

**HOPE WORKSHOP Preface for:**

**"Building a Movement: Eugen Böhm-Bawerk, Friedrich Wieser and the Quest for Influence in Fin-de-Siècle Vienna"**

**Janek Wasserman**

While I will explain in more detail where the chapter fits into the larger manuscript on Friday, I figured I would provide a few prefatory words here. This is the second chapter of the book. The first discusses the "origins" of the Austrian School, looking at the worldwide state of economics, especially in German-speaking lands, in the mid-nineteenth century. This serves as the backdrop for the emergence of Carl Menger, Eugen Böhm-Bawerk and Friedrich Wieser and the coalescence of a kind of school in the late 1870s and early 1880s. The chapter that follows this one looks at the Ludwig Mises and Joseph Schumpeter generation of Austrians as its members developed their ideas in response to ongoing debates within the economics profession and among Viennese intellectuals (especially with various socialist theorists). While this manuscript is pitched for a general audience with some familiarity with European history and economics, I hope that it also provides new insight for specialists in a number of areas, including history of economics.

## **II. Building an Austrian Movement: Eugen Böhm-Bawerk, Friedrich Wieser and the Quest for Influence**

Offering his first impressions of economics in Vienna in 1891/2, the American graduate student Henry Seager expressed disappointment over the lack of courses and general interest in the subject: “All of the courses given here this semester with the exception of three...deal either with statistics or some aspect of socialism. This fact is further evidence of an absence of a demand, on the part of the student body, for a really comprehensive course in economics.”<sup>1</sup> This state of affairs surprised Seager, given the reputation of the Austrian School. Over the previous five years, the school’s reputation had skyrocketed, attracting attention in German, French, British, and American publications and spawning a wave of translations and commentaries. Nevertheless, Vienna barely held its own against that other center of German economics, Berlin.

Equally surprising for a young graduate student like Seager would have been how little uniformity there was within the newly minted “Austrian School.” Almost from its initial recognition, the leading practitioners of the school seemed to work on similar problems yet with divergent aims. Karl Menger, Eugen Böhm-Bawerk, and Friedrich Wieser gave the impression of working independently of one another on their projects. In 1888, just as the wider economics world tuned in to Viennese developments, the three men wrote long theoretical works dealing with the concept of capital.<sup>2</sup> In these respective publications, the men acknowledged the importance of each other’s ideas and mentioned their awareness of the others’ ongoing efforts, yet their contributions showed no signs of direct collaboration.<sup>3</sup> With Austrian Economists

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<sup>1</sup> H.R. Seager, “Economics in Berlin and Vienna,” *Journal of Political Economy* 1:2 (1893): 254.

<sup>2</sup> Carl Menger, “Zur Theorie des Kapitals,” *Jahrbücher für Nationalökonomie und Statistik* 17 (1888): 135-83; Eugen Böhm-Bawerk, *Positive Theorie des Kapitales* (Innsbruck: Wagner’sche Universitäts-Buchhandlung, 1888); Friedrich Wieser, *Der natürliche Werth* (Vienna: Hölder, 1889)

<sup>3</sup> Menger, “Kapital”, 182-3; Böhm-Bawerk, *Positive Theory*, xxvii-xxviii; Wieser, *Der natürliche Werth*, 122-3, 126-7. Böhm-Bawerk and Menger exchanged a few letters in 1884 and 1885 about capital, but these appear to have broken off three years before either of them started writing. See Yagi, “Böhm-Bawerk’s First Interest Theory.”

scattered across the Habsburg Empire—in 1888, Menger was in Vienna, Wieser in Prague, Böhm in Innsbruck (not to mention a dozen other active economists)—there was no center for communication and exchange to facilitate the building of a clear research program. In other words, the initial formation of the Austrian School was a loose collective of social scientific thinkers with little more in common than an interest in the latest economic theory and its potential for social and political application.

To understand how the school became a fully articulated movement with a home base in the Austrian capital, including a vital professional association and periodical, influence within the press and government, and a vibrant intellectual presence, we must turn to the hothouse environment of fin-de-siècle Vienna for answers. A volatile mixture of ideas inspired hope and action in this rising generation of thinkers, making the Austrian School just one of several intellectual movements that transformed Central European intellectual life and politics. We will look at the early programmatic statements by the movement’s founders, the expanding number of publications Austrian scholars produced, and their outsized influence in economic and policy debates in the imperial Habsburg state to better understand the School’s rise to prominence around 1900.

### *Introducing the Austrian School*

By the mid-1880s, discerning economists around the globe recognized that a handful of Austrian scholars had something to contribute to the marginalist revolution underway in their profession. Léon Walras, the leader of the Lausanne school, exchanged letters with both Menger and Böhm. Eugen Philippovich, a student of Menger’s and a professor at Freiburg from 1885 to 1893, served as a mediator between the German historical and theoretical camps, helping

Austrian ideas to reach a broader German audience.<sup>4</sup> Menger, Böhm and Wieser's books on value, capital, and interest began to appear in the most popular German language textbooks, including ones written by members of the German historical school. They, along with their compatriot Emil Sax, were recognized as foremost theoreticians and advanced researchers.<sup>5</sup>

James Bonar, a Scottish civil servant and expert on Thomas Malthus and David Ricardo, first drew the attention of a broader, Anglophone audience to the developments in Austria with an 1888 article titled “Austrian Economists and Their View of Value.” In particular, Bonar introduced the theoretical contributions of Menger, Böhm, and Wieser, whom he placed in the deductive tradition of Ricardo. He also made a direct comparison between the works of Jevons and the Austrians, arguing that the Austrians had had success advocating for marginal utility in Central Europe. The article defined several key concepts of this marginal turn – exchange value, subjective and objective value, and marginal utility – in an effort to differentiate the new approach from classical ones. Bonar offered the Austrian responses to labor theories of value and value theories derived from production costs, demonstrating the advances provided by the new approach.<sup>6</sup>

Despite the generally sympathetic treatment of the Austrian contribution to theory, Bonar could only offer tepid support for their program as currently constituted. He expressed concern that the “psychological” or subjective approach to value undermined the economists’ search for objective value in the economy. In other words, a system founded on the individual’s valuation of wants could not be reconciled with classical ideas about “economical man.” Universal laws of

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<sup>4</sup> Eugen Philippovich, *Über Aufgabe und Methode der politischen Ökonomie* (Freiburg: Mohr, 1886).

<sup>5</sup> E.g. Johannes Conrad, *Grundriss zu den Vorlesungen über Nationalökonomie* (Halle, 1888); Friedrich Neumann, *Grundlagen der Volkswirtschaftslehre* (Tübingen: Laupe, 1889).

<sup>6</sup> James Bonar, “The Austrian Economists and Their Theory of Value,” *Quarterly Journal of Economics* 3 (1888): 1-31.

exchange and economic behavior would be difficult to deduce if each individual determined his own set of valuations. Bonar did not think that subjective and objective value could be harmonized in the fashion proposed by the Austrians – that is, exchange on the market did not transform the subjective into objective valuations. For Bonar, “the very use of philosophical terms [i.e. utility] for economical facts seems unnecessary and inexpedient.”<sup>7</sup> The Scotsman rejected the idea that Austrian marginalism represented a “Copernican change of attitude,” because economists from Lauderdale to Malthus to Mill had long recognized the role of subjective valuation of scarce goods. The service of Jevons and the Austrians was therefore their “clearer definition of it.”<sup>8</sup> The lasting service of the Austrian approach would only become clear when its applications to public affairs become evident. For this reason, Bonar concluded his examination with a note of anticipation for subsequent Austrian work, especially by Böhm: “The Innsbruck professor is therefore at the present moment the foremost champion of the Austrian School of economics. To procure a favorable hearing, the school must apply its principles without reserve to the problems of distribution as they meet us in modern countries. This is one of the services for which we look to the long promised second volume on *Theories of Interest*.<sup>9</sup>

Bonar’s reservations about the applicability of Austrian theories struck a chord with the Austrians. None of the early representatives saw themselves solely as economists, let alone as theoreticians. Going all the way back to Menger’s *Grundsätze*, these thinkers saw theory, empirical science, and policy as discrete fields equally worthy of investigation and engagement. Menger in particular recoiled from the notion that his work was primarily methodological. To a man, the early Austrians viewed their contributions not only in intellectual terms but also in

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<sup>7</sup> Ibid., 24-5.

<sup>8</sup> Ibid., 26.

<sup>9</sup> Ibid., 31.

social and political ones. These men were not just ivory tower professors. They wrote in liberal newspapers, served as civil servants in the federal government, and acted as advisers to the political elites. The new, “public” phase of the Austrian School, which began with the first mentions of the existence of a school in the late 1880s, reflected this effort to extend their efforts beyond theory and critique.

The first major effort in this direction came from Emil Sax, Wieser’s colleague at Charles University in Prague. Despite his prominence in early Austrian discussions, Sax has long been an overlooked figure.<sup>10</sup> A few years younger than Menger, Sax first vied with Menger for academic success, attaining a position at the Viennese *Polytechnisches Institut* in 1870. After an abortive attempt to gain a position at the University of Vienna, Sax went to Prague in 1879, becoming a tenured professor there in 1880. A staunch liberal and anti-nationalist, he expressed concern over rising ethno-nationalist tensions in the Habsburg Empire. In 1884, he rallied to Menger’s side during the *Methodenstreit*. His 1887 *Grundlegung der theoretischen Staatswirtschaft* (Foundation of Theoretical State Economics) represented an extension of subjective value theory into the realm of public policy and economics.

Arguing along the lines of Menger, Sax asserted that economics was an exact science made up of discrete fields. Economists had successfully shown the scientific nature of private economics, which focused on subjective valuations, production, and exchange in the market economy. Economists had treated state and social economics as a “*Kunstlehre*”, or practical theory, as much art as science.<sup>11</sup> Sax instead believed that state economics operated according to the same laws as the individual economy. Sax argued that the “collective” and individual

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<sup>10</sup> Eugen Maria Schulak and Herbert Unterköfler, *The Austrian School of Economics*, trans. Arlene Oost-Zinner (Auburn: Ludwig von Mises Institute, 2011), 49-52, stress this deficit.

