WIESER AS A THEORIST OF INSTITUTIONAL CHANGE

Documents de travail GREDEG
GREDEG Working Papers Series

Agnès Festré
Pierre Garrouste

GREDEG WP No. 2015-37
http://www.gredeg.cnrs.fr/working-papers.html

Les opinions exprimées dans la série des **Documents de travail GREDEG** sont celles des auteurs et ne reflèlent pas nécessairement celles de l'institution. Les documents n'ont pas été soumis à un rapport formel et sont donc inclus dans cette série pour obtenir des commentaires et encourager la discussion. Les droits sur les documents appartiennent aux auteurs.

*The views expressed in the **GREDEG Working Paper Series** are those of the author(s) and do not necessarily reflect those of the institution. The Working Papers have not undergone formal review and approval. Such papers are included in this series to elicit feedback and to encourage debate. Copyright belongs to the author(s).*

Wieser as a Theorist of Institutional Change

by

Agnès Festré

(UNS and GREDEG)

and

Pierre Garrouste

(UNS and GREDEG)

GREDEG Working Paper No. 2015-37

Abstract: In this contribution, we provide an interpretation of Friedrich von Wieser's contribution to economics, which pays tribute to the originality of his work, and particularly his view of how institutions interfere with individual behavior. This interaction takes place within a disequilibrium framework where social influences such as power or social class, and psychological factors such as force of habit or herd behavior, are the product of human action but also constitute constraints on further action. The section 1 stresses the institutionalist background of Wieser's economics. We concentrate on Wieser's general method – which we assimilate to an example of Joseph Agassi's (1975) institutional individualism – and his analysis of the emergence and evolution of institutions *via* the dynamics of leaders and masses. In the section 2, we reinforce and illustrate the 'institutionalist' stamp of Wieser's economics by focusing on his work on monetary economics (Wieser 1904, 1909a, 1909b, 1927b) and his analysis of the emergence of money, based on our reading of Wieser's *Social Economics* (Wieser [1927a] 1967) and *The Law of Power* (Wieser [1926] 1983).

Keywords: Wieser, emergence and evolution of institutions, money, economic sociology

JEL codes: B15, B31

I. INTRODUCTION

In this paper, we focus on the least well-known member of the first-generation of the Austrian School, Friedrich von Wieser, and emphasize his contribution to the institutional tradition in economics. The institutional dimension of Wieser's contribution is often neglected in the literature, although surprisingly, two of his major works, *Social Economics* ([1914] 1927) and *Das Gesetz der Macht* (1926), translated into English as *The Law of Power* (1983) were reviewed and introduced by two famous 'old' institutionalists, respectively, Wesley Clair Mitchell and Warren Joseph Samuels[1]. Wieser's contribution to monetary theory has also been rather neglected although, as will be argued in this paper, 1) it is far from being negligible, and 2) it illustrates the institutional dimension of his economics.

The paper is organized as follows. Section 1 stresses the institutional background of Wieser's economics. In section 2, his monetary approach is presented and interpreted as an illustration of the institutional mark of his economics. Section 3 concludes.

II. WIESER'S CONTRIBUTION TO INSTITUTIONAL ECONOMICS

The difficult exegesis of Wieser's overall approach to economics

Wieser's contribution to economics is, still today, either neglected[2] or misinterpreted[3]. On the one hand, he is wrongly but often viewed as a faithful follower of Menger but paling into insignificance beside Eugene von Böhm-Bawerk. Symptomatically, in his *History of*

[1] Samuels (1982) also emphasized the influence of Wieser on Schumpeter.

[2] Mitchell laments this fact in his 1917 review of Wieser's *Social Economics* (Wieser 1914) in *Political Science Quarterly*: "Although two years and a half have passed since the volume containing Wieser's contribution was published, I have not been able to find any review of it in the economic journals, American or foreign. This neglect is a loss to other economists even more than it is an injustice to the author" (Mitchell 1917, p. 96).

[3] According to Robert Burton Ekelund and Mark Thornton (1986, p. 10, fn 1), "the problem of labored translation from the German [may have made] … for confusing and tiresome reading, thus hampering the reader's understanding of Wieser". Austrian scholars however have shown interest in rediscovering Wieser since the mid-eighties with the Austrian revival. See e.g. Heinz D. Kurz and Richard Werner Sturn (1999), Stephan Böhm (1985), Erich Streissler (1986).

