

The Pre-History of the Austrian School

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(Mercantilists)
(Physiocrats)

Adam Smith
(1723–90)



David Ricardo
(1772–1823)



→ Carl Menger
W. S. Jevons
Léon Walras

→ Alfred Marshall
(1842–1924)

→ J. M. Keynes
(1883–1946)

→ ?



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Problems with the conventional approach

- “Whig theory” of (intellectual) history
 - Whig approach to science
 - Kuhn’s *Structure of Scientific Revolutions* (1962)
 - Paradigms
 - “Normal” and “extraordinary” science
 - Implication: knowledge can be lost.
- “Great man” view of history
 - Heilbroner versus Rothbard

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On analogy with the Whig theory of history, coined in mid-nineteenth century England, which maintained that things are always getting (and therefore just get) better and better, the Whig historian of science, seemingly on firmer grounds than the regular Whig historian, implicitly or explicitly asserts that “later is always better” in any particular scientific discipline. The Whig historian (whether of science or of history proper) really maintains that, for any point of historical time, “whatever was, was right,” or at least better than “whatever was earlier.” The result is an infuriating Panglossian optimism. . . .

[This implies that] every individual economist, or at least every school of economists, contributed their important mite to the inexorable upward march. There can, then, be no such thing as gross systemic error that deeply flawed, or even invalidated, an entire school of economic thought, much less sent the world of economics permanently astray.

— Rothbard, *History of Economic Thought*, p. ix.

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 - Heilbroner versus Rothbard
 - Problems

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Revisionist historians of the 1950s

- Joseph Schumpeter, *History of Economic Analysis* (1954)
- Marjorie Grice-Hutchinson, *The School of Salamanca* (1952)
- Raymond de Roover (1950s)
- Emil Kauder, “Genesis of the Marginal Utility Theory” (1953)
- Bruno Leoni

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Scholastics as proto-Austrians

- Murray Rothbard, "New Light on the Prehistory of the Austrian School" (1976)
- Murray Rothbard, *An Austrian Perspective on the History of Economic Thought* (2 vols., 1995)
- Alejandro Chafuen, *Faith and Liberty: The Economic Thought of the Late Scholastics* (2003)

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Medieval Scholastic thought

- The Scholastic method
 - Divine law, natural law, and human reason
 - Applications to ethics and jurisprudence
 - Discovery of social regularities
 - Later influence in Carl Menger's Austria
- Conventional wisdom on Scholastic economic thought

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Early Scholastics on value, utility, and exchange

- Aristotle, Augustine
- Richard of Middleton (1249–1306)
- Jean Buridan (1300–58)
- San Bernardino of Sienna (1380–1444)



Buridan



Augustine

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The School of Salamanca

- Utility and value
 - Diego de Covarrubias y Leyva (b. 1512)
 - Luis Saravia de la Calle (c. 1544)
 - Francisco García (d. 1659)
- Money
 - Martín de Azpilcueta Navarro (1493–1587)



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[T]he value of an article does not depend on its essential nature, but on the subjective estimation of men, even if that estimation is foolish. — Diego Covarrubias

[T]he just price arises from the abundance or scarcity of goods, merchants, and money, as has been said, and not from costs, labor, and risk. If we had to consider labor and risk in order to assess the just price, no merchant would ever suffer loss, nor would abundance or scarcity of goods and money enter into the question. — Luis Saravia, 1554

[B]read is more valuable than meat because it is more necessary for the preservation of human life. But there may come a time when bread is so abundant and meat so scarce that bread is cheaper than meat. — Francisco García, 1583

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Richard Cantillon (1680?–1734): founder of modern economics

- Life and work
- *Essai sur la nature du commerce en général* (1730?, pub. 1755) — first systematic treatise on economics as a separate discipline
 - First to use “thought experiment”
 - Sophisticated analysis of market pricing
 - Entrepreneur as uncertainty-bearer (and an equilibrating force)
 - Process analysis of monetary expansion

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A. R. J. Turgot (1721–81): brief, lucid, and brilliant

- Overview: the case for free trade
 - Subjective utility
 - Local, dispersed knowledge
- Value, exchange and prices
- Production and distribution
 - Stages-of-production analysis
 - Law of diminishing returns
- Capital and interest



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Turgot on knowledge

There is no need to prove that each individual is the only competent judge of the most advantageous use of his lands and of his labor. He alone has the particular knowledge without which the most enlightened man could only argue blindly. He learns by repeated trials, by his successes, by his losses, and he acquires a feeling for it which is much more ingenious than the theoretical knowledge of the indifferent observer because it is stimulated by want.

— “Elegy to Gournay,” 1759

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Turgot on cost, value, and exchange

To obtain the satisfaction of these wants, man has only an even more limited quantity of strength and resources. Each particular object of enjoyment costs him trouble, hardship, labor and at the very least, time. It is this use of his resources applied to the quest for each object which provides the offset to his enjoyment and forms as it were the cost of the thing.

This superiority of the esteem value attributed by the acquirer to the thing he acquires over the thing he gives up is essential to the exchange for it is the sole motive for it. Each would remain as he was, if he did not find an interest, a personal profit, in exchange; if, in his own mind, he did not consider what he receives worth more than what he gives.

— Turgot, “Value and Money,” 1769

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The celebrated Adam Smith

- Smith's reputation
- The contribution of the classical economists
- Problems with Smith's formulation
 - Division of labor
 - Value theory
 - Monetary theory
 - Savings and capital accumulation
 - Defense of laissez-faire



Adam Smith
(1723–90)