than the value of *Y*, he has suffered a *net loss*.” (Rothbard [1962] 1970:16; italics in original) and “Since man is always acting, he must always be engaged in trying to attain the *greatest height on his value scale*, whatever the type of choice under consideration. There must *always* be room for improvement in his value scale; otherwise all of man’s wants would be perfectly satisfied, and action would disappear. Since this cannot be the case, it means that there is always open to each actor the prospect of improving his lot, of attaining a value higher than he is giving up, i.e., of *making a psychic profit*. What he is giving up may be called his *costs*, i.e., the utilities that he is forgoing in order to attain a better position. Thus, an actor’s costs are his foregone opportunities to enjoy consumers’ goods. Similarly, the (greater) utility that he expects to acquire because of the action may be considered his *psychic income*, or *psychic revenue*, which in turn will be equal to the utility of the goods he will consume as a result of the action. Hence, at the inauguration of any action, the actor will believe that this course of action will, among the alternatives, *maximize his psychic income or psychic revenue*, i.e., attain the greatest height on his value scale.” (Rothbard [1962] 1970:62; italics in original). Judging from his brief and early discussion ([1956] 1970:16–17) Rothbard should probably be seen as also rejecting the subjective expected utility maximization approach of von Neumann–Morgenstern game theory.
24. F.A. Hayek, Letter to Alfred Schütz, 25 December 1942 (Beinecke Library, Yale University).
25. See, e.g., Selgin ([1988] 1990:20ff), who, however, in his discussion fails to fully understand the only gradual difference between highly anonymous ideal types and less anonymous ones.
26. On these points in relation to economic theory, see, e.g., Schütz ([1932] 1967:241–249, [1936] 1996:95, 101–102, 104–105).
27. The three other auxiliary assumptions (other than leisure as a consumer good), which are necessary to analyze barter and a monetary economy, are, according to Rothbard (1957:316): (1) An existence of a variety of natural and human resources, and, “as limiting subdivisions;” (2) that “indirect exchanges are being made;” and (3) that “firms always aim at maximization of their money profits.”
28. Schütz would no doubt have found Rothbard’s procedure quite acceptable: “Every [personal ideal] type, so to speak, carries an index; it points to the purpose for which it was formed. . . . The same goes for the types formed by social scientists. Their situations of interest are determined by the problems they had posed themselves and by the layers of depth on which they wished to deal with these problems. This is no empty phrase. As I have shown, with the selection of a problem and the determination of the layer on which to treat it, what is thematically relevant is already established as well as what can be treated as a datum—and, accordingly, what is considered extra-thematic and thus invariant. This is what economists mean by the expression, ‘*ceteris paribus*.’” (Schütz [1936] 1996:101).
29. I have here not considered the possibility that Schütz may have changed his views on economics over the years. An anonymous referee has indeed argued that Schütz “grew increasingly impatient with economics over the years” and that this was a result of the failure of economists to develop a genuinely “empirical subjective approach”.

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