Economic Analysis Joseph Alloïs Schumpeter (1954, p. 913) considered that Wieser "...was the worst technician of the three great Austrians". Moreover, Schumpeter's exposition of Wieser's contribution is focused on his contribution to pure economics, namely, his theory of value, and overlooks his sociological work[4]. This has certainly contributed to a fragmented view of Wieser's achievements. It is all the more regrettable that in his obituary of Wieser published in *The Economic Journal* in 1927[5], Schumpeter recognizes that "every element of [Wieser's work] formed part of an harmonious whole, which unfolded itself slowly and grew organically to an imposing height and breadth" (Schumpeter 1927, p. 335). Finally, Schumpeter (1954, p. 844) suggests that even the members of the Austrian School, a school of thinking founded by Wieser and his brother-in-law Böhm-Bawerk, neglect Wieser's work. The following passage from Hayek's (1926) obituary of Wieser, originally published in the *Jahrbücher für Nationalökonomie und Statistik*, gives some support to this opinion: "in terms of intellectual consistency and elegance, (…) [Wieser's work] is undoubtedly inferior to Böhm-Bawerk's work in economic analysis, but the fault lies with the incomparably greater number of phenomena taken into account by Wieser" (Hayek [1926] 1992, p. 121). Like Frank Knight (1925), and George Joseph Stigler (1941, pp. 159-160), Hayek praises Wieser for introducing the notions of 'marginal utility' and 'opportunity cost', and solving the 'imputation problem' but also observes that his writings are difficult to assimilate:

> The absence of diminishing returns and of 'effort and sacrifice' put his theory of value at odds with the Marshallian tradition; the assumption of given commodity prices which underlies his theory of distribution was in sharp contrast with Walras; the evolution of his thought in the field of production from an early adoption of incremental changes in input proportions along Mengerian lines in the direction of 'definite proportions'

[4] See Sandye Gloria-Palermo 2002, p. 31.
[5] This obituary was reprinted in the appendix to *10 Great Economists: From Marx to Keynes* (Schumpeter, 1951, 298-301).

> prevented him from being assimilated by the emerging theorists of marginal productivity (Friedrich Hayek [1926] 1992, p. 120).

Fifteen years later, Stigler seems to have been thinking along the same lines and declared the idea of Wieser's value theory originating in the concept of "natural value" to be "incomprehensible" (Stigler 1941, p. 158, fn 2)[6]. Finally, Wieser's personal traits and manners and his late support for authoritarian political regimes did nothing to boost his popularity[7]. All of these factors have contributed to the underestimation of his work.

In contrast, we would endorse the view, first articulated by Wesley Mitchell, that Wieser was ahead of his time, that "the influence upon economic theory exercised by von Wieser's formulation lies more in the future than in the past" (Mitchell, 1967, p. 104). Similarly, in Oskar Morgenstern's (1927) laudatory obituary of Wieser, Wieser's early inclination towards history and sociology is described as giving his theoretical approach a definitive institutional imprint which made his contribution truly original, in contrast to the unflattering picture conveyed by the history of economic thought. In particular, in *Theorie der gesellschaftlichen*

[6] Wieser uses the term "natural value" to designate an 'idealized social utility unit' – we thank the referee for this expression that neatly encapsulates Wieser's concept of natural value as it would manifest in a communal – he used the term communistic – economy, i.e., an economy in which all participants have the same marginal utility of income (or money), similar or identical tastes, functioning in an idealized system of decentralized institutions unaffected by distributional considerations or in which "social supply and demand, or amount of goods and utility socially compared with one another" (Wieser 1893, p. 59)
As far as Wieser's analysis of production is concerned, Stigler interprets Wieser's concept of marginal product as "a peculiar hybrid of truly marginal analysis and of fixed coefficient" (Stigler 1941, 163). For Arrigo Opocher (2005), Wieser's assumption of 'definite proportions' of factor inputs together with his theory of value for 'cost goods' makes him a precursor of input-output approaches or linear programming in economics. Samuel Bostaph (2003) goes as far as to consider that Wieser's theory of value is inconsistent, although he recognizes that Wieser laid the groundwork for Ludwig on Mises in the socialist calculation problem, in the sense that he provided a solution to the calculation problem of socialism that Mises will prove later to be impossible. For Bostaph, the inconsistency lies in two major confusions – a confusion between subjective marginal values and objective exchange values on one hand, and between imputation and a static theory of distribution, on the other hand.

[7] Moreover, Streissler (1986, p. 89) suggests that Wieser was a racist and that he hardly mentioned made references whatsoever to others' work.

Wirtschaft[8] (Wieser, 1914) translated as *Social Economics* (Wieser [1927a] 1967), Wieser insisted that the subjectivist conception of economics developed by Menger was unsatisfactory in discarding the social forces holding human behavior, in particular the forces of freedom and compulsion, that imply a radical shift from the ideal pure theoretical system – described by him in his first book *Der natürliche Wert* (Wieser 1889) translated as *Natural Value* (Wieser [1927a] 1967), as the "Single Economy". In what follows, this understanding is essential to grasp the institutional dimension of his contribution; in addition it left its mark on his writings on monetary theory.