<sup>11</sup> Emil Sax, *Grundlegung der theoretischen Staatswirtschaft* (Vienna: Hölder, 1887), 1-3.

reciprocally delimited and defined one another. Using the concepts of the good, need, and value developed by the Austrians in the collective economy would provide a better foundation for state policies on trade, taxation, finance, and public enterprise.<sup>12</sup> Sax advocated for active state intervention in areas where the private economy did not adequately satisfy collective needs (for example, defense, transport, public utilities, and market oversight), proposing that taxes and fees on private goods and incomes cover “complete life ends” (*Gesamtlebenszwecke*). Likewise, in matters of “existence minima”, i.e. the physical requirements to maintain life, the state had the right to assess taxes to ensure its citizens’ well-being.<sup>13</sup>

Sax built all of his policy prescriptions on Austrian scales of wants and theories of marginal utility, and his fellow Austrians referenced him in their articles defending the practical side of their approach. Nevertheless, the place of applied economics for the school remained an open question, as the two most famous programmatic statements of the school reveal. In early 1891, Böhm and Wieser each authored articles in English-language journals designed to further popularize the Austrian School and to answer possible misconceptions. Their strategies diverged, however. Böhm approached his article along the lines of the *Methodenstreit*: marginal utility (and the Austrian School) developed as a response to the emerging lacunae within the classical economic literature and the deficiencies of the German historical method. The School endeavored to advance earlier theoretical economics into a more robust system. For Böhm, while practical concerns were important, theory was essential: “The province of the Austrian economists is *theory* in the strictest sense of the word.”<sup>14</sup> The core of that new theory was the theory of value. Contra Bonar, Böhm did not argue that the Austrians were revolutionary. They

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<sup>12</sup> Sax, *Grundlegung*, 249-55, makes the connection between individual and collective theory most explicitly.

<sup>13</sup> Ibid., 509-511.

<sup>14</sup> Eugen Böhm-Bawerk, “The Austrian Economists,” *Annals of the American Academy of Political and Social Sciences* 1 (1891): 361. Italics his.

built on the work of Gossen and others and in conjunction with Jevons, Walras and Clark. While the Austrians distinguished themselves with their clearer articulations of value and their theoretical extensions into the realm of production and price, they belonged to the broader trends of economic science.<sup>15</sup>

Böhm turned to “questions of distribution” in the latter half of his essay, attempting to head off objections about the abstractness of the Austrian School. He enumerated a growing list of Austrian titles written by him, Wieser, Sax, Viktor Mataja, Gustav Gross, and Robert Meyer that look at wages, rent, profit, finance, and jurisprudence.<sup>16</sup> He made clear that Austrians would devote more time to these issues once the edifice of theoretical economics was stable: “This, however, by no means implies that they have no faculty for the practical needs of economic life, and still less, that they do not wish to connect their abstract theory with practice. The contrary is true. But we must build the house before we can set it in order.”<sup>17</sup> Evidently, the Austrians would blend theory and praxis in their works. Despite this broad articulation of a research program, Böhm concluded his overview with a return to theoretical, anti-historicist arguments. The Austrians demanded greater specificity of economic terminology and closer attention to the fundamental laws of human activity. Counteracting the German historical school and their “one-sided zeal” for “vast empirical stores” through a “renaissance of economic theory” was the order of the day.<sup>18</sup> The Austrians, like Jevons, hoped to drive economic science beyond its classical formulations and current historicist assumptions in the direction of other modern disciplines.

Wieser argued along similar lines in his 1891 essay, focusing on the theory of value and linking Austrian thought to economic scholars across Europe. Wieser aligned the Austrians with

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<sup>15</sup> Ibid., 379.

<sup>16</sup> Ibid., 376-77.

<sup>17</sup> Ibid., 378.

<sup>18</sup> Ibid., 379-83.

Walras's "idealizing" form of abstract reasoning and Jevons's conceptions. Recognizing that science seeks "its highest laurels on the field of observation," he maintained that the Austrians viewed themselves as experimentalists first and foremost.<sup>19</sup> Reviewing the works of Menger, Böhm, and himself, he placed especial emphasis on the theory of imputation, which links the price of production goods to the value of first-order consumption goods rather than the costs of production. He also highlighted the theory of capital and interest, recently developed by the three Austrians, as a crucial innovation in economic theory.

Wieser's work is striking because he highlighted disagreements within the school. According to Wieser, the Austrians were not a monolithic group possessing the same evaluations of all economic ideas. Wieser identified and included an array of Austrian writers who do not fit a single mold. Not only does he highlight Sax's work on state policy, for example, he also singled out Rudolf Auspitz and Richard Lieben as vital contributors. Though he described their work "on Jevonian lines," they nonetheless counted as Austrian.<sup>20</sup> Wieser preferred to emphasize theoretical acuity and creativity rather than dogmatism as characteristic of the early school. He presented Menger as the "opponent" of Böhm on this matter, and he eschewed evaluation of either gentleman or their respective theoretical contributions by presenting his own theory instead, declaring: "The Austrian school does not maintain its unanimity over the theory of interest."<sup>21</sup> After describing Sax's law of value, he noted its lack of broader acceptance: "[for] other Austrians it obeys another law."<sup>22</sup> As we will see in a subsequent section, Wieser's ecumenical representation of the school was a necessary formulation given the massive increase in

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<sup>19</sup> Friedrich Wieser, "The Austrian School and Its Theory of Value," *Economic Journal* 1 (1891): 108.

<sup>20</sup> Ibid., 109.

<sup>21</sup> Ibid., 115.

<sup>22</sup> Ibid., 116.

publications and activities of the Austrians in the late 1880s. The School's vitality owed much to its diversity of approaches and applications.

In his closing remarks, Wieser proposed three directions in which the Austrians may gain notoriety in the subsequent decades: in their criticisms of socialist and communist economics; economic theory and methodology, and; public finance and state economics. In a response to Francis Edgeworth's review of his recent book, he reiterated his critique of the feasibility of socialist economy without a price mechanism determined by exchange. He expressed the differences between Jevons's equation of value and price and the Austrian holistic notion of value. Finally, he followed Sax in his discussion of the role of the state in the economy. He concluded his article with a brief political observation, inspired by Sax:

The state, in taxing citizens unequally, suffers itself to be paid unequally for its equal services, and we find this equitable. In the market every purchaser, from the richest to the poorest, pays the same price for the same service, the millionaire paying for what he buys in common with the beggar by the beggar's standard, and this we find natural. How shall we interpret these inconsistencies?<sup>23</sup>

Wieser alluded here to his recently released *Der natürliche Werth* (Natural Value), where he advocated for progressive taxation on economic and ethical grounds. He suggested that the wealthy, deriving more benefits from state services, must pay more for those advantages. With these comments, Wieser made clear that the Austrian School was beginning to move beyond narrow theoretical concerns.

These three articles introduced the broader economic community to the emergent Austrian School of the late 1880s. While Menger generally kept his distance from these discussions and from the economic community at large, only publishing one article on capital during the late 1880s, Böhm and Wieser recognized the importance of international allies in the

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<sup>23</sup> Ibid., 121.

economics profession, and they actively cultivated those ties. As the discipline professionalized elsewhere and as it opened up to new methodological approaches, the Austrians reached out. Significant articles on the Austrian School of Economics and its theory of value appeared in the *Quarterly Journal of Economics*, the *Annals of the American Academy of Political and Social Sciences*, and the *Economics Journal*, and the *Nuova Antologia Di Scienze* between 1888 and 1891.<sup>24</sup> In the latter three journals, the articles appeared in the very first editions published, reciprocally helping to establish the credibility of the publication and the school. Leading economists associated with the marginal utility revolution like F.Y. Edgeworth promoted Austrian ideas in book reviews, while prominent social scientists like Werner Sombart challenged their findings. Translations of the most significant Austrian works of the late 1880s, Böhm's two volumes on capital and interest and Wieser's 1889 book *Natural Value*, appeared in short order, too.

Austrian Economics was even more interesting than the reviews, translations and programmatic statements suggest. Zooming in on the five-year period between 1888 and 1892, we can pinpoint the moment when the Austrian School burst forth as a social, political and intellectual force.

### *The explosion in Austrian publications, 1888-89*

The Bonar, Böhm and Wieser articles, dating from 1888 and 1891, represented the culmination of earlier endeavors. They reflected the achievements of the Austrian School in the

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<sup>24</sup> Bonar, “Austrian Economists”; Achille Loria, “La scuola Austriaca nell’ economia politica,” *Nuova Antologia Di Scienze, Letteri ed Arti* 1 (1890): 492-509; Eugen Böhm-Bawerk, “The Historical Versus the Deductive Method in Political Economy,” and “The Austrian Economists,” *Annals of the American Academy of Political and Social Sciences* 1 (1891): 244-271, 361-84; Friedrich Wieser, “The Austrian School and the Theory of Value,” *Economic Journal* 1 (1891): 108-121.

previous decade. They were more retrospective than prospective, demonstrating what the School *was* more than what it *would become*. Only Wieser made a passing reference to contemporary Austrian work, and he refused to expand on those ideas. This is remarkable since the Austrian School was in the midst of a profound transformational moment. Ironically, its founding members and early proselytizers scarcely acknowledged the changes afoot.

A slow but steady stream of new Austrian works appeared between the school's first appearance in 1884 and 1887. It was the publication wave of 1888 and 1889 that demanded attention. None other than Gustav Schmoller, Menger's erstwhile nemesis, begrudgingly acknowledged this fact in a review, admitting the formidable existence of "a younger Austrian school."<sup>25</sup> Menger, Böhm, and Wiese led the charge, publishing some of their most famous efforts, but they were joined by a much larger group than had existed before.

Four years after the last pyrotechnics of the *Methodenstreit* and seventeen years since the *Grundsätze*, Menger re-entered economic discussions with a long article on capital. Echoing his earlier objections about economic theory, especially concerning value theory, Menger singled out capital theory as inadequately developed and poorly expressed. In their efforts to devise new concepts for their science, Adam Smith and the classical economists "allowed the clear and practically meaningful real-life concept of [capital] to go unobserved."<sup>26</sup> He urged a return to common sense understandings of capital derived from observation of business and industry. After a brief barb directed at his former hero, Wilhelm Roscher, Menger explored the conceptual challenges of defining capital before venturing a tentative definition himself.<sup>27</sup>

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<sup>25</sup> Gustav Schmoller, Review of Gustav Gross, *Wirtschaftsformen und Wirtschaftsprinzipien, Jahrbuch für Gesetzgebung, Verwaltung, und Volkswirtschaft im Deutschen Reich* 12 (1888): 733.

