

## Document de Recherche

N° 1999 - 10

**EVOLUTIONARY THEMES IN THE AUSTRIAN TRADITION :  
MENGER, WIESER AND SCHUMPETER  
ON INSTITUTIONS AND RATIONALITY**

**Richard ARENA**

*LATAPSES – CNRS  
Université de Nice- Sophia Antipolis*

**Sandye GLORIA-PALERMO**  
[Gloria@univ-st-etienne.fr](mailto:Gloria@univ-st-etienne.fr)

*CREUSET, Université Jean Monnet  
6 rue Basse des Rives,  
42023 Saint-Etienne cédex 2*

Document présenté dans une version initiale à la Conférence annuelle de  
l' *European Association for Evolutionary Political Economy*,  
Athènes, septembre 1997.

During the last two decades, the rise of a « new » microeconomics (Cahuc, 1993) and the revival of institutionalism strongly contributes to point out the problem of the nature of the economic reasons which explain the emergence of institutions or of forms of organisation. The treatment of this problem is essential for institutionalist as well as for evolutionary economists. It indeed plays a central role in the building process of a more satisfactory economic dynamics. The importance of this problem for contemporary theorists does not mean, however, that it is entirely new. The Austrian tradition, for instance, devoted a particular and a permanent attention to it, even if this interest was frequently neglected by commentators.

Now, the purpose of this contribution is precisely to reconsider this attention and, therefore, to investigate what were the specificities of the tribute paid by Austrian economists to the analysis of the problem. Here, it is obviously impossible to take each of these authors into account. This is why we focused our approach on the works of only three of them: Carl Menger, Friedrich Von Wieser and Joseph Schumpeter.

The contributions of these authors indeed offer two important common features.

Firstly, they are sometimes described as the fundamental steps of the Austrian version of the so-called « marginalist revolution ». Menger is the creator of the tradition and he is often presented as one of the founding fathers of neoclassicism. Wieser is supposed to belong to the second generation; the author is credited to have given a more pedagogic and systematic form to the original Austrian marginalist message. Finally, Schumpeter is considered as one of the first builders of a neoclassical synthesis able to welcome Austrian as well Walrasian theoretical ingredients. Our contribution will necessarily contradict this type of interpretation since it will stress the elements of continuity of an evolutionary line of thought linking our three authors.

Secondly, these elements correspond to the way according to which Menger, Wieser and Schumpeter coped with the problems of the genesis and the emergence of social institutions. They all indeed faced the question of the characterisation of a process in which different groups of agents associated with different types of economic rationality interact, create and, then, reinforce an institution.

The contributions of the three authors will be successively considered and, according to our view, in spite of their differences, they will exhibit common evolutionary and institutionalist features which characterise the Austrian tradition in economic analysis.

The first part of the paper considers Menger's conception of the emergence of institutions and especially of money and of markets. In this framework, Mengerian agents are supposed to introduce new economic rules or devices in a world characterised by radical

uncertainty. These individual choices lead to specific social-institutional arrangements, interpreted as unintended consequences of individual behaviours. These arrangements become mere institutions if agents who did not participate to this process of emergence confirm its social utility through mimetic behaviours which consist into following the rules pointed out by the first group of agents.

Von Wieser reconsidered Menger's approach distinguishing *leaders* and *masses*. Wieserian leaders behave exactly as Mengerian creators of institutions. However, the result of their process of building new institutions can only work if it is followed and therefore accepted by the major part of agents, namely what Wieser calls the masses. If masses are not satisfied with the new institutional rules or devices, they might refuse them; in this case these rules and devices are discarded and new leaders must introduce new institutional proposals to be confirmed by masses. This conception of the distinction between leaders and masses is directly related to Wieser's definition of a social economy and to the role given to social stratification and power relations within the realm of individual interaction.

It is interesting to notice that in the first German edition of his *Theory of Economic Development*, Schumpeter distinguishes *hedonistic* and *energetic* rationality. While the former is perfectly compatible with the usual economic conception of rationality, the later clearly excludes it. It has nothing in common with maximisation but rather refers to the realisation of ideal rules or objectives. This opposition between hedonistic and energetic rationality is discarded in its original form in the subsequent edition of the *Theory of Economic Development*. However, it was replaced by a dichotomy between innovative and mimetic entrepreneurial behaviours.