The lack of appreciation of Wieser's contribution is the more regrettable in light of the interesting and inspiring approach he developed in his final book, *Das Gesetz der Macht*[9], published just a few months before his death and considered "his crowning achievement" (Hayek [1926] 1992, 108). In this contribution, Wieser offers an interesting mix of economic analysis and economic sociology, which justifies an institutionalist interpretation of Wieser, which would appear much more in line with Schumpeter than with his contemporaries from the Austrian School[10]. Wieser's approach also shares some commonalities with the German Historical School, in particular with Max Weber and Werner Sombart, regarding the emphasis put on the issues of power and leadership (Streissler 1986, Campagnolo and Vivel 2012).

[8] This book was written as an invited theoretical volume in the massive *Grundriss der Sozialokonomik* under the editorship of Max Weber.

[9] This voluminous book is a synthesis of earlier writings (Wieser 1905; Wieser 1923; Wieser 1924) and lectures which appeared under the title *Recht und Macht* (Wieser 1910), and was intended to provide a systematic exposition of the sociological background of the economic processes sketched out in Wieser (1914). See Morgenstern (1927, p. 673).

[10] From this viewpoint, Wieser, like Schumpeter, can be classified as apart from the post-1920 economists belonging to the Austrian School. But this interpretation requires that his most popular early work, *Natural Value* (Wieser [1889] 1971) should not be considered in isolation from his other contributions, which too often happens. Richard Arena and Gloria-Palermo (2001) and Streissler (1988) make similar claims. This does not preclude a reformulation of the Austrian School along 'institutionalist' lines (see in particular Peter Joseph Boettke, 1989). For an institutionalist interpretation of Schumpeter, see Agnès Festré and Eric Nasica (2009) and Festré and Pierre Garrouste (2008).

Also, methodologically, Wieser parts company with most of his colleagues. Although he was not interested in methodological matters *per se*[11], he can, in retrospect, be considered, like Schumpeter, a proponent of Agassi's (1975) notion of "institutional individualism[12]". Ekelund (1986, p. 4) develops a similar idea, characterizing Wieser's modified individualism as "nothing but the classical (or Mengerian) conception joined to Veblenian-Spencerian institutional and sociological theory" and praising his work for being a precious contribution that provided a bridge from neoclassical utility theory to social economics[13]. Note in passing, that this argument is akin to a plea to de-homogenize the Austrian School[14]. Moreover, Wieser develops an original conception of institutions in which power and social stratification play substantial roles in their emergence and evolution. This is definitely a distinctive feature of Wieser's approach, as emphasized in section 2.

This feature was already present in his habilitation thesis published in 1884 – *Ursprung und Hauptgesetze des wirtschaftlichen Wertes* – in which he focuses on what would be the characteristics of a pre-institutional economic system. He develops this mental experiment further in *Social Economics* (Wieser [1927a] 1967), where he exploits the method of successive approximations in order to describe social phenomena with a decreasing level of abstractness. He begins to analyze what he calls "simple economies", characterized by "the most abstract isolating and idealizing assumptions", and proceeds by "decreasing abstraction

[11] See Morgenstern (1927, p. 669). Hayek ([1926] 1992, p. 115) also highlights this in his obituary of Wieser: "Wieser never paid great heed to methodology as a separate discipline and hardly ever concerned himself with the literature on the subject. He always regretted the fact that Carl Menger devoted such a large part of his energy to methodological refinements."

[12] According to Agassi (1975, p. 147), the two blocks of propositions characterizing holism and individualism are, respectively: "1) Society is the 'whole' which is more than its parts (holism), 2) 'Society' affects the individual's aims (collectivism), 3) The social set-up influences and constraints the individual's behavior (institutional analysis)" (Agassi 1975, p. 146) and "1) Only individuals have aims and interests (individualism), 2) The individuals behave in a way adequate to their aim, given the circumstances (rationality principles), 3) The social set-up is changeable as a result of individuals' action (institutional reform)" (Ibid). Agassi (1975, p. 147) adds that the two blocks are contradictory *if and only if* a fourth proposition is added: "*If* 'wholes' exist *then* they have distinct aims and interests of their own". Otherwise, there is no contradiction and institutional individualism can be considered as a kind of synthesis between methodological holism and methodological individualism, allowing a reciprocal influence of individual actions and collective entities such as institutions.

[13] Interestingly, Yagi (2001) put forward the fact that Ekelund and Thornton (1986) warned the reader against misinterpreting Wieser's concept of the 'mass' as an autonomous collective entity.