<sup>26</sup> Menger, "Kapital," 136.

<sup>27</sup> For one of the better overviews on Austrian theories of capital, see Anthony Endres and David Harper, "Carl Menger and His Followers in the Austrian Tradition on the Nature of Capital and its Structure," *Journal of the History of Economic Thought* 33:3 (2011): 357-84.

In contrast to his colleagues, Menger felt that a scientific concept of capital could only emerge “immediately from life” and not from “scientific analysis” or “theoretical reflection.”<sup>28</sup> He differentiated between three common understandings of the term: the portion of an individual’s wealth devoted to an increase in income; goods used in production (as opposed to finished, consumer goods), and; defined “products” used for further production. He found fault with each of these specifications. He blamed British scholars for the inflexibility of Romance language and Germans for taking those muddled ideas from the confused Brits. He then spent the latter half of the essay showing how businessmen distinguish between money, productive wealth, and capital. For him, financial capital and money markets must not be confused with real capital, which consists of production goods that generate greater wealth. “Not the capital [i.e. money] value of a production good but the good itself is in reality the original source of [capital] output, and the determination of the rate of return (Verzinsung) of the capital represented in that good derives merely from the foundation of a previously determined output of wealth in goods.”<sup>29</sup> In this way, Menger distinguished himself from earlier theorists in two ways. First, he focused on the heterogeneous composition of capital in goods rather than the homogeneous character of capital expressed in money terms. He also suggested that capital fit poorly with static economic models, anticipating subsequent criticisms of general equilibrium theories.<sup>30</sup>

For the first time, Menger drew attention to the works of other scholars in his capital critique. He favorably referenced works by Wieser, Sax, Mataja, and Philippovich in his effort to counteract Roscher, Karl Knies, Johannes Conrad, and the German school. He heaped especial praise on Böhm, contributing to the growing buzz surrounding his forthcoming book on interest.

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<sup>28</sup> Menger, “Kapital,” 137.

<sup>29</sup> Ibid., 181-2.

<sup>30</sup> Endres and Harper, “Carl Menger,” 363-4.

Lamenting the helplessness of contemporary economics in the face of the socialist theory about the production of wealth, Menger touted Böhm as a ray of hope: “Böhm’s efforts with capital and interest reveal their great significance from this vantage. In the first part of his comprehensive work on ‘Capital and Interest’ he offered a ‘penetrating and comprehensive critical overview of an enormous amount of available material’...the second section should bring with it a positive theory.”<sup>31</sup> Several other authors, including Wieser, Bonar and William Smart, expressed similar enthusiasm after the promise of Böhm’s first volume.

Böhm’s *Positive Theorie* (Positive Theory of Capital) did not disappoint Menger or its other early advocates. He offered one of the most comprehensive explanations of the interest phenomenon while also leveling a devastating attack on labor theories of value. He became a major international figure in the wake of the book’s publication. The two volumes of *Capital and Interest—Positive Theory* and the earlier *Capital and Interest*—were rapidly translated into English, making it one of the few German works afforded such a treatment in the nineteenth century.<sup>32</sup> The book eventually went through four editions and inspired several generations of scholars, including Joseph Schumpeter, Ludwig Mises, and Friedrich Hayek. It also provoked ardent detractors. In addition to myriad reviews from scholars in Europe and North America, his work precipitated a slew of monograph-length studies. Henry Carey Baird, son of the American economist Henry Carey, wrote a blistering lecture for the American Philosophical Society, calling the book “the most complex, confusing, narrow, hair-splitting, and arrogant criticism.”<sup>33</sup> Böhm’s work played a pivotal role in two of the three biggest capital controversies in the history

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<sup>31</sup> Menger, “Kapital,” 182-3.

<sup>32</sup> Klaus Hennings, *Austrian Theory of Value and Capital* (Cheltenham: Elgar, 1997), 12.

<sup>33</sup> Henry Baird, “Carey and Two of His Recent Critics: Böhm-Bawerk and Marshall,” *Proceedings of the American Philosophical Society* 29 (1891): 2. See also Walter Firminger, *A Criticism of Böhm-Bawerk’s Doctrine of Capital and Interest* (Oxford: Parker, 1891); Salmann Margolin, “Zur Kritik der Böhm-Bawerk’sche Lehre von Kapital und Kapitalzins” (Ph.D. dissertation, Berlin, 1903); Max Gebauer, *Das Wesen des Kapitalzinses und die Zinstheorie v. Böhm-Bawerks* (Breslau: Koebner, 1904).

of economic thought. Böhm and John Bates Clark, another early pioneer of marginal utility theory, engaged in a fifteen year exchange about capital theory, usually conducted in private letters but occasionally erupting in heated salvos in academic journals. Later, Böhm's ideas prompted the debates between Hayek and Frank Knight about production and capital.<sup>34</sup>

In contradistinction to Menger and other early capital theorists, Böhm prioritized the role of time in the production process, particularly its contribution to value creation. For Böhm, capital is “an aggregate of products destined, not for immediate consumption or use, but to serve as means of acquisition.”<sup>35</sup> The surest way of increasing the output of wealth—and enhancing the return of capital—is by extending the “roundabout” methods of production. The more time “sacrificed” to the production process, the greater is the deferral of present needs for future ones, and, ultimately, the greater the overall return. Böhm recognized that roundaboutness was his keenest insight: “That roundabout methods lead to greater results than direct methods is one of the most important and fundamental propositions in the whole theory of production. It must be emphatically stated that the only basis of this proposition is the experience of practical life. Economic theory does not and cannot show a priori that it must be so; but the unanimous experience of all the techniques of production says that it is so.”<sup>36</sup> Like Menger, he appealed to the “experience of practical life” for support. However, his intertemporal approach, which treated time as a central parameter in capitalist production, was novel. So was his stress on the “double relation” of capital—to the acquisition of interest on the one hand, and the expansion of production, on the other.<sup>37</sup>

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<sup>34</sup> Avi Cohen, “The Mythology of Capital or of Static Equilibrium? The Böhm-Bawerk/Clark Controversy,” *Journal of the History of Economic Thought* 30:2 (2008): 151-71.

<sup>35</sup> Eugen Böhm-Bawerk, *Positive Theory of Capital* (London, 1891), 59.

<sup>36</sup> Ibid., 20.

<sup>37</sup> Ibid., 39. See also Hennings, *Austrian Theory*, 185-9 and Endres and Harper, “Carl Menger,” 364.

Böhm's work offers vital insights into how capital functions as a “tool of production” and why it “naturally” produced a rate of return, or interest. His treatment explains the existence (and necessity) of interest in economic activities. Since humans discount the value of future goods vis-à-vis present ones, the sacrifice of present value must yield more value, in the form of interest, in the future, since one is forgoing something of greater value for a specified period of time.<sup>38</sup> As he put it, “interest is the complementary part of the price payable for a sum of present goods in future goods.”<sup>39</sup> He introduced the figure of the entrepreneur to identify the class of individuals who engage in these speculative ventures and thereby earn their wealth not through the exploitation of labor (or land) but through their far-sighted commitment to the production of future goods. Like *homo economicus*, the “entrepreneur” became an integral ideal type in economic science thanks to the efforts of Böhm and later Austrians like Schumpeter.

Additionally, while little remarked upon in initial reviews, *Positive Theory* also leveled the kind of anti-socialist critique that Menger and Wieser awaited. In extolling the entrepreneur and the creative power of capital, he offered the most trenchant criticism of the labor theory of value to date. By demonstrating that returns on goods come from the interactions of labor, land and capital over time and that interest emerges as a natural consequence of temporal considerations, he undermined the contention that capital derived from the creative power of labor and its exploitation. More importantly, Böhm claimed to foist Marxism on its own petard, arguing that the socialist state would of necessity engage in the same exploitation of labor as the individualist system: “But much more important than any such sporadic obtaining of interest by private individuals is the fact that, in the Socialist state, the commonwealth itself, as against the citizens, would make use of the principle of interest which to-day it reviles as ‘exploitation’ and

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<sup>38</sup> Böhm-Bawerk, *Positive Theory*, 253-9.

<sup>39</sup> Ibid., 296.

deduction from the product of labour.”<sup>40</sup> While this interpretation represented a misreading of socialist theories of exploitation, it served as a starting point for subsequent liberal critiques.<sup>41</sup>

In addition to advancing his own theories, Böhm took a moment to promote his friend and brother-in-law, Wieser, who also published a major work in 1888. Böhm admitted that he only dealt with the role of capital in the production of wealth and could not provide the full story of the distribution of value across factors of production: “It will not be expected of me to give a complete theory of distribution in the passing, as it were. …Moreover I hope that on this question of the shares allotted to the various factors, which I am compelled to treat in a very cursory way, the eagerly expected work of Wieser will very shortly shed a clear light.”<sup>42</sup> Wieser’s theory of imputation, fully outlined in his 1888 *Natural Value*, provided the elaboration Böhm sought.

Wieser’s book endeavored to show how prices, the “objective” valuation of goods that emerged from exchange, related to “natural value,” the relationship between utility and the good itself. With his characteristic terseness, Wieser defined his key term: “That value which arises from the social relation between amount of goods and utility, or value as it would exist in the communist state, we shall henceforth call ‘Natural Value.’”<sup>43</sup> Inspired by Anton Menger and contemporary jurisprudence, Wieser devised a methodology to assign responsibility to individual factors for the production of value.<sup>44</sup> In painstaking detail, Wieser showed the relative contributions of land, labor, and capital to value. Using marginal utility theory, he produced a new interpretation of the relationship between price and value, otherwise known as the

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<sup>40</sup> Ibid., 367.

<sup>41</sup> We will return to the debate between the Austrians and Marxists throughout the book. The key early rejoinder to Böhm will come from Rudolf Hilferding. See Eugen Böhm-Bawerk, *Karl Marx and the Close of His System* (New York: Kelley, 1949), vi-xxii.

<sup>42</sup> Böhm-Bawerk, *Positive Theory*, 178.

<sup>43</sup> Friedrich Wieser, *Natural Value* (London: Macmillan, 1893), 60. See also 39.

<sup>44</sup> Ibid., 72-3.

imputation value. Against theories that related price to the costs of production, Wieser traced prices back to the value of consumption goods, hence to exchange value. He also offered a new wrinkle on marginal utility itself, which corrected Menger's teaching. In what would become known as "Wieser's Law," the author showed that the value of a good is not simply the difference between  $n$  and  $n-1$  units of good  $g$  in subjective value; instead, it is the difference between the overall value of the configuration of production that uses  $n$  or  $n-1$  units of  $g$ . The distinction may seem trivial at first, but it reflected the dynamism inherent in production processes more accurately.

Wieser's book also extended the emergent Austrian critique of socialism. As his very definition of "natural value" showed, Wieser tried to prove that even in "communistic" society, the natural values of land, labor, and capital pertained. Therefore, communist society would also be subject to laws of imputation and marginal utility. The allocation of all productive wealth to labor could no more do away with the natural value of land and capital that appeared in the form of rent or interest. In describing communist state as "the most perfect state" and "the most highly rational society," he hoped to undercut socialist claims through immanent critique. He argued that if natural value, which derived from marginal utility, pertained in communistic society, then communists could not dispense with the natural values attached to land and capital. According to Wieser, "natural value is a neutral phenomenon, the examination of which, whatever may come of it, can prove nothing for and nothing against socialism. If land rent and interest on capital are natural phenomena of value, they will have their place in the socialistic state also, without necessarily breaking it up and leaving the way clear again for capitalists and landowners."<sup>45</sup>

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<sup>45</sup> Ibid., 60-4, here 63.

Not only did Wieser find capitalists and landowners present in a “neutral” form of the communistic state, but he also accused socialists of undermining their ideal society through their disregard of natural value. Wieser distinguished exchange value, an objective formation based on the subjective valuations of consumers and producers and the purchasing power of the former, from the merely subjective characteristics of natural value. Socialists *could* criticize the iniquities of contemporary exchange values by showing its divergence from natural value, yet they instead chose an alternate value theory. Since the labor theory violated natural precepts, however, Wieser condemned the socialists and their aberrant theory: “although we say nothing against socialism, but wish to remain throughout within the neutral sphere of natural value, we shall be obliged again and again to speak against the socialists.”<sup>46</sup> Wieser’s critique of socialism therefore cut even deeper than Böhm’s, since it demonstrated the supposed impossibility of the communist state, as understood by socialists themselves, especially Marxists.

With its clear mode of expression, shorter length, and even-handed tone, *Natural Value* met with easier acceptance than either Menger’s or Böhm’s works. It was translated into English shortly after Böhm’s, and it received favorable reviews from leading economists like Francis Ysidro Edgeworth. Wieser’s greater generosity toward other scholars, evident in his “Austrian Economics” article, also likely influenced his own positive reception.

Wieser viewed himself as part of a growing contingent of Austrians who were pushing the marginal revolution forward. Wieser stressed creativity and novelty over dogmatism. Rudolf Auspitz and Richard Lieben’s *Untersuchungen über die Theorie des Preises* (Investigations on the Theory of Price) represented these traits as much as any other Austrian work of the period, which was why Jevons drew attention to this 1889 work despite its “Jevonian” influences.

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<sup>46</sup> Ibid., 64.

Perhaps no other work demonstrates the diversity of interests within the Austrian School as well. The biographies of these collaborators also attest to the remarkable creativity emerging out of the liberal intellectual milieu that was fin-de-siècle Vienna.

*Lieben, Auspitz, and Ringstrasse Vienna*

After a long day of sightseeing in Vienna's majestic, medieval inner city and along the famed *Ringstrasse*, a weary visitor will often find her way into the famed Café Landtmann for a coffee and pastry. It is situated next to the neo-Renaissance Burgtheater and opposite the neo-Gothic City Hall and neo-classical University of Vienna, yet these august constructions hardly diminish the café's own splendor. Located in an ornate, late nineteenth-century building in the historicist style of the time, the setting dazzles the eye. It is one of the choicest addresses in the city to this day. This edifice, built in 1873 during the height of Austrian liberalism, is the Palais Auspitz-Lieben, named after the wealthy families who erected it. Richard Lieben and his siblings, along with his cousin and brother-in-law Rudolf Auspitz, planned and financed its construction. The Palais was more than a family home, it was also a center of Viennese modernism. Café Landtmann was popular with the Mengers, Carl, Anton and Max, Ludwig Mises, and Max Weber. Bertha Zuckerkandl-Szeps, heir to a liberal newspaper empire and an early proponent of the Secession movement, hosted her famous salon in the building from 1917 to 1938, attracting Johann Strauss, Gustav Klimt, Arthur Schnitzler, Alma and Gustav Mahler, and many others.

The Liebens represented the Austrian *Bildungsbürgertum* in its greatest glory. Ignatz, the family patriarch, was an industrialist and banker, who, as part of his last will and testament, left a fortune to establish a prize to honor “das allgemeine Beste,” the greatest general achievements in

the sciences. Awarded every three years, the Lieben-Preis was a forerunner of the Nobel Prize and is still viewed as the “Austrian Nobel” today. His children achieved great fame, too. Adolf became a chemistry professor in Prague before attaining the directorship of the Chemistry Institute at the University of Vienna. Ida, a brilliant thinker in her own right, married the famous and influential philosopher Franz Brentano. Richard became vice president of the Credit-Anstalt, the largest financial institution in Austria-Hungary. A precocious scholar and mathematical savant, the family honored him by introducing a Richard-Lieben-Preis in mathematics, which was awarded from 1912 to 1928. Helene, an accomplished painter and student of Georg Decker, produced one of the most famous portraits of the national playwright, Franz Grillparzer. She married Rudolf Auspitz, a sugar magnate and head of the banking house Auspitz, Lieben & Co.<sup>47</sup>

The Lieben clan demonstrated an astounding range of interests across disciplinary boundaries; Richard Lieben’s work in economics reflected this diversity. Advanced knowledge of mathematics and the physical sciences informed Auspitz and Lieben’s 1889 *Investigations*. Like Menger, Jevons, and Böhm, the authors recognized the need for great exactitude in the economic sciences. As opposed to the other Austrians, however, they did not look to empirical or common sense knowledge for inspiration. Instead, they turned to abstract models, which, after fine-tuning and modulation, could approximate real phenomena. In this way, they hewed closer to Walras, with whom they carried on a productive conversation about partial and general equilibria. Nevertheless, they viewed their theoretical contribution as part of the growing conversation within the economics community on marginal utility, especially in the Austrian capital. “It seems to us that price theory is especially important, because the determination of

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<sup>47</sup> For more on this remarkable family, see Evi Fuks and Gabriele Kohlbauer, eds., *Die Liebens* (Vienna: Böhlau, 2004).

land rent, interest, and wages concerns only price determinations.”<sup>48</sup> Their interests echoed Wieser’s, and they made explicit reference to the works of Thünen, Gossen, Walras, Jevons, and Menger in their methodological introduction. Recent work by Böhm and Wieser received especial recognition for its precision and innovation.<sup>49</sup>

Despite their indebtedness to other economists, their work little resembled anything that came before it. Relying on graph, curve and set theories, Auspitz and Lieben plotted the intricate interactions between use and demand, cost and supply, supply and demand, and other core economic relationships. As a result, they are viewed as independent co-originators of indifference curves. They also anticipated several of Pareto’s contributions on imperfect competition and monopoly prices.<sup>50</sup> Their work on stocks, banking and finance also inspired notable scholars like Irving Fisher.<sup>51</sup> While their use of mathematics in formulating economics created some distance from their fellow Austrians, Wieser and later Joseph Schumpeter placed in the men firmly in the Austrian tradition, alongside Böhm and Wieser. According to Schumpeter, Auspitz and Lieben deserved to be counted among the earliest members of the School and its most important figures: “I think it to be both right and conducive to a correct impression to confine this subsection [on Austrian Economics] to those two leaders [Böhm and Wieser] and to two other men who, personally rather than doctrinally, stood somewhat apart and never got all the credit they deserve, Auspitz and Lieben.” Schumpeter maintained that it was only the mode of expression not the content that distinguished Auspitz and Lieben. They were “Austrians”

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<sup>48</sup> Rudolf Auspitz and Richard Lieben, *Untersuchungen über die Theorie des Preises* (Leipzig: Dunker & Humblot, 1889), ix-x.

<sup>49</sup> Ibid., x-xiii.

<sup>50</sup> Vilfredo Pareto, “La Teoria dei Prezzi dei Signori Auspitz e Lieben e le Osservazioni del Professore Walras,” *Giornale degli economisti: Rivista mensile degli interessi italiani* 4 (1892): 201–239.

<sup>51</sup> Irving Fisher, *Mathematical Investigations in the Theory of Value and Prices*, (Ph.D dissertation, Yale University, 1892), 3-4.

through and through. It was only “because they put partial-analysis problems into the foreground, their work looks less ‘Austrian’ than it is.”<sup>52</sup>

*Spreading the message: The Austrians and the institutions they made*

We have spent a good deal of time outlining several of the most significant works of the Austrian School from 1888 and 1889 to demonstrate the prolificacy and profundity of its members. The aforementioned contributions hardly exhaust that year’s output, however. Robert Zuckerkandl, brother of the anatomist Emil and brother-in-law of Bertha Zuckerkandl-Szeps, published his investigation of price theory in 1889. Emil Sax, Viktor Mataja, Johann Komorzyński, and Hermann Schullern zu Schrattenhofen also produced noteworthy texts in the latter year.<sup>53</sup> If 1884 put the Austrian School on the map as an emergent group, these late 1880s endeavors cemented the collective as a force in contemporary economics. It also made Vienna a destination for the most advanced theoretical thinking in the social sciences, burnishing Viennese growing reputation as *the* center of European avant-garde and scientific thinking.

More than just theoreticians and academics, however, the Austrians asserted that their mission consisted of addressing practical life through scientific inquiry. In this, the economists resembled the psychoanalysts forming around Freud, who established clinics and became involved with school reform, and the followers of the scientist Ernst Mach, who turned to socialism, monism and freethinking to challenge conservative modes of thinking. This meant that the economists’ work started with research but it did not end there. Theory had to serve life. Led by Böhm, the Austrians organized an economics association to deal with contemporary social,

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<sup>52</sup> Joseph Schumpeter, *History of Economic Analysis*, paperback ed. (London: Routledge, 1986), 811, 816. Mises made the same assessment of Auspitz and Lieben, yet he excluded them from the School as a result of their mathematics. See Mises, “Richard Lieben als Nationalökonom,” *Neue Freie Presse*, 14 November 1919. For another laudatory treatment of Auspitz and Lieben, see Gerhard Tintner, “Auspitz, Rudolf and Lieben, Richard,” *International Encyclopedia of the Social Sciences*, eds. David Sills and Robert Merton (New York: Macmillan, 1968), 470-1.

<sup>53</sup> See Hayek, “Menger,” 408-9 and Schulak and Unterköfler, *Austrian School*, 53-8 for more details.

political, and economics affairs. They also created a journal to disseminate their findings. These endeavors anchored the economists in Austrian affairs and offered them an institutional foothold in German-speaking Central Europe, which they had lacked in their earlier struggles with German scholars. These institutions exemplified the diverse concerns and ecumenical attitudes of the early Austrian School. For Böhm, division of labor was the order of the day: “Our age stands under the sign of the division of labor. We specialize, in order to become master of a limited field.” Collective endeavor alone assured scientific and social success: “What no individual knows alone, we all know together, if [we] have proper, animated contact with the intellectual spirit of the time.”<sup>54</sup> These distinct intellectual endeavors promised a way forward for the sciences and western society. The *Gesellschaft Österreichischer Volkswirthe* (Society of Austrian Economists, GÖV) and its journal, *Die Zeitschrift für Volkswirtschaft und Sozialpolitik* (Journal for Economics and Social Policy, ZfVuS) represented the culmination of the public program of Austrian Economics.

In 1888, Böhm, Gross, Max Menger, Philippovich, Lieben, Meyer, and Lorenz von Stein resuscitated the GÖV, a previously moribund trade organization, transforming it into a lively academic society. They viewed it as a counterpart and rival to the German *Verein für Socialpolitik*, where “The society would commit to no business program, but would rather provide the opportunity for the free and open expression of all opinions.”<sup>55</sup> By 1892, the Gesellschaft had 225 members<sup>56</sup> and began publishing a journal meant as a direct challenge to Gustav Schmoller’s *Jahrbuch*. The first issue called all hands on deck—the list of contributors included Sax, Wieser, Bonar, Zuckerndl, Mataja, and Gross. Interestingly, Carl Menger played

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<sup>54</sup> Eugen Böhm-Bawerk, “Unsere Aufgabe,” *Zeitschrift für Volkswirtschaft und Sozialpolitik* 1 (1892): 3, 4.

<sup>55</sup> *Jahrbuch der GÖV* (Vienna: Manzsche, 1915), 162, 166.

<sup>56</sup> ZfVuS 1 (1892): 474.

no role in the GÖV or the *Zeitschrift*, highlighting the ascendancy of Wieser and especially Böhm within Austrian circles.

By the turn of the century, Böhm, as head of the GÖV and editor of the *ZfSuS* had established a thriving association with an internationally renowned periodical. The stable of talent he developed at these institutions was overwhelming. Beyond the aforementioned scholars who participated from the outset, a younger generation began to contribute by the late 1890s. Walter Schiff, Eugen Schwiedland, and Hermann von Schullern took active roles reviewing books for the *Zeitschrift*. Economists of international repute like Knut Wicksell and Franz Oppenheim affiliated with the paper. The GÖV also continued to grow, with its membership approaching 300 economists by 1900.

Neither the GÖV nor the *Zeitschrift* can be viewed as exclusive organs of the Austrian marginal revolutionaries, yet they did represent the integral confluence of economics and politics, theory and praxis, and knowledge and power in the late Habsburg Empire. These institutions also attested to the eclecticism and diversity of fin-de-siècle European social, economic, and political thinking. They also show the important role of policy advice and expertise, despite claims of apoliticism and objectivity. In all of this, Böhm and his School had starring roles. Theoretical articles took a backseat to works on economic and social policy. Examining the minutes of the general and plenary meetings of the GÖV, early conversations and lectures focused on tax policy, currency reform, labor relations, worker insurance and public housing initiatives.<sup>57</sup> Supplemental articles on the same topics appeared in corresponding issues of the *Zeitschrift*.

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<sup>57</sup> E.g. *ZfVuS* 1 (1892): 171-81, 270-87, 472-9.

More than just a vehicle for intellectual discourse, intermingling of leading politicians and economists characterized the GÖV, which bore the clear stamp of German liberalism and marginal utility theory. These exchanges revealed not only the practical orientation of Austrian economic thinkers, but the political access and clout that they possessed. Böhm welcomed the opportunity for economic science to serve social and political needs. He tried to delineate a “Theory for Praxis” or “Theory of Praxis” in the *Zeitschrift*, which would “extend its hand” to statesmen and bureaucrats. “Life praxis throws one thing after another in theory’s way, which then investigates, enriches, and explains them one at a time, slowly and steadily producing a fuller knowledge of life and its appearances. ...so will our journal seek to honestly serve the interests of the time.”<sup>58</sup> Böhm’s primary interest was the “social question,” alleviating the poverty and suffering of the industrial working classes through smarter economic policies. Hoping to break free of Malthusian and Ricardian constraints, Böhm believed that better policy could improve wages and quality of life for all. Eschewing “panaceas” like laissez-faire or strict protectionism, he advocated for sensible, time-tested state interventions that could achieve narrowly circumscribed aims.

While these ideals were progressive for the time, Böhm was no radical. According to him, the primary purveyors of panaceas were the followers of contemporary intellectual fads. It was up to his class, the *Bildungsbürgertum* or educated middle class, to produce solutions for society. Paternalistic progressivism, a staple of the Austrian liberal tradition, also captured the elitism of the early Austrian School. These organizational efforts and their attendant ideological beliefs set a precedent for elitist intervention that would characterize the political ideas of the Austrian School in the future. As one astute observer of the School has suggested, “it was a

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<sup>58</sup> Böhm-Bawerk, “Unsere Aufgabe,” 10.

school for learning and practicing statecraft dominated by extremely influential, if not to say powerful men, the entrance to which was sought by ambitious young men interested in social advancement precisely because it was an avenue to important social positions.”<sup>59</sup>

*Knowledge and Power: The Austrians ply their influence*

The Austrian economists did not limit their activities to scholarly publications and associations or to networking with prominent politicians and bureaucrats. They engaged directly in the policy deliberations of the Habsburg Empire, shaping the economic program of the late imperial regime. They took on bureaucratic positions and even rose to high ministerial positions. They recruited one another to advisory commissions, which permitted them to enact changes to Habsburg trade and currency policies that had enduring impacts on Austria well after the collapse of the Empire and the end of the Great War. While declaring themselves to be apolitical, scientific actors, their actions evinced a clear political position, which defended the interests of the emergent bourgeoisie, particularly liberal economic and political reforms, against the protectionist views of conservatives and the socialist ones of the swelling working classes.

Central to this public engagement was Böhm. The 1880s represented the height of his academic productivity while he was still a professor in Innsbruck. After the abrupt departure of Lujo Brentano from the University of Vienna in 1889, Böhm appeared set to attain that prestigious chair in economics, but the Minister of Finance swooped in and offered Böhm a position as the head of a department in charge of taxation reform, which the latter readily accepted. Working with his fellow economist Robert Meyer, he drafted a white paper and a bill that eventually formed the pillars of the 1892 reform bill. While these developments signified

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<sup>59</sup> Erich Streissler, “The Intellectual and Political Impact of the Austrian School of Economics,” *History of European Ideas* 9:2 (1988): 191-204.

professional and political success, Böhm's days as a full-time theoretician were behind him. Although he possessed an honorary professorship at the University of Vienna and taught there regularly, Böhm spent the 1890s rising through the ranks of the professional bureaucracy: he was appointed head of the tax department in 1891; he acted as vice president of the currency commission; he served three times as Minister of Finance.<sup>60</sup> Most of the key economists from this period likewise served in dual capacities as intellectuals and bureaucrats. His co-editors at the *Zeitschrift* were Theodor Inama von Sternegg, also an honorary professor and the head of the state statistical commission, and Ernst von Plener, scion of a prominent liberal political family and a Minister of Finance in his own right.

Böhm spearheaded tax and currency reform programs from his various offices within the Ministry of Finance. He recommended his intellectual allies for important positions on policy commissions. Serving as the leading government representative under Finance Minister Emil Steinbach at the Currency Commission hearings in March 1892, Böhm helped assemble a who's who of Austrian economists, bankers, and liberal power brokers. The Finance Ministry convened the hearing to solicit proposals for currency reform within the Austrian half of the Habsburg Empire. The Austrian bimetallist currency, based on the values of silver and gold, had endured large fluctuations and instability in the decades since the Austrian Compromise of 1867. The Crash of 1873, often seen as a turning point in Austrian history when the liberals of the *Gründerzeit* saw the political and economic tide turn against them, hit the Habsburg industrial and financial sectors especially hard. It undermined confidence in the Austrian *Thaler*, too. Subsequently liberals sought to reanimate the economy while also instituting stabilization measures. The government tasked the commission with devising a currency policy that would

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<sup>60</sup> Hennings, *Austrian Theory*, 12-15.

allow Austria to compete within the European economy more effectively. Demonstrating Böhm's influence, the commission consisted of liberal-leaning personalities who advocated for a simplification of the Austrian currency and a transition to the gold standard. Of the thirty-six members of the commission, six—including the majority of the professional economists—were members of the Austrian School. They included Richard Lieben, Viktor Mataja, Emil Sax, and Carl Menger himself. Franz Juraschek, the prominent jurist and economist, Böhm's close friend, and Friedrich Hayek's grandfather, also participated. Alongside leading editors of the major liberal newspapers, *Die Neue Freie Presse* and the *Wiener Allgemeine Zeitung*, and the directors of the largest banks in the Empire, these gentlemen successfully petitioned the government to adopt a “shadow” gold standard. Menger took on a leading role in the subcommittee meetings, not only advancing the gold standard position but also responding to the strident criticisms of bimetallists, who seemed to be favored initially by the conservative government Count Edwin Taaffe.<sup>61</sup> As early as 1893, Carl Menger proclaimed the success of the measures, while chastising those who doubted the proposals: “The enactment of [currency] reform has been accompanied in its initial stages by success, which not only the general public but also those not inexperienced in financial matters have found truly astounding. Hardly had the new law been promulgated...when a flood of gold streamed over our borders, and our previously mobile fluctuations gained a relative stability, which the Finance Ministers of both halves of the Empire noted with proud satisfaction.”<sup>62</sup>

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<sup>61</sup> *Stenographische Protokolle über die vom 8. März bis 17. März 1892 abgehaltenen Sitzungen der nach Wien einberufene Währungs-Enquête-Commission* (Vienna, 1892). See *Protokolle*, iii for the composition of the commission; 269-71 offers Menger's defense of the gold standard and his monetary theory. On Austrian banking and currency policy, see Richard Ebeling, *Political Economy, Public Policy, and Monetary Economics* (New York: Routledge, 2010), 65-8.

<sup>62</sup> Carl Menger, *Das Goldagio und der heutige Stand der Valutareform* (Prague: A. Haase, 1893), 1.

Similarly, Böhm and his allies helped to drive through tax reform. Interestingly given the Austrian School's reputation as an anti-interventionist, anti-taxation and anti-state movement, the early Austrians argued for a progressive income tax on marginalist grounds. Since the time of Maria Theresia and Joseph II in the late eighteenth century, the Habsburg state and its powerful bureaucracy had experienced significant growth, yet revenues lagged far behind. Property taxes and indirect taxes on corporate bodies and classes of individuals did not cover state expenditures. After the wars of the 1860s and the economic downturn of the early 1870s, these problems became even more acute. By the 1880s, resolving the “social question” added to the state’s budgetary troubles.<sup>63</sup> The emergence of mass immigration and a large, industrial class living in urban squalor threatened to undermine the stability of the Empire. Trade unions and socialist parties appeared and gained greater prominence by 1900. To forestall the advances of these working class movements, Austrian officials took a page out of Otto von Bismarck’s playbook in the German Reich, proposing welfare, housing and insurance measures. The meetings of the GÖV and the pages of the *ZfVuS* were filled with discussions of these proposals. In order to pay for these proposed changes, the state needed to rationalize its tax code and broaden its base. For the reformers, a direct, personal income tax was deemed necessary to maintain the Austrian state.

Between 1892 and 1897, financial experts debated the merits of various tax proposals in economic journals, special commissions, and the House of Lords. Again, members of the Austrian School took the lead. One of the first and most influential pamphlets calling for a progressive income tax came from Emil Fürth, a jurist at the university, close ally of Max and Carl Menger and father of Herbert, a key figure in the fourth generation of the Austrian School.<sup>64</sup>

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<sup>63</sup> *Die direkten Personalsteuern* (Vienna: Holder, 1907), 1-7. On the evolution of the Austrian bureaucracy during the long nineteenth century and its role in the Habsburg state building process, see John Deak, *Forging a Multinational State* (Stanford: Stanford University Press, 2014).

<sup>64</sup> Emil Fürth, *Die Einkommensteuer in Österreich und ihre Reform* (Leipzig, 1892).

Wieser, Auspitz, Mataja, Richard Reisch, and Emil Sax all published articles on taxation in the next year.<sup>65</sup> As a result of these activities, the Austrian parliament convened hearings on the tax code. Finance Minister Steinbach and section head Böhm again took the lead. Böhm himself attended all meetings until he himself became Finance Minister, when he appointed a replacement. The chairman of the hearings was Carl Menger's brother, Max. 36 commissioners participated nearly fifty sessions between February 1892 and October 1896, when the parliament passed the new law, which introduced a progressive tax system based primarily on individual incomes. Robert Meyer, a student of Carl Menger's, wrote the final form of the direct taxation legislation. Böhm wrote the preamble of the new tax code.<sup>66</sup>

Like Wieser in his 1891 article on the Austrian School,<sup>67</sup> Böhm argued that since the wealthy benefited considerably more from state expenditures—be it in the form of education opportunities, infrastructure usage, or defense of property rights—progressive taxation made sense on marginal utility grounds. Each *Thaler* of state expenditure had greater value for the wealthy; hence, they should want to contribute more to the state's coffers. Evoking Emil Sax's groundbreaking work on state finances, Böhm also argued that the wealthy had an economic obligation to pay more to maintain the state that sustained their prosperity.

After the successful passage of the tax law, his fellow Austrian Economists promoted it widely. Beyond laudatory articles in the *Zeitschrift*, Gustav Gross wrote the official history of tax reform for the Austrian legal dictionary.<sup>68</sup> Even in a sharply critical assessment of the state of Austrian taxation five years later, which took the state to task for inaccurate assessments, shoddy collection practices, and premature refunds to the Habsburg provinces, Wieser applauded the

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<sup>65</sup> See *ZfVuS* 1 (1892) and 2 (1893) for these contributions.

<sup>66</sup> *Die direkten Personalsteuern*, ii, 11, 14.

<sup>67</sup> Wieser, "Austrian School," 121.

<sup>68</sup> Gustav Gross, "Steuerreform," in *Österreichisches Staatswörterbuch*, vol. 1 (Vienna: Hölder, 1896).

original intent of the law: “Despite its less than brilliant results it is a triumph in the craft and morality of taxation [*Steuerkunst und Steuermoral*], if one judges it not by its ends but by the means it took, as one must.”<sup>69</sup> Wieser urged an even greater commitment to the principles of this tax policy, calling for strong leadership from his brother-in-law Böhm, who was once again Finance Minister, in bringing Austrian affairs back into order.

As we have seen in the case of currency and tax reform, the Austrian economists hardly restricted their activities to theoretical work. Their elite scientific training at the University of Vienna had prepared them for prominent positions in the powerful state bureaucracy. Well connected behind the scenes, they took leading roles in the most significant economic discussions in the Empire. Drawing on their close network of friends and intellectual allies, the economists reshaped the late imperial Habsburg state in a more liberal and business-friendly direction. The turn to the gold standard stabilized the Austrian currency, yet it did little to stimulate economic growth. After another crash in 1893, the Austrian economy remained stagnant for years, plagued by persistent deflation that inordinately hurt the lower classes. The progressive income tax did little at first to rationalize the state’s economic affairs or ensure the financing of new social programs. Nevertheless, the bureaucratic and political engagement of the Austrian School in the 1890s represented a new dimension of the School’s program. This kind of engagement and influence peddling remained a defining characteristic of the School for decades to come.

### *New Controversies: Challenging Marxism*

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<sup>69</sup> Friedrich Wieser, *Die Ergebnisse und die Aussichten der Personaleinkommensteuer in Österreich* (Leipzig: Duncker & Humblot, 1901), 2.

Even as the school moved beyond its initial theoretical orientation and concentrated more on applied economics, its leading practitioners continued to defend its marginalist ideas against all comers. In the 1880s, empirical and historicist approaches stood as the greatest obstacles to the acceptance of its views. By the 1890s, a new specter haunted the minds of European economists: Marxism.

As we saw in the previous chapter, Austrian Economists leveled sustained criticisms against socialists in their earliest writings. Böhm, Wieser, Anton Menger and others questioned the feasibility of socialist ideas. They also attacked the labor theory of value upon which socialists, especially Marxists, built their economic theories. Böhm rejected the Marxist theory of exploitation as an inadequate explanation for the creation of capital, while Wieser denied that labor theories addressed the issue of imputation, or the calculation of prices for goods. Marxism represented only one target among many for the early Austrians, however, as they struggled to establish their footing in the 1880s. Most of their intellectual energies were directed at other economist theorists and liberal thinkers.

When Marxist socialism came into its own as a vital political and intellectual force in the 1890s, liberal economists reacted with alarm *en bloc*. After two decades of political suppression, the Austrian and German states, respectively, removed their complete proscriptions on socialist activities in 1888 and 1889. The Austrians founded the *Sozialdemokratische Arbeiterpartei* (Social Democratic Workers' Party, SDAP) in the final days of 1888 under the leadership of Viktor Adler, an occasional contributor to the *ZfVuS* and participant in the GÖV. The Germans followed suit, creating the *Sozialdemokratische Partei Deutschlands* (Social Democratic Party of Germany, SDP) out of a number of smaller worker parties in 1890. Within a decade, the SDP commanded over 27% of the vote in national elections. The SDAP also received close to 20% of

the vote in Austrian national elections by 1907. Complementing these developments in Central Europe, socialists around the world united to form the Second International in Paris on July 14, 1889, the one hundredth anniversary of the storming of the Bastille. Over 400 delegates and 300 organizations from twenty countries participated in the constitutional assembly, attesting to the strength of the movement. Freedom of assembly, collective bargaining rights, franchise reform, and labor legislation figured in typical socialist party programs, all of which seemed to threaten the dominance of conservative and bourgeois political and economic interests.<sup>70</sup>

If these developments indicated that Marx-inspired socialism had reached political maturity, the publication of the final volume of Marx's masterwork *Das Kapital* provided the intellectual foundations for this activist generation. A notoriously slow writer, Marx struggled to finalize his critique of classical political economy for nearly four decades. From 1859 until his death in 1883, Marx devoted most of his scholarly energy to this task. He conceived of this project as a four-volume work; only one appeared during his lifetime. The first volume was published in 1867 and received an international readership immediately. It dealt with the production of capital through the exploitation of labor and the contradictions inherent within the capitalist mode of production. The second volume, edited and released by Friedrich Engels in 1885 two years after Marx's death, treated the circulation of capital within the market system. It highlighted the role of "money owners" and "entrepreneurs" as the agents of capitalist activity and the social nature of capital creation. The third volume appeared in 1894 and focused on questions of profit, interest, and revenue. It argued that rates of profit tended to decrease over time, suggesting that the capitalist mode of production would eventually cease to produce surplus

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<sup>70</sup> On the Second International, see Julius Braunthal, *History of the International*, 3 vols. (Boulder: Westview, 1966-1980).

value or sustain economic growth.<sup>71</sup> With these works, Marx and Engels offered to the world a comprehensive challenge to bourgeois economic theory. It indicated the future development of global economic affairs and presaged the collapse of the liberal capitalist world order. Seen as a provocation by socialists and non-socialists alike, *Kapital* set the terms for political and economic debates for the next several decades. And Vienna, with its entrenched liberal traditions, vibrant socialist movement, and combative intellectual culture was ground zero for these conflicts.<sup>72</sup>

The final volume of *Kapital* found a limited readership among rank-and-file socialists, however,<sup>73</sup> and it met with a general dismissal from bourgeois economists. As Rudolf Hilferding, the prominent Austrian Marxist noted, “The publication of the third volume of *Capital* has made hardly any impression upon bourgeois economic science.”<sup>74</sup> Though Vilfredo Pareto and Philip Wicksteed wrote critical assessments, it fell to Böhm to write the longest, most definitive and clearly the most acerbic response. In his 1896 *Zum Abschluss des Marxschen Systems* (translated as *Karl Marx and the Close of His System*),<sup>75</sup> he took Marx to task for the shortcomings of his theory of value and his misrepresentations of the characteristics of the capitalist mode of production. Böhm, already the most illustrious Austrian economist and one of the foremost social scientists in all of Europe, gained an immediate hearing across the transatlantic world. His

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<sup>71</sup> A fourth volume devoted to surplus value only appeared (in fragmentary form) between 1905 and 1910.

<sup>72</sup> Marx’s *Kapital* has received a resurgence of interest in the wake of the global economic crisis of 2008-09. A couple of the better works on it are: David Harvey, *A Companion to Marx’s Capital* (London: Verso, 2010); William Clare Roberts, *Marx’s Inferno: The Political Theory of Capital* (Princeton: Princeton University Press, 2016).

<sup>73</sup> Andrew Bonnell, “Did they read Marx? Marx Reception and Social Democratic Party Members in Imperial Germany, 1871-1914,” *Australian Journal of Politics and History* 48:1 (2002): 4-15.

<sup>74</sup> Eugen von Böhm-Bawerk, *Karl Marx and the Close of His System*, ed. Paul Sweezy (New York: Augustus Kelley, 1949), 121.

<sup>75</sup> As subsequent commentators have noted, this translation misrepresents Böhm’s work, implying it was solely an obituary for Marxist socialism. Really, it was a review of Marx’s opus now that *Kapital* was concluded. See Paul Sweezy, “Editor’s Introduction,” in Böhm-Bawerk, *Karl Marx*, vi. Also interesting is that Böhm first published this essay as part of a Festschrift honoring the German economist Karl Knies on the occasion of the latter’s 75<sup>th</sup> birthday.

essay was published as a standalone book; within two years, multiples editions and translations appeared. His work informed most pre-WWI critiques, especially in the United States.<sup>76</sup>

Although a critical economic appraisal first and foremost, Böhm employed his famous polemical skills in belittling the Marxian position. He opened his text with a lengthy disparagement of Marx as a writer while marveling at the perseverance of his followers:

As an author Karl Marx was enviably fortunate. No one will affirm that his work can be classed among the books which are easy to read or easy to understand. Most other books would have found their way to popularity hopelessly barred if they had labored under an even lighter ballast of hard dialectic and wearisome mathematical deduction. But Marx, in spite of all this, has become the apostle of wide circles of readers, including many who are not as a rule given to the reading of difficult books. ...It could easily have happened, therefore, that Marx's work might have found no favor with any part of the public—not with the general public because it could not understand his difficult dialectic, and not with the specialists because they understood it and its weaknesses only too well. As a matter of fact, however, it has happened otherwise.<sup>77</sup>

In the course of one paragraph, Böhm dismissed Marx as a slow and difficult writer undeserving of popular or scholarly renown. He castigated Marx's "hard dialectics" and "wearisome" mathematics. Deploying an elitist anti-populism, he wondered at why readers who avoid "difficult" texts would turn to Marx. Finally, he concluded that the scholarly community has already reached a consensus that Marx's theories were plagued with weaknesses and inconsistencies that should have seen the book relegated to the dustbin of history. Nevertheless, Böhm continued his assault for one hundred searing pages.

Though Böhm struggled to understand the continued appeal of Marx and his convoluted ideas, he nevertheless gave *Kapital* a thorough and coruscating review. Böhm pivoted from ironical condescension to economic analysis of Marx's theories of value and surplus value. Using lengthy quotations, Böhm laid out Marx's labor theory of value, as he understood it. The

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<sup>76</sup> Ibid., ix-x.

<sup>77</sup> Ibid., 3.

first two chapters of Böhm's treatise follow closely from the first and third volumes of *Kapital*. First, he presented Marx's argument that surplus value derives from the labor of workers, whom employers compensate for their subsistence needs but then appropriate their additional (surplus) production in the form of commodities and profit. After a relatively faithful rendering of Marx's definitions, Böhm claimed to have found a fatal flaw in the Marxian system and its account of profit: "To speak plainly his solution is obtained at the cost of the assumption from which Marx has hitherto started, *that commodities exchange according to their values*. This assumption Marx now simply drops."<sup>78</sup> According to Böhm, Marx, using his labor theory, could not explain why profits on the same amount of capital remained the same, regardless of the labor contribution to that capital. Therefore, he cast aside his foundational assumption that commodities exchange for their labor value. Böhm saw this criticism as the decisive coup de main against the entire Marxian apparatus. To save the practical relevance of his system, Böhm argued, Marx threw the baby (value theory) out with the bathwater. Böhm's therefore offered a damning judgment of Marx's failed system: "I cannot help myself; I see here no explanation and reconciliation of a contradiction, but the bare contradiction itself. Marx's third volume contradicts the first. The theory of the average rate of profit and of the prices of production cannot be reconciled with the theory of value. This is the impression which must, I believe, be received by every logical thinker."<sup>79</sup>

Böhm saw the dismantlement of Marx's edifice as more than a scholarly event. *Karl Marx and the Close of His System* reads as much like an Austrian School celebration as a Marx valedictory. If the general public thirsted for a convincing economic theory, they need look no

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<sup>78</sup> Ibid., 21.

<sup>79</sup> Ibid., 30. See also Böhm, *Capital and Interest*, 362, for another expression of the contradictions embedded within the labor theory of value in its relationship to capital.

further than the Austrian approach. After laying waste to the contradictions of Marxian economics, he ventured an alternative vision of economics and, by extension, capitalism. For Böhm, it was not enough to point out the logical fallacies of Marx's system; he had to trace the origins of the errors. These all derived from the “objective” labor theory of value. In its place, a “psychological” theory was needed, which corresponded more closely to the reality of commodity exchange and the valuation of goods.<sup>80</sup> Marx, while earnest in his belief, suffered from his unreflective acceptance of classical value theories on authority from Ricardo and Smith.<sup>81</sup> Böhm points out exceptions to classical value theory, with Marx standing in as the coarsest epigone of that outdated system of thought. By attempting to reduce human exchange down to a universal set of relations, Marx had stripped capitalism of the very mechanism that explained its vitality: “Now Marx's theory of surplus value aims at nothing else than the explanation, as he conceives it, of the profits of capital. But the profits of capital lie exactly in those regular deviations of the prices of commodities from the amount of their mere costs in labor. If, therefore, we ignore those deviations, we ignore just the principal part of what has to be explained.”<sup>82</sup> Böhm noted how Marx simplified concepts of supply and demand and competition beyond recognition, thereby denuding them of their descriptive and analytic force. Only proper economic and social theory, as Böhm had presented in his earlier works *Capital and Interest* and the *Positive Theory*, could attend to those ideas.

Böhm's criticism of Marx concluded with a commentary on the social sciences and contemporary politics. The former came directly out of the Austrian tradition, which advocated greater scientific precision to address the complexities of the modern world. The “young” social

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<sup>80</sup> Ibid., 66-8.

<sup>81</sup> Ibid., 78-80.

<sup>82</sup> Ibid., 87.

sciences, as opposed to the natural sciences, lacked the rigor and exactitude of expression necessary to withstand the seductiveness of ideas that appealed “not in the convinced intellect of its disciples, but in their hearts, their wishes, and their desires.”<sup>83</sup> Only when social scientific practice had attained a higher degree of rigor would such thinking become obsolete. Politically, Böhm used the intellectual bankruptcy of Marxism as a chance to undermine the political pretensions of socialism, too. Böhm lamented that socialism would likely remain influential for quite some time despite Marxism’s evident failure. Acknowledging that “a drop of social oil” had benefited practical statesman of all stripes, Böhm maintained that socialism still required a “scientific system” better than Marx’s that could better explain social and economic conditions.<sup>84</sup> Implicit in these statements was that liberal politicians had already identified a system that met those criteria and merited sustained support. Taken as a whole, Böhm intended *Karl Marx and the Close of His System* simultaneously as a work of economics and politics.

Despite the combative tone of Böhm’s polemic, his work did not ignite an immediate controversy. Few bourgeois economists beyond Böhm, Pareto and Sombart had perused Marx’s latest work. For most liberals, socialist thinking did not represent the threat that Böhm and the other Austrians perceived. Böhm’s treatise only attracted a couple reviews as a result.<sup>85</sup> On the whole, the scholarly reception underwhelmed. The earliest controversies over Marxism would therefore be confined to Central Europe, where Austrian liberals were on the front lines.

If liberals barely registered the pamphlet, German socialists approached the work from a variety of vantages. Böhm’s philippic played a symbolic role in the incipient “revisionist controversy” in German-speaking Central Europe in 1899 and 1900. A unique convergence of

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<sup>83</sup> Ibid., 117.

<sup>84</sup> Ibid., 119.

<sup>85</sup> F.M. Butlin, “Review of Eugen von Böhm Bawerk, *Karl Marx and the Close of His System*,” *Economic Journal* 8:31 (1898): 375-8.

events sparked this debate. The rise of socialist parties across Europe spurred optimism within the international movement's ranks. The approach of a new century provoked millenarian thinking in many circles. The socialists saw the fin-de-siècle moment as ideal for a reassessment of their tactics and strategic goals. With the appearance of the last volume of *Kapital*, socialists felt the timing was right to reassess their theory and praxis. A key figure in this reassessment was the German Eduard Bernstein, a friend of Marx's and the executor of Engels's will, who published *Die Voraussetzungen des Sozialismus* (translated as *Evolutionary Socialism*) in 1899. In it, Bernstein advocated for a gradualist rather than a revolutionary transition to socialism, achieved through parliamentary action and government reform. He argued that Marx's economic predictions about the demise of capitalism had not come true. Rather than remaining true to Marx's conclusions, socialists must heed Marx the scientist and revise their theoretical presuppositions about contemporary mode of production. In his most famous comment, Bernstein abjured the revolutionary aims of Marxism: “[the final aim] is nothing to me, the movement is everything.”<sup>86</sup> In challenging Marx's ideas, he contested the reliability of the labor theory as an explanation for the production of surplus value. He approvingly referenced Böhm as a new way to explain commodity production and value creation.<sup>87</sup>

Leading Marxists viewed Bernstein's work as apostasy, highlighting his use of “bourgeois” economics as betrayal. Karl Kautsky, Vladimir Lenin, and others assailed Bernstein for his abandonment of the socialist cause. Rosa Luxemburg, the Polish-German Jewish revolutionary leader, explicitly called out Bernstein for his reliance on faulty economic theory. Taking issue with Bernstein's claim that both Marx's and Böhm's respective theories were

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<sup>86</sup> Eduard Bernstein, *The Preconditions of Socialism*, trans. Henry Tudor (Cambridge: Cambridge University Press, 1993), xxviii.

<sup>87</sup> Ibid., 50-3.

merely abstractions, she called Marx's concept of labor value and the origins a "discovery" rather than an "invention", one that reflected lived social experience. He had cracked the bourgeois secret of money: "While for the entire bourgeois economy...the mystical essence of money remains a book with seven seals." On the contrary, Böhm's utility theory was empty and obfuscating: "The Böhm-Jevons abstract utility is merely a thought picture, or really a picture of thoughtlessness, a private nonsense, for which neither the capitalist nor any other human society can be made responsible, only bourgeois vulgar economics."<sup>88</sup> By supporting Böhm and Jevons, Luxemburg argued, Bernstein had abandoned the core of Marxist teachings and socialism as a movement.

Besides these passing references, Böhm's work on Marx did not lead to a major revision of the latter's work or legacy in either professional economics or the socialist movement. In only one intellectual space did the Austrian School critiques of Marxism gain a critical hearing: coffeehouse Vienna. A burgeoning movement of socialist thinkers emerged in fin-de-siècle Vienna and, in staking its claim to significance in Austria, its leading theoreticians went after their fellow Viennese economists. This pitched battle raged for the remainder of the prewar period, defining the late Habsburg Austrian School and its ideological counterpart, the Austro-Marxists.<sup>89</sup>

#### *Enter Austro-Marxism: Rudolf Hilferding's Reply to Böhm*

From the cozy confines of Café Central, perhaps the most prestigious of all the Viennese coffeehouses, a group of young radicals began to formulate their response to the various

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<sup>88</sup> Rosa Luxemburg, *Sozialreform oder Revolution* (Leipzig: G. Heinisch, 1899), 39. For another criticism of Böhm, see Vladimir Lenin, *Marxism and Revisionism*.

<sup>89</sup> See Günther Chaloupek, "Die österreichische Schule und der Austromarxismus," *Wirtschaft und Gesellschaft* 13:4 (1987): 469-86 for a discussion of the two school's competing economic views.

intellectual currents pulsing through the Habsburg capital. Max Adler, Otto Bauer, Rudolf Hilferding, and Karl Renner launched the Austro-Marxist movement at a time when Sigmund Freud's ideas first gained popularity, the revisionist controversy raged in socialist circles, Ernst Mach's ideas inspired new trends in radical empiricism within the "First Vienna Circle" of logical empiricism,<sup>90</sup> Viennese modernism reached its apogee, and, finally, as the Austrian School of Economics established its hegemony within the Habsburg realm. Trained in law, economics, and medicine, inspired by Marxist socialism and idealist philosophy, these young Turks hoped to chart a third way between a number of problematic polarities: between political reform and revolution; between Kantian idealism and Marxist materialism; between deductive theory and empirical practice; between subjective and objective modes of analysis. As Viktor Adler claimed in the first volume of the Austro-Marxist organ: "Each of the subsequent studies represent a particular labor interest (*Arbeitsinteresse*), in which Marxist thought acts as the most powerful thought lever for the further development of scientific insight, composing a fundamental outlook. However [the studies] also develop a clear and hopefully advantageous image of the areas of specialization in economics, jurisprudence and philosophy that they address as the main currents within social science."<sup>91</sup> Like the Austrian School, the Austro-Marxists wedded scientific insight with social concerns. Unsurprisingly, they came into conflict on this shared terrain.

In steering a new theoretical course for Marxism, the Austro-Marxists engaged directly political opponents and intellectual foes alike. One site of contestation was the GÖV and its

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<sup>90</sup> Thomas Uebel, ed., *Rediscovering the Forgotten Vienna Circle* (Dordrecht: Kluwer, 1991) and Thomas Uebel, *Otto Neurath und der erste Wiener Kreis* (Vienna: Springer, 2000).

<sup>91</sup> Max Adler and Rudolf Hilferding, eds., *Marx-Studien*, vol. 1 (Vienna: Ignaz Brand, 1904), v-vi. The key works on Austro-Marxism are Norbert Leser, *Zwischen Reformismus und Bolschewismus* (Vienna: Böhlau, 1968); Ernst Glaser, *Im Umfeld des Austromarxismus* (Vienna: Europa, 1981); Tom Bottomore and Patrick Goode, eds., *Austro-Marxism* (Oxford: Oxford University Press, 1978).

*Zeitschrift.* Victor Adler, the founder of Austrian social democracy, had established a foothold within the society and state socialist views were not uncommon there, yet the liberalism of Böhm and his supporters remained hegemonic. Rudolf Hilferding, a follower of Adler and a close ally of Karl Kautsky, the most prominent German socialist after Marx's and Engels's death, turned to *Marx-Studien* to answer Böhm's verdict on Marxism and socialism. His essay represented the only full-length response to Böhm. It helped launch Hilferding's economic career; within a decade of its publication (1904), he was the foremost Marxist theorist of his generation.

Hilferding began his critique with a withering assault on “bourgeois economics” and its retreat from engagement with “the totality of social relationships.” He called liberal practitioners “eclectics and syncretists,” who refused to acknowledge their subservience to “dominant cliques.” The one group that escaped this blanket opprobrium was the “psychological school,” i.e. the Austrian School. He acknowledged its systematic thinking and hence its vague resemblance to Marxist and classical theory. Hilferding conceded that Marxists had to respond to Böhm if they wanted their own theoretical apparatus to maintain its purchase in intellectual and political circles.<sup>92</sup>

Hilferding offered a careful reading of Böhm's account before producing a verdict. He repeated Böhm's key points: labor alone does not determine the value of commodities; Marx disregards the distinction between use value and exchange value in his emphasis on labor; Marx fails to acknowledge the role of subjective evaluation in the exchange relation. Hilferding countered that Böhm misread Marx, especially on the nature of commodities. Marx's entire system depended on the social relations that undergird exchange and its valuation of goods. It was not that Marx disregarded the difference between use and exchange value, as Böhm

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<sup>92</sup> Böhm, *Karl Marx*, 121-3.

contended, but that exchange value for Marx was the only one that mattered when considering market relations for commodities. This was the fundamental problem with capitalist relations; it lost track of the social labor that produces goods. Only by returning focus to the role of unalienated labor in social exchange could economists understand the evolution and development of the social world. The error of the psychological school, Hilferding argued, was that its theory of value “starts from the individual relationship between a thing and a human being instead of starting from the social relationships of human beings one with another. This involves the error of attempting from the subjective individual relationship, wherefrom subjective estimates of value are properly deducible, to deduce an objective social measure.” Hilferding rejected this position as “unhistorical” and “unsocial”.<sup>93</sup> Marx’s historical materialism avoided these pitfalls and ensured that “economics is established as a social and historical science.”<sup>94</sup> Hilferding’s argument returns to one of the key elements of Bonar’s early critique of the Austrian economists: a psychological or subjectivist approach to economics cannot produce a theory robust enough to produce objective, scientific understanding.

Hilferding was even more dismissive of Böhm’s contention that Marx contradicted himself in Volumes I and III when he claimed first that labor determined value and then later admitted that commodities do not exchange for their labor value. Hilferding saw this kind of category error as emblematic of the Austrian School: it conflates value and price. Furthermore, in seeking subjective valuations of individual goods, it proved incapable of ascertaining “quantitatively determinable magnitude,” which is fundamental for Marxist analysis.<sup>95</sup> In treating the “individual” as the source of value and as the object of economic science, the marginalists

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<sup>93</sup> Ibid., 132-3.

<sup>94</sup> Ibid., 133.

<sup>95</sup> Ibid., 160-1.

mistook a historically contingent category (the bourgeois *homo economicus*) for a universal one. Their deductions therefore could do no more than generalize relations of production within the capitalist system. They could not explain the social nexus in which human beings engage in exchange or how societies or economies evolve.

In Böhm's misreading of Marx, Hilferding saw the demise of bourgeois economics. Economists could follow the Historical School into irrelevant empiricism, or they could chase the Austrians into an empty deductivism:

Instead of taking economic or social relationships as the starting point of their system, they have chosen for that starting point the *individual* relationship between men and things. They regard this relationship from the psychological outlook as one which is subject to natural and unalterable laws. They ignore the relationships of production in their social determinateness, and the idea of a law-abiding evolution of economic happenings is alien to their minds. This economic theory signifies the repudiation of economics. The last word in the rejoinder of bourgeois economics to scientific socialism is the *suicide of political economy*.<sup>96</sup>

While Böhm never addressed acerbic Hilferding's essay, their contretemps played a determinative role in Viennese economic discussions. As the most prominent liberal economist in Austria, Böhm dictated many of the terms of debate in social scientific circles. His seminar became the locus classicus for economic debate, which marked a decisive break with earlier Austrian School history. In 1893, homogeneity defined the gathering of sixty or so Austrians in his office, as the American Henry Seager praised: "Nearly all of the members of the seminar are old pupils either of Professor Menger or of Professor Bohm-Bawerk [sic], and all are eager partisans of the Austrian School."<sup>97</sup> A decade later, after the expansion of the GÖV, the growing influence of the Austrian School in economic policy, and the explosion of social scientific, Böhm's *Privatseminar* became a battleground for competing scientific ideas and ideological

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<sup>96</sup> Ibid., 196.

<sup>97</sup> Seager, "Economics in Berlin and Vienna," 259-60.

## JANEK WASSERMAN – BUILDING AN AUSTRIAN MOVEMENT

worldviews. Hilferding himself took active part in the seminar for years, honing his dialectical chops in struggles with Austrian School acolytes. Younger Austrians—including socialists like Hilferding and Otto Bauer, the liberals Ludwig Mises and Joseph Schumpeter, the philosopher Otto Neurath—gathered with Böhm to battle for the soul of Austrian social theory. As the next chapter will show, the new generation of Austrian Economists emerged in this hothouse environment, defining themselves against both their intellectual mentors and adversaries while sharpening their critiques of contemporary science and politics.