### Menger's analysis of the emergence of organic institutions

Various contradictory interpretations of Menger's contribution to economics have been proposed in the history of economic thought: thus, Stigler (1941) considers our author as one of the main founders of the marginalist revolution, while Streissler (1972) disputes this interpretation, focusing on Menger's specific advances within the theory of production.

One of the explanations of this heterogeneity amongst commentators might be related to the stress they generally put on the main book written by Menger, the *Grundsätze der Volkswirtschaftslehre*. The aims of the book are indeed hardly characterised by its author. However, Menger's analytical objectives become clearer and more precise if the reader also takes into account the *Untersuchungen*, that is, a book which is generally described as a tribute to methodology. Then, it is indeed easier to understand that, for Menger, economists

have to solve a major problem, namely, the emergence and evolution of spontaneous complex economic phenomena. Now, the right way to do it is

[...] to reduce the complex phenomena of human economic activity to the simplest elements that can still be subjected to accurate observation, to apply to these elements the measure corresponding to their nature, and constantly adhering to this measure, to investigate the manner in which more complex phenomena evolve from their elements according to definite principles

(Menger, [1871] 1950, pp.46-7).

With this methodological device, it is possible to understand the main problem related to the existence of « organic institutions », that is spontaneous institutions. These institutions indeed « [...] come about as the unintended result of individual human efforts (pursuing *individual* interests) without a *common will* directed toward their establishment » (Menger [1883] 1963, p.133).

Now, a question necessarily rises:

How can it be that institutions which serve the common welfare and are extremely significant for its development come into being without a common will directed toward establishing them?

(Ibid., p.146).

In his *Untersuchungen*, Menger deepens the analysis of the emergence of money that he has been elaborating since the *Grundsätze*. The theory of the appearance of the monetary institution perfectly illustrates his view on organic institutions. The emergence of money is a spontaneous process, as the simultaneous disappearance of barter. Both processes do not result from an explicit or legislative agreement but are the outcome of individual interaction, economic agents following their personal plans of action and self-interest. Menger is then addressing the following challenge which consists in explaining the emergence of an institution - money as a generalised medium of exchange - starting only from individual behaviours and therefore, excluding a priori any role to a common will or a social encouragement to individuals.

The problem which science has to solve here consists in the explanation of a social phenomenon, of a homogenous way of acting on the part of the members of a community, for which public motives are recognisable, but for which in the concrete case individual motives are hard to discern

(Menger, [1883] 1963, p.152).

Menger starts his analysis from a barter economy, which is described as the « natural » system of exchange, in contrast with the « monetary » system. Menger emphasises the difficulty to reach trade agreements in the barter economy, due to the usual problem of finding the required double-coincidence between individual needs. The first solution put forward by individuals is to proceed to indirect exchanges; Menger underlines the negative consequences of such a solution on the development of the division of labour and on economic progress in general (Menger, [1871] 1950, p.258).

Now,

[this] difficulty would have been insurmountable and would have seriously impeded progress in the division of labour, and above all in the production of goods for future sale, if there had not been, in the very nature of things, a way out. But there were elements in their situation that everywhere led men inevitably, without the need for a special agreement or even government compulsion, to a state of affairs in which this difficulty was completely overcome.

(Menger, [1871] 1950, p.258-9).

Individuals then found out another more efficient way to overcome the difficulties attached to barter, thereby noticing that some goods are indeed more marketable than others. « The causes of the different degrees of saleableness in commodities » are related, according to Menger (1892, p.246), to different motives: to the organisation of supply and demand (number of buyers, intensity of their needs, and importance of their purchase power, volume of supply), to the organisation of the market (degree of development of exchanges, importance of speculation, degree of free trade); to the inner characteristics of goods (divisibility for instance); to temporal limits (permanence of needs, durability and cost of preservation of goods, periodicity of market, development of speculation); some of the causes are also spatial (degree of distribution, transportation, communication on the market) (Menger (1892), pp.246-7).

The intensity of indirect exchanges is thus led to decrease: agents progressively learn to select more and more marketable commodities to proceed to indirect exchange, even if they do not need them for their own consumption, till the moment when the number of commodities used as medium of exchange is reduced down to one.

The economic interest of the economic individuals, therefore, with increased knowledge of their *individual* interests, without any agreement, without legislation compulsion, *even without any consideration of public interest*, leads them to turn

over their wares for more marketable ones, even if they do not need the latter for their immediate consumer needs »

(Menger, [1883] 1963, p.154).

Menger here is clearly describing a self-organising process. The selection of specific commodities as medium of exchange is first due to the inner quality of saleableness of these goods but is also due to a large extent to chance. The diffusion of the use of these commodities is depicted as a process of imitation from agents who, in pursuing their self-interest, are progressively getting aware that through the use of these specific goods, they can proceed « to [their] end much more quickly, more economically and with a greatly enhanced probability of success » (Menger, [1871] 1950, p.258).

If at first, only a minority of agents perceives the advantage to exchange goods against more marketable commodities, the recognition of the success attached to such a way of exchanging will progressively convince the other individuals to adopt the same behaviour. In that way, a good which was initially used as a medium of exchange partly for chance, partly for its intrinsic qualities, ultimately imposes itself as a systematic means of trade. The phenomenon is self-enforcing because the more this commodity is used as intermediary of exchange, the more it becomes an *efficient* medium of exchange, so that in the long run, holding this commodity represents a *certain* means for achieving individual ends. Money is thus not a sudden phenomenon but rather the result of an on-going process involving learning. This is why for Menger,

[...] money is neither the product of an agreement on the part of economising men nor the product of legislative acts. No one invented it. As economising individuals in social situation became increasingly aware of their economic interest, they everywhere attained the simple knowledge that surrendering less saleable commodities for others of greater saleability brings them substantially closer to the attainment of their specific economic purposes. Thus, with the progressive development of social economy, money came to exist in numerous centres of civilisation independently.

(Menger [1871] (1976), p.262)

Notice however that although money may be considered as universal if viewed as an institutional device, its concrete manifestation depends on « particular peoples » and « particular historical periods » (Ibid., pp.262-3). Different marketable commodities have indeed been selected by individuals at different times and different places.

An analogous approach could have been implemented using Menger's conception of the emergence of markets as institutions (Arena, 1997). In his *Principles*, our author indeed describes how economies *evolve* from the « isolated household » to the organised market economy (Menger, [1871] 1963, pp.236-9).

The first of these economies is a completely closed productive system in which no exchange occurs; goods are distributed by a central familial authority according to an *a priori* conception of division of labour (Ibid., pp.236-7).

The second type of economy incorporates both the institutions of money and « middlemen », the latter constituting a special class of agents whose function is to improve the organisation of markets. More precisely,

[they correspond to] a special class of economizing individuals who take charge of the intellectual and mechanical parts of exchange operations for society and who are reimbursed for this with a part of the gains from trade.

(Menger, [1871] 1963, p.239)

It is interesting to notice that the path from the former to the latter economy goes through the systems of production « on order » (Ibid., p.237) which is another example of production economy working without markets. In this type of economy, craftsmen offer their services to consumers who directly provide them with the necessary raw materials and products and collect back the final product. Now, these systems precisely offer an instance of an inefficient institution. Production on order has been abandoned because « several serious disadvantages » convinced agents that neither their interests nor common will might be satisfied by this economic system (Ibid., p.238).

The consumer must still wait sometimes for his product, and is never quite certain of its properties in advance. The producer is sometimes wholly engaged and at other times overburdened with orders, with the result that he is sometimes forced to be idle while at other times he cannot meet his demand.

The characterisation of the processes of emergence of money and market clearly points out the existence of two groups of agents associated with two types of economic rationality.

On one side, we have innovators who have a greater knowledge of their personal interest which leads them to improve the efficiency of exchanges. In Menger's 1892 article, they are described as « the most effective » or « the more intelligent bargainers » (Menger (1892), p.254). They are those who try to find new processes or new tools for improving the working of a market economy.

On the other side, we have imitators. Imitators progressively realise what can be the impact of those new processes or these new tools. They also understand that this impact might be profitable for them. Therefore, they decide to imitate innovators and transform new devices into routines.

Institutions, therefore, emerge from the interaction between innovators and imitators. This interaction does not assume any reference to maximising agents only looking for their self-interests. It rather relates to *Mengerian economizing* men whom Jaffé (1976) described in this way:

Man, as Menger saw him, far from being a 'lightning calculator', is bumbling, erring, ill-informed creature, plagued with uncertainty, forever hovering between alluring hopes, haunting fears, and congenitally incapable of making finely calibrated decisions in pursuit of satisfaction.

(Jaffé, 1976, p.252)

Wieser's analysis of institutions as the result of the interaction between leaders and masses

Wieser's position on methodological individualism is carefully described in the following passage of his 1927 Book, *Social Economics*:

What valid substitute may we offer for the individualistic theory of society? In its naive formulation it has become inadequate. But one cannot get away from its fundamental concept, that the individual is the subject of social intercourse. The individuals who comprise the society are the sole possessors of all consciousness and of all will. The « organic » explanation, which seeks to make society as such, without reference to individuals, the subject of social activity, has patently proved a failure. One must hold himself aloof from the excesses of the individualistic exposition, but the explanation must still run in terms of the individual. It is in the individual that one must look for those tendencies that make the social structure - that dove-tail (if we may use that expression) in such a manner as to give the firm cohesion of social unity and at the same time provide the foundation for the erection of social power.

(Wieser, 1927, p.154).

It is first clear that Wieser expresses strong doubts on what he calls « naïve » individualism. Classical economists were not « naïve » individualists but, in a way, they opened a road in

this direction. Of course, they did not explain *all* economic phenomena by *mere* individual behaviours and found them on a *limitless* self-interest. Wieser notices that

When they dealt with freedom of action they conceived of personal egoism as controlled by law and modality. Moreover, they clearly recognized that certain dangers inhered in personal egoism and that certain precautions must be taken against them.

(Wieser, 1927, p.153).

But Wieser considered that classical economists only took into account a part of the individual determinants of economic behaviours, that is, the «forces of freedom» («Freiheitsmächte»). They ignored the «forces of compulsion» related to the existence of power in economics and this omission led them to cope with individuals as if they were perfectly autonomous, free and equal. On the contrary, Wieser considered that individuals were generally unequal and that «compulsion» reduced their degree of freedom and autonomy. That is why the author attributed to classical economists the «error» of having them «too much room for the play of personal freedom» (Wieser, 1927, p.53). A different conception of individuals and individualism had therefore to be introduced:

Man is too weak to assure his preservation and to develop his life if he stands as an isolated individual. The impulse to self-preservation and to further development - the egoistic interest that grows from an appreciation of weakness - leads to social organisation. In part, men are thus led by conscious deliberation. But fundamentally, a social impulse is operative ; man is by nature a social being (...).

They are two types of social force: natural controls [forces of freedom] and compulsion. Natural controls [forces of freedom] are recognized by the individual as aids to the assertion and development of his being. He feels them as increasing his individual power (...). When he is most completely dominated by them - when his innermost being assents to them - then for the first time does he believe himself to be quite free. Thus freedom does not consist in total lack of control. It consists rather in a relation of the individual to society.

Compulsion, on the other hand, is recognized as a restriction on the individual life. Its powers are most keenly appreciated when they arise from the armed force which has subdued the vanquished to the will of the victor. But as we shall show later, these forces also develop within the ordinary intercourse of a society.

(Wieser, 1927, p.155)

In this prospect, Wieser does not deny that individuals seek their self-interest. In *Natural Value* as well as in the *Theory of the Simple Economy* (book 1 of *Social Economics*), individuals are indeed desalted as utility maximisers and they do not really differ from their Walrasian cousins. However, the economies represented in these two books refer to what Wieser calls « the most abstract isolating and idealising assumptions » (Wieser, 1927, p.6). Therefore, they differ from social economies which appear with a « decreasing abstraction to conditions of reality » (Wieser, 1927, p.9). Now, contrarily to the assumptions of *Natural Value*, individuals cease to have analogous natural abilities and identical endowments. They belong to social classes, they are constrained by institutions and they can exert (or under) power effects on (or from) other individuals. Therefore, individual decisions do no longer reflect the « forces of freedom »; they also depend on social inequalities and constraints. They contribute, however, to institutional changes, even if it is in an unintended way and if these changes will effect, in turn, subsequent economic behaviours.

One of the most significant examples of power relations is given by Wieser's relation between leadership and masses. Leaders are autonomous and their energy permits them to behave according to their individual aims. However, masses are not passive. They can accept or reject what leaders decided and their attitude is essential. If masses agree with leaders actions, they are driven to copy them. Therefore,

Through the initiative of leaders and through initiative acceptance by the masses's, society develop certain institutions serving the common needs so well as to seem like the creation of an organized social will. Money, markets, division of labour, the social economy itself are such creation.

(Mitchell, 1917, p.104).

In compliance with Menger's views, Wieser also introduces two different types of behaviours. One is *innovative*. It corresponds to leaders decisions. The other one is *imitative*. It refers to the attitude of masses. The intervention of masses cannot be interpreted however as a pure act of recognition of the social utility of leaders decisions. It generally transforms an individual invention into a real social device. Therefore, masses tend to create a final rule « far beyond [leaders] expectations » (Wieser, 1927, p.165). This is the meaning Wieser attributes to Menger's idea according to which economic institutions are the « unintended social results of individual teleological tendencies » (Wieser, 1927, p.165). The distinction between leadership and masses is not however provisional or casual. It is first based on the existence of an inequality among the national community: « Leadership is impossible without some inequality » (Wieser, 1927, p.157).

But inequality is not sufficient. Permanence of inequality is also a determinant of the distinction between leadership and masses. It must be confirmed by the existence of social power:

It is only when [the] superiority is so great as to give its possessor marked advantage that it gives him power (...). One speaks of social power, when the superiority places a large number of other people at a disadvantage and particularly when it is not individual possessors of power who are involved but social groups that are opposed.

(Wieser, 1927, p.157)

Social power can be reinforced by law but this is not a necessity. It gives birth to social classes and, within classes, to « similar social groups » (Wieser, 1927, p.158). These relations of « social domination and subordination » (Ibid., p.158) generate what Wieser calls a « social stratification » (Ibid. p.158), which influences substantially individual behaviours. From this standpoint, the example of the formation of prices in social economics is significant, since it shows how stratification modifies the natural effect of marginal utility on value.

We understand now why Wieser considers that his explanation of the working of the economic system « involves a reduction of the individualistic stress » (Ibid., p.163).

As Menger, Wieser clearly regards money as one of the founding institutions of social economy:

For complicated social institutions the historical explanation requires further refinement. We shall show this by the classic illustration of money, whose unknown origin has provoked almost as much interest among men as the origin of the state or of speech. But we must also show that the more subtle explanation at which one finally arrives, necessarily involves a reduction of individualistic stress.

The long series of writers who sought to explain money as an individualistic institution, ends with Menger's penetrating investigation. He uses the phenomenon of money as a paradigm by which he assumes to show that all social institutions of the economy are nothing more than « unintended social results of individual-teleological factors (Untersuchungen, pp.171-187).

(Wieser, 1927, p.163)

This quotation ought not be interpreted, however, as a complete approbation of Menger's approach. Wieser indeed accepted it only partially. The author considers that money is something more than a social « unintended result ». To put it briefly, for Wieser, Menger's story is substantially correct if we interpret what he calls « individual efforts » as the efforts of the « leaders ». In other words, Wieser implants his theory of the interaction between

leaders and masses within Menger's approach. According to him, within the market process, the members of the society who had in charge the organisation of exchanges very quickly realised the importance of the drawbacks implied by a barter economy. These drawbacks - which are familiar to economists - convinced the « leaders » to introduce a simpler system which would have avoided the necessity of multiplying indirect and costly exchanges. Through a process of learning, little by little, they created several means of substitution according to their historical and cultural environment. Therefore those leaders, who had only in mind their own interest, indeed contributed to create a true unintended new monetary system. But, in Wieser's conception, these means only became a system when masses approved by imitating leaders, in other words, when everyone, in the least exchange processes, used the means introduced by the main participants to the market. Money is therefore an institution which is not understandable with the only help of an individualistic approach.

#### Entrepreneurs and managers in Schumpeter's analysis

We have checked how, in Menger's and Wieser's contributions, the existence of two different groups of agents related to two difference types of economic rationality contributed to the explanation of the emergence of specific institutions, as money or markets. All these ingredients are still present in Schumpeter's economic analysis. However, they do no longer play the role they played in the contributions of both other Austrian authors.

On one side, it is indeed clear that, in Schumpeter as well as in Menger or Wieser, two different types of economic rationality are present. This dichotomy specially appears in Schumpeter (1908) and (1912). The first corresponds to what Schumpeter calls « hedonistic egoism » and is predominant in the framework of the circular flow. The second is related to « energetic egoism » and appears with economic development.

In Schumpeter (1908), « hedonistic egoism » is identified with Walrasian rational behaviour. Maximisation of utility functions by equalisation of relative prices to marginal utilities ratios is the individual rule. In this theoretical framework, the use of the term « hedonism » is the more disputable because Schumpeter supports Walras against the Austrian School in his attempt to expel psychologism from economic theory:

We have good reasons to be suspicious about sentences which we find everywhere in literature under the name of psychological assertions... Our examples show us

clearly that the reference to psychology of crises does not mean anything but [banality].

(Schumpeter, 1908, p.545)

Little by little, however, with the successive editions of *The Theory of Economic Development*, a different conception of « hedonistic egoism » replaces Walrasian rational behaviour, in relation to the substitution of stationary circular flow by static equilibrium. This replacement had been rather slow. In the American edition of *The Theory of Economic Development*, Schumpeter still maintains the thesis of the compatibility between circular flow individual behaviours and consumers' and producers' micro-equilibria in the Walrasian sense (Schumpeter (1934a, p.41). This does not yet imply that agents will actually behave as explicit and conscious maximisers:

In this system of values a person's whole economy is expressed, all the relations of his life, his outlook, his method of production, his wants, all his economic combinations. The individual is never equally conscious of all parts of this value system ; rather at any moment the greater part of it lies beneath the threshold of consciousness. Also, when he makes decisions concerning his economic conduct he does not pay attention to all the facts given expression to in this value system, but only to certain indices ready at hand. He acts in the ordinary daily round according to the general custom and experience.

(Ibid., p.39)

This experience is the result of the past activity of individuals, which taught them « sternly what [they had] to do » (Ibid., p.6). In other words, agents might have formed false expectations but, by trial and error, they were able to revise mistaken decisions. Individual behaviour, in circular flow, appears therefore to be *adaptive* rather than *optimal*. This adaptive behaviour is accurately described in the first pages of *Business Cycles* through the efforts of managers to perceive their environment and assign their own place with regard to a social norm, the « normal business situation ». Here, hedonism is the equivalent of routine and adaptive rationality.

On the contrary, « energetic egoism » can be characterised as an active and « voluntaristic » behaviour adopted by entrepreneurs. In this respect, the Schumpeterian approach contrasts strongly with the Walrasian one. In Walras's conception, entrepreneurs are pure intermediaries between services and product markets and do not earn any specific income.

Quite the reverse, Schumpeterian entrepreneurs play a central part in economic development. They do not adapt to their environment but adapt the environment to

themselves. They shape technical methods of production, endowments as well as consumer preferences, being able to overcome the various resistances (psychological, social, etc.) they meet in order to put their decisions into practice (Ibid., pp.119-124). Their rationality is not compatible with optimisation because it excludes what Keynes called « Benthamite calculation »:

Men who created modern industry were ‘all of a piece men’ and not cheap-jacks who were wondering continuously and with anguish whether every effort they expended promised them a sufficient increment of pleasure. These men were not very preoccupied by the hedonistic fruits of their actions... Such men create because they cannot help but do it.

(Schumpeter, 1986, pp.225-6)

It is therefore impossible to convert entrepreneurs’ motives into measurable magnitudes. « The will to found a private Kingdom », « the will to conquer », or « the joy of creating » cannot be evaluated or maximised (Schumpeter 1934, p.93). Consequently, Schumpeterian entrepreneurs differ drastically from neoclassical ones.

For their success, keenness and rigor, but also a certain narrowness which concentrates on the immediate chances are essential. Schumpeter stresses that, in economic life, decisions must be taken ‘without working out all the details’ and he is by no means convinced that gathering and exploiting information is essential for the functioning of entrepreneurship.

(Swoboda, in Seidl, 1984b, p.18)

Schumpeterian entrepreneurs prefer intuitions to rational calculations (Schumpeter, 1934, p.85). Innovations make precise calculations impossible. They reinforce uncertainty and oblige decision-makers to face it, sometimes being compelled to « guess » the future rather than « predict » it (Schumpeter, 1934, p.85).

Finally, entrepreneurs are not permanent agents. They are submitted to a real process of selection which eliminates « losers » to the benefit of « winners » or « leaders » (Schumpeter, 1939, pp.153-5). Moreover, entrepreneurs who cease innovating but survive become mere managers again.

This exhibition of entrepreneurs’ specific rationality tends to state that the *local* - and not the *universal* - nature of « hedonistic » rationality and, therefore, of « static » types of behaviour:

What we are doing amounts to this: we do not attack traditional theory, Walrasian or Marshallian, on its own ground. In particular, we do not take offence at its fundamental assumptions about business behavior - at the picture of prompt recognition of the data of a situation and of rational action in response to them. We know, of course, that these assumptions are very far from reality ; but we hold that the logical schema of that theory is yet right « in principle » and that deviations from it can be adequately taken care of by introducing frictions, lags and so on, and that they are, in fact, being taken care of, with increasing success, by recent work developing from traditional bases. We also hold, however, that this model covers less ground than is commonly supposed and that the whole economic process cannot be adequately described by it or in terms of (secondary) deviations from it... The reasonable thing for us to do, therefore, seems to confine the traditional analysis to the ground on which we find it useful, and to adopt other assumptions... for the purpose of describing a class of facts which lies beyond that ground.

(Ibid., pp.98-9)

This opposition between two types of economic rationality is obviously related to Menger's as well as Wieser's approaches: « We will assume that innovations are always associated with the rise to leadership of New Men » (Schumpeter, 1939, vol. I, p.96).

Thus, some entrepreneurs are fundamentally innovators. They have the « ability to take the lead as a part of entrepreneurial attitude » (p.131). Whereas, « Other entrepreneurs follow, after them still others in increasing number, in the path of innovation, which becomes progressively smoothed for successors by accumulating experience and rarishing obstacles » (Ibid., p. 131).

These entrepreneurs are, therefore, imitators in the sense used by Menger and Wieser. The origin of the distinction between innovators and imitators lies in the existence or the absence of some specific skills: experience, intuition, mental freedom, ability to resist to the hostility of the social environment, (Ibid, pp.84-7)... Entrepreneurs who have these qualities are then also to acquire what Schumpeter calls « leadership » (, Ibid., p.87). Now, « only a few people have these qualities of leadership » (Schumpeter, 1934, p.228). Therefore, here again, there is here a kind of opposition between a small number of innovators and the main part of them who are, at best, imitators.

We can see, however, that the opposition between innovators and imitators is not used here to explain the emergence of institutions but rather the occurrence of economic evolution. This does not mean that Schumpeter was not interested at all by the problem of the emergence of social institutions. An interesting example of the attention the author paid to this type of theme is provided by an article wrote in 1918, « The crisis of the tax state » (Schumpeter, 1918). Schumpeter tried to show that the origin of the modern state was located in its fiscal

needs, starting from the European Middle Ages and ending with the contemporary organisation of fiscality. A few remarks may be formulated within this context.

Firstly, it is clear that Schumpeter is interested into the original problem of Menger and Wieser, namely the study of the economic factors of emergence of institutions:

Above all, there is the possibility, provided by the events described by fiscal history, of perceiving the laws of social being and becoming and the forces which constrain the destinies of peoples and also the way according to which *concrete* situations, especially specific forms of organisation, can emerge and disappear.

(Schumpeter, 1918, p.133)

This way of presenting the emergence of institutions has undoubtedly an evolutionary flavour. However, the term « evolution » does not correspond here to its Lamarckian or Darwinian definitions. As Hodgson (1993, chap.10) points out, this term rather refers to « a disturbance of existing structures and more like a series of explosions than, a gentle process, through incessant transformation » (Schumpeter, 1939, vol.I, p.102 quoted by Hodgson, 1993, p.146). Schumpeterian evolution is more historically than biologically oriented.

Finally, history also has its limits. An outline of the main historical causes of a given situation does not mean its explanation: « It is a prejudice to believe that the knowledge of the historical origin of an institution or of a type immediately shows us its sociological or economic nature » (Schumpeter, 1934, p.76, see also Schumpeter, 1918, note 6, p.173).

### Conclusive remarks

The morals of this contribution is to highlight a substantial and significant continuity in three successive and prestigious versions of the Austrian tradition. However, what is more surprising is the content of this continuity. Far from being related to a kind of marginalist logic, it stresses the presence of evolutionary preoccupations within the Austrian tradition. The aspects of Menger's, Wieser's and Schumpeter's work stressed in our contribution are sometimes under-estimated; the Austrian tradition is far more complex than a simple variant of marginal analysis and that its evolutionary message should not be underrated. Moreover, our contribution also confirms that as soon as the beginning of the nineteenth century, two kinds of evolutionary approaches were already present in economics: one, more related to biology and causal-genetic processes that Menger and Wieser developed; the other one, rather associated with history, that Marshall and Schumpeter illustrated. This dual situation still exists today and it might be more consistent to replace it by a more unified approach.



## BIBLIOGRAPHY

- ARENA, R. (1992): « Schumpeter after Walras: 'Economie Pure' or 'Stylized Facts' ? », in T. Lowry (ed.): *Perspectives on the History of Economic Thought*, Vol.VIII, Edward Elgar, Aldershot.
- ARENA, R. (1997): « Marshallians and Austrians on markets: uncertainty reduction, organization and institutions », Contribution to the Conference to celebrate Brian Loasby's work at Stirling University, (1967-1997), University of Stirling, Scotland 26,28 august.
- CAHUC, P. (1993): *La nouvelle microéconomie*, La Découverte, Paris.
- HODGSON, G. (1993): *Economics and Evolution - Bringing life back into economics*, Polity Press, Cambridge.
- JAFFE, W. (1976): « Menger, Jevous and Walras de-homogeneized », *Economic Inquiry*, vol XIV.
- MENGER, C. [1871] (1950): *Grundsätze der Volkswirtschaftslehre* - English translation: *Principles of Economics*, The Free Press, Glencoe, Illinois.
- MENGER, C. [1883](1963): *Untersuchungen über die Methode der Sozialwissenschaft und der Politischen Oekonomie insbesondere* - English translation: *Problems of economics and sociology*, University of Illinois Press, Urbana.
- MENGER, C. (1892): « On the origin of money » , *Economic Journal*, n°2, june.
- MITCHELL, W. (1917): « Wieser's theory of social economics », *Quarterly Journal of Economics*, n°1, march, vol XXXII.
- SCHUMPETER, J. (1908): *Das Wesen und der Haupinhalt der Theoretischen Nationalökonomie*, Duncker und Humbolt - Leipzig.
- SCHUMPETER, J. (1918): *Die Krise der Stewerstaats*, Leuschner und Lubensky - Graz, Italian translation: « La crisi dello stato fiscale » in SCHUMPETER J.: *Stato e inflazione*, Brighieri, Turin, 1983 (N. DI VECCHI ed).
- SCHUMPETER, J. (1934): *The Theory of Economic Developement*, Harvard University Press, Cambridge (Mass.).
- SCHUMPETER, J. (1939): *Business Cycles: a theoretical, historical and statistical analysis of the capitalist process*, MacGraw Hill, New York, 2 volumes.

STIGLER, G. (1941): *Production and distribution theories*, MacMillan, New-York.

STREISSLER, E. (1972): « To what extent was the Austrian School marginalist? », *History of Political Economy*, vol 4 n°2.

WIESER, von F. (1927): *Social economics*, reedited in Reprints of Economic Classics, M.A. KELLEY, New-York 1967.