[14] For earlier attempts in this direction see Streissler (1972) and Gloria-Palermo (1999).

to conditions of reality" (to wit: direct exchange, then indirect exchange, monopolies, State intervention, international exchange) in order to describe what he calls "social economies", then "state economy", and finally "world economy"(Wieser [1927a] 1967, pp. 6-13)[15]. In other words, Wieser's endeavor is "to recognize the impact of vast impersonal forces in human society, to which each individual is subjected against his volition, forces that inevitably provide events that were not wanted or even foreseen by anyone" (Hayek [1926] 1992, p. 111). However, in contrast to Carl Menger or Hayek, he is quite pessimistic about the possibility that the unforeseen result of human action will guarantee public welfare. He argues that the passage from simple economies – where the law of natural value applies and where a 'neutral' conception of utility is acceptable[16] – implies some qualitative changes, regarding in particular, two related issues that Wieser considers to be of paramount importance: 1) the problem of monopoly which he views as more important than free competition; 2) the predominance of the struggle between the strong and the weak over the principle of equal opportunity for all. According to and as synthesized by Mitchell, these two propositions led Wieser to pose two questions: 1) What is the nature and the origin of this inequality in power? and 2) Where does the unity of society lie? (Mitchell 1917, p. 104). Clearly, to address these

[15] Wieser's general method should also be interpreted in relation to his strong interest in the study of history and his dissatisfaction with it. As recalled by Hayek ([1926] 1992, p. 110) in his obituary, "[t]he study of history left Wieser intellectually dissatisfied, because its methods did not lead to the discovery of the laws of social development that he was seeking".

[16] For Wieser, a neutral conception of utility is acceptable when economizing activity is undertaken by a single, isolated mind which foresees wants and considers their satisfaction "without error or passion" and when economizing proceeds "without loss of energy" (Wieser [1927a] 1967, p. 20). Strange as it might seem, Wieser repudiates neutral utility and relies on psychology when dealing with "social economies", which differ radically from "simple economies" as far as the purpose of economic action is concerned. Note that Wieser (1911) already defended the so-called "psychological" method in his 1911 article which is, according to Morgenstern (1927, p. 672) so frequently misunderstood. As Anthony Mark Endres (1991, p. 291) rightly points out, Wieser relates the notion of purpose to mental motor stimuli. A first stimulus to economizing is "*conscious* purposeful desire" which drives human effort to satisfy wants. Then, this stimulus is interconnected with "unconscious kinetic impulse" (Endres 1991, p. 291), i.e., in the terms of Wieser, "an active motor stimulus that is massed under tension and strives to be discharged" (Wieser [1927a] 1967, p. 18). In other words, the first stimulus is not sufficient to explain the urge for wanting satisfaction, but the addition of the unconscious impulse may "generate some friction, error, conflict, and wasted effort" as soon as individuals interact in a "social economy" and may constitute some groups "whose volition move them to exert full power to attain goods." (Ibid, pp. 18-19). It is only in the idealized simple economy that the isolated, fully informed individual, can avoid such losses of energy.

questions, Wieser needed to develop a broader conception of economic theory, borrowing from other disciplines such as psychology and economic sociology. This also implied appropriate amendments to the classical theory of value.

First, Wieser could not endorse a neutral concept of utility. For him, "man by nature is a social being" held together by the forces of freedom, and the forces of compulsion (Wieser 1914, p. 155).

His recourse to the psychology of masses and economic sociology, as will be developed below, is a necessary step in order to establish what promotes unity of society, to wit: leadership[17]. In other words, united action requires leadership, and the mass of men show its independence chiefly in choosing which leader to obey, or how faithfully to follow the example set by the leader. Here, leadership rests upon social inequality because the relation between ruler and subject develops into a stratification of the classes, which for Wieser, was not just an objective fact, it molded men to its image. As a result, the economic principle of least cost and highest utility does not rule men's actions in the way assumed in simple economic theory; rather it assumes the form: "be as good an economic man as your fellows" (Mitchell 1917, p. 105). Accordingly, in a social economy, prices also are 'stratified'[18], reflecting the evolution of different types of goods in relation to the social groups that consume them. Thus, the existence of three classes implies that the group of 'mass commodities' must be evaluated against the marginal utility of the poor: the set of 'intermediate goods' must be evaluated according to the preferences of the middle classes,

[17] Leadership is not necessarily economic leadership. Wieser borrows from Max Weber the distinction between masses and leaders, a distinction which is general and not confined to capitalist economies where entrepreneurs are viewed as leaders.

[18] As Mitchell (1917, p. 105), referring to Wieser (1914, pp. 259-60) notes, Wieser uses a "socially stratified notion of marginal utility".

and the group of 'luxury goods', according to the valuations of rich people[19] (Wieser [1927a] 1967, pp.157-8).

However, through the initiative of leaders and through imitative acceptance by the masses, society sometimes develops certain institutions that serve the common need so well that they seem to be the creation of an organized social will. In section 2, we show that money is one example of such an institution.

Second, as already pointed out, Wieser was not satisfied by naïve individualist explanations, although he never rejected methodological individualism as a whole, even if, as Ekelund and Thornton (1986, p. 4) suggests and as already hinted at before[20], "Wieser's first intellectual romance with history together with his early enchantment with mass historical movements, exemplified in Virgil, Homer, the Niebelungenlied and Leo Tolstoy's 'history of the anonymous masses', could seriously mislead scholars into believing that Wieser's unit of social analysis was collective in nature". Quite the contrary, in *Social Economics*, Wieser makes it clear that "the explanation must still run in terms of the individual" since "[t]he individuals which comprise the society are the sole possessors of all consciousness and of all will" (Wieser [1927] 1967, p. 154). According to Wieser ([1926] 1983, p. 146), classical

[19] This should be related to Wieser's critical remarks in *The Law of Power* concerning the classical distinction between the subjective (use) value and the objective (exchange) value of goods, which is supposed able to reconcile respectively the "personal or individual influences" and "those influences which transcend the personal or individual." For Wieser, the way classical economics connects the two dimensions is misleading because the "so-called objective exchange value does not by any means apply objectively to everybody" (Wieser, 1983, p. 147). More precisely, based on the size of the demand for a particular good, the principle of objective exchange value holds true "only for those who can pay the current price, i.e., for those for whom the acquisition of the good brings an increase in utility which at least offsets the decrease in utility brought about by the payment of the price" (Ibid). The principle applies symmetrically to the supply side, "only for those to whom the attainable price brings in an increase in utility sufficient to compensate for the sacrifice which giving up possession of the goods involves." (Ibid). Therefore Wieser concludes that "the objectively determined price gives only the proximate base and not the ultimate standard for valuation, for one and the same quantity of money means a quite *different utility experience* for the poor and for the rich person …" (Ibid – original emphasis*)*. This amounts to saying that the so-called objective exchange value *is* the subjective exchange value for those who participate in exchange since they are oriented towards the same objective base, i.e., the market price. However, for those excluded from the market, the objective exchange value has no meaning since "its outcome is as subjectively determined as is the personal use value in each individual case" (Ibid, p. 148). *In fine*, the contrast between objective exchange value and subjective use value is nothing more than a "contrast between a multitude of *parallel subjective cases* and the *isolated* case" (Ibid – original emphasis).

[20] See footnote 13.

individualism can be amended to provide alternative explanations "than the one which suggests itself in the personal sphere for the relations between individuals" and affords no room for "the element of constraint or command without which the [S]tate could neither originate nor endure and which can be clearly established for money as well"[21]. However, Wieser is even less satisfied by collectivist or organic explanations, stating that "in a roundabout way, [they] lead back to the individualistic explanation[s] by taking the people and the masses as a magnified individual" (Ibid, 146).

For this reason he favored the 'modified' individualism we have interpreted as a version of Agassi's (1975) institutional individualism.

Wieser's analysis of institutions and money reinforces this interpretation.

Wieser's analysis of institutions: role, nature, mode of emergence, and evolution

The reference to a natural economy as a fiction to describe an idealized economic system, i.e., one in which the impact of specific institutions can be compared, is symptomatic of Wieser's approach. But as already emphasized, his approach involves some complexity since it also allows for feedback from individual behavior through the social powers on institutions. The social powers constitute the appropriate level of analysis that considers the interactions between individuals and institutions. They can take the form of labor unions or cartels but also relate to customs, sentiments, norms, structure or legislation that shape individual behavior. The cumulative actions of individuals that seek their interest under the influence and constraints of these social powers in turn promote the emergence and alterations of institutions.

[21] In section 2, we develop from this standpoint that Wieser's conception of the emergence of money is difficult to reconcile with Menger's. Menger (1892) stresses that the State plays an active role in preserving the value of money and warranting people's confidence in its value but only *after* money has emerged. This idea was abandoned by the greatest part of Menger's followers.

Wieser's reference to the natural economy is therefore neither a theoretical normative benchmark nor an empirical tendency of real economies. Instead, it acts as a benchmark for a pure type of 'institutionally-based' economic system, where there is no asymmetry between social actors, neither there is money.

On the question of the nature of institutions, Wieser's approach may recall Menger's distinction between pragmatic and organic institutions. From a terminology perspective, Wieser distinguishes *social institutions* such as "offices, establishments and works of the most varied kinds" from what he calls "historical formations" such as family, tribe, state, people, nation, society, or money (see section 2) according to their respective modes of emergence. In a nutshell, social institutions are characterized by being "*created* by governments or by other orders of power for a deliberate purpose and following a deliberate plan" (Wieser [1926] 1983, p. 141 – original emphasis) or "in the awareness of a task to be done", while *historical formations* "grow up without the possibility of one's becoming aware of a specific creator" but rather as a "searching force" (Ibid, pp. 141-145).

By analogy with Menger's classification, historical formations could be conceived as organic institutions since they are the result of unintended action, and social institutions could be considered pragmatic since they are the result of "intentions, opinions, and available instrumentalities of human social unions or their ruler" (Menger [1883] 1963, p. 145).

However, this analogy does not hold if one recalls that for Menger, the distinction between pragmatic and organic institutions overlaps with the distinction between "realistic-empirical" and "exact science" approaches. Although Menger admits that both approaches might complement each other, they nevertheless constitute two logically distinct perspectives. On the other hand, for Wieser, social institutions and historical formations cannot be the subject of independent analyses.

On the one hand, Wieser explains that social institutions are always embedded in "historical formations" (Wieser [1926] 1983, p. 146) in the sense that an emerging social institution must necessarily fit or be consistent with the contemporary existing historical formation[22]. On the other hand, historical formations are defined in relation to power, which plays an important role in Wieser's analysis of institutions. This characteristic stands in sharp contrast to Menger's framework, in which power (or even state power) is virtually absent[23]. Indeed, Wieser emphasizes that historical formations constitute particular states of the evolution of society, characterized by a certain social stratification of power which results from "the *accord of many personal units of consciousness* which to a certain degree give up their independence, but without *a higher encompassing unit of consciousness* taking their place" (Wieser [1926] 1983, p. 146 – original emphasis).

Wieser's notion of power borrows from the German historical School, especially from Max Weber. As the notion of mass, it is not to be interpreted as an autonomous collective entity but rather as the very instantiation of motives of human action. As Wieser made clear in the first pages of his *Social Economics*, deliberate action can be traced back to two stimuli: "the purpose desire that our efforts attain their object, and an active motor stimulus that is massed under tension and strives to be discharged. Fundamentally, both desire and this force are intimately associated, but they appear distinct at the surface of consciousness" (Wieser [1927a], 1967), p. 18). This gives support to an interpretation according to which, for Wieser, power has two roots: on one hand, the desire to achieve power; on the other hand, what results from that desire (what is referred in Hegelian German philosophy as *Begierde*). This

[22] "With all institutional arrangements it can be clearly seen how in their effect they always depend on being properly adjusted to the nature of historical formations which serve as their foundations" (Wieser [1926] 1983, p. 143).

[23] In other words, he deals with power as a necessary condition for being (or not) in a position to use economic goods but does not elaborate on how power is distributed among individuals and how this distribution evolves through time and through the interactions among agents or groups of agents.

conception of human action is helpful for understanding the difference between a leader and the masses.[24]

Indeed, Wieser's analysis of power is based on the distinction between masses and leaders. It is fair to mention here that Wieser introduces this distinction more to emphasize that masses and leaders differ in terms of behavior or rationality, than to suggest the idea of the intellectual superiority of the leaders[25] with respect to the masses, or to convey a pejorative meaning to the term 'mass'. Moreover, though the idea of social fragmentation (encapsulated in the distinction between leaders and followers borrowed from Max Weber) is common in the Austrian economics literature, it plays a very specific role in Wieser. One could even say that the respective weights of leaders and followers are reversed in comparison to most Austrian authors. First, foror Wieser, the mass plays a crucial role, in contrast to the insignificant one conferred by Schumpeter to the 'followers', as compared with heroic leader 'entrepreneur'. Second, Wieser considers the phenomenon of leadership to be based on the existence of inequalities within a given population: it is governed by the "law of small numbers" based "on the *social success of small groups*" (Ibid, p. 1 – original emphasis). Third, he contrasts two types of leadership: on the one hand, there is the *authoritarian* (personal or cooperative) kind of leadership, including despotic, lordly leadership, or small social groupings such as guilds; on the other hand, there is the *impersonal* or *anonymous* kind of leadership which generally complements authoritarian type leadership in instances of social life such as the development of language, art, science, law, and ethics, or the creation of money (Wieser [1926] 1983, p. 40). Interestingly, this distinction is parallel to another important one made by Wieser, i.e., the distinction between external and internal power: "internal power" is "impersonal and anonymous" (Wieser [1926] 1983, p. 3) while "external power" corresponds to the power that some persons or some groups exert on people with the

[24] We are grateful to one of our reviewers for advising us to add this argument.
[25] In Wieser's own terms, being a leader "(…) means nothing but to be the first in matters of common concern [and] [t]he social function of a leader is to walk in front (…)" (Wieser [1926] 1983, p. 38).

help of "external" means such as "numerical superiority, arms or wealth" (Ibid, p. 3). Internal power can be channeled by various means: for instance, science and knowledge through "historical education" contribute to the creation of the social interactions, which support social internal power (Ibid, p. 107). Not surprisingly, as in the case of authoritarian and anonymous types of leadership, there must be some complementarities and consistency between internal power and external power. In particular, there must be some congruence between the beliefs or representations of the masses and the leaders, which is enabled by the diffusion of values among the different leadership strata (Ibid, p. 43)[26]. But more importantly, internal power is seen as more progressive form of power since it forces the approval of others and depends on the leaders' strength of conviction, while external power is a primitive form of power, which rests on the threat of political forces.

In the same line of idea, if Wieser defines masses simply by the fact that they are "following the leader" (Ibid, p. 38), he immediately qualifies this definition by contrasting two forms of following: *dead masses* or *blind following*, on the one side, and *true following* on the other. Blind following refers to a passive form of imitation that is reducible to sheep-like behavior, i.e. "following [the] surroundings rather than the leader" (Ibid, p. 44). True following is the form of imitation that Wieser concentrates on, and which refers to a reflective searching type of following or active following "which demands of the masses a certain independence of conduct and the capacity to adapt to the given circumstances" (Ibid, p. 45). More interestingly, true following also involves a process of internalization (or even true identification) of power by the masses, and Wieser suggests the existence of a complex dynamics between masses and leaders, which involves the interplay of "internal power" and

[26] Related to this issue, Wieser criticizes Friedrich Nietzsche's and Herbert Spencer's too emphatic conception of leader as a "great man" which, according to him, is out of touch with the reality of masses (Ibid, p. 46): "Indispensable as is the performance of the leader in front for the achievements of society, no less so is the following by the masses. If the leader is viewed as the sower casting out the seed, the masses may be viewed as the ground which absorbs it" (Wieser [1926] 1983, p. 47).

"external power" within a stratified society[27]. The idea of stratification among both masses (or social classes) and leaders (or dominant political rulers) is at the core of Wieser's analysis of the selection process of leaders by masses. It is referred by Wieser as a law: the law of increasing stratification (Wieser [1926] 1983, p. 26). In a lecture he presented when he assumed the rectorship of Charles University (Vienna), he illustrated the "language battle" he witnessed when the famous University of the Hapsburg Empire had been divided into Czech and German institutions as an example of the emergence of a new mass (the Czechs) in the political scene and described this process as a desirable step to freedom and to power (see Yagi 2001). Later in *Recht and Macht* (1910), he investigated this theoretically in the context of the rise of the working class in the capitalist society and claimed that stratification within masses provides a guarantee of future space of freedom, a safeguard against monolithic domination as well as an argument in favour of state intervention on a mass society. Furthermore, stratification also concerns the classes of leaders or the political rulers which are potentially threatened by the emergence of a new mass. This usually leads to the division of the ruling class. The same applies to the new emerging ruling class and this may pave the way for the development of the State:

> In economics it is the law that the self-interest of individuals turns out to be for the benefits of the whole by way of free competition in which everyone behaves as an egoist toward each other. Similarly [in politics], the dominant [class] egoism might be redirected to serve the whole by the resistance of the countervailing egoism based on collective solidarity. After a fierce struggle the top of the proletariat may attain the position of social power along with present power groups. But at that stage, as once on the side of bourgeoisie the unified liberal party had to separate, division will emerge

[27] "Internal power arouses in the masses the urge for ready emulation. In this connection the individual obeys not only his own instinct, but his behavior is also determined by the contact he has with the attitude of his environment and that of the masses in their entirety. The experience of power is intensified by the fact that the individual submitting to power thereby enhances the effective weight of internal power in society: he joins the ranks of the social rulers, albeit with a minimal share of power" (Wieser [1926] 1983, p. 57).

> inevitably within the now monolithic proletariat. Its sign is seen already among the proletarian leaders who apparently established their power within the state. The law of stratification is also valid in the case of the fourth rank (Wieser 1910, p. 127; translation by Yagi 2001).

Therefore, the notions of "anonymous leadership" and "internal power" suggest more than the mere mutual interactions of leaders and followers, and provide significant illustrations of Wieser's general method borrowing from social psychology and economic sociology.

First, as Wieser indicates, anonymous leadership is characterized by the fact that "the social success of small groups can be magnified to *full-fledged social success* if the new strength, which first was formed by the small group in its own interest, is removed from its control and placed at the disposal of the society as a whole" (Ibid, p. 33 – original emphasis). This means in particular, that Wieser considers that the notion of success encompasses more than Menger's idea of the replication by followers of supposedly economically efficient behaviors displayed by leaders[28]. As pointed out by Samuels in his introduction to *The Law of Power*, Wieser's notion of success differs from Menger's one because it is not defined *in abstracto* as the achievement of the fittest economic state. In particular, depending on whether it is *actual* or *perceived*, success can also lead to negative outcomes, such as dictatorships. As Samuels wrote, in Menger, "Success constitutes a mechanism, as it were, of historical selection. The course of history is marked by a path of success vis-à-vis other paths which might have been. Success in this context signifies survival (…). [By contrast] success, in Wieser's analysis, has no independent positive or normative, ex ante, test. It is circumstantial, episodic, and without external or internal value basis independent of the fact of survival. It is the consequence of

[28] This point is demonstrated by Menger ([1883] 1963) in Appendix VI of his *Problems of Economics and Sociology*.

successes, however, which marks the course of history." (Samuels, Introduction to *The Law of Power*, Wieser [1926] 1983, p. xxxi).

Second, Wieser refers to the Hegelian[29] notion of "objective spirit" which he borrows from Wilhem Dilthey and Hans Freyer[30], but does so with further qualifications[31]. For Wieser, the idea of "objective spirit" is the means to articulate individual beliefs or values using collective beliefs, in a manner that is more sophisticated than that implied by the mere imitation of leaders by the masses[32]. Moreover, objective spirit does not imply any denial of methodological individualism. What is crucial for the articulation between individual and collective values is the intensity of the "binding force" of historical formations which rests on the fact that this intensity is borne out of the spirit of the united individuals", even if it could be "so enhanced that it squashes the individuals which it binds"(Ibid, p. 149). In other words, it is possible that the objective spirit of a community conflicts with the individuals' interests even though it could not have emerged without their benevolence. Consequently, the 'objective spirit' appears as an entity with some autonomy vis-à-vis individuals. In particular, it possesses its own developmental mechanisms, such as inertia, self-preservation, and destructive power at both the individual and collective levels (Ibid, p. 149).

Third, Wieser refers to "the law of upward mobility of classes"[33], which implies the existence of a tendency towards the congruence of beliefs between masses and leaders. Indeed, at first,

[29] However, there is no explicit reference to Hegel in *The Law of Power*. Instead, Wieser refers to Eduard Spranger (1882-1963), a German philosopher and psychologist who contributed to so-called "personality theory". For Spranger, "objective spirit" is the commonly observed psychological ability of social human beings to infer from others and share some significations or values.

[30] Dilthey (1833-1911) was a German historian, psychologist, sociologist, student of hermeneutics, and philosopher. Freyer 1887-1969 was a conservative sociologist and philosopher and author of *Theory of Objective Spirit* published in 1923.

[31] Unlike Dilthey and Freyer, who considered that the "objective spirit" of art or of a body of law was somewhat external to individuals and that obeyed its own laws, Wieser ([1926] 1983, p. 149) argues that "objective creations of the spirit have their binding effect only through the mind which works them and senses them"..

[32] The idea of "objective spirit" can be related also to Wieser's notion of "social egoism", which he had developed in *Social Economics*. For Wieser ([1927] 1967, p. 161), "social egoism" is conceived as an intrinsic component of the psychology of human beings implying that "by reason of the social egoism a man is ready to fit into the social order which includes both submission and domination".

[33] This law defines the second law of social growth, the first, as already mentioned, being the "law of increasing social stratification".

masses have no share in public power, but through social interaction – essentially through labor and art - they may have an opportunity to further their personal achievements, and therefore to resist pressure from the leaders and not completely succumb to it. As far as the ruling leaders are concerned, they themselves are aware of their own interests in harnessing the vigor of the people to augment it and better exploit these interests, such that the more enlightened rulers have a stronger affinity with the populace and will begin to share public power with it. Wieser summarizes it as:

> In the present epoch, the face of the earth is being technically transformed by the alertness of … both those in command and those in subordination positions. All these quietly evolving and ascending collective forces have in due time been transformed into social power or they will do so, acting as a resistance first but eventually also sharing leadership roles (Wieser [1926] 1983, p. 26).

To sum up, Wieser's contribution is marked by a wide institutionalist perspective that is linked to both the German Historical School through the influence of Max Weber and to the old American institutionalist tradition. His personal experience and observations gave him rich materials to transfer Menger's analysis of the emergence of spontaneous orders to politics and sociology, thereby becoming the social economist of the Austrian School.

We next illustrate Wieser's general method and conception of institutions by his reflection on money.

II. WIESER ON MONEY: AN ILLUSTRATION OF HIS INSTITUTIONAL APPROACH

Wieser's monetary theory

The earlier comments about the poor reception given to of Wieser's theoretical work in general, apply also to his contribution to monetary theory[34]. This is all the more surprising since his last work, written in 1926, was an article entitled "*Geld",* written for the 4th edition of the *Hantwörterbuch der Staatswissenschaften*, edited by Elster, Weber, and Wieser (1927b). Moreover, most of Wieser's monetary doctrines are in German and have never been translated into English[35]. Benjamin McAlester Anderson (1911) and M.H.J. Dullaart (1988) provide faithful accounts of Wieser's monetary theory which, while being anchored in the Austrian tradition in relation to certain aspects such as the search for a causal explanation of value and the price of money by means of marginal utility, is idiosyncratic in others such as his reflection on the causality between money costs and the general level of prices.

Anderson (1911, p. 85) summarizes Wieser's monetary doctrines set forth in two expositions, separated by five years. The first is an address delivered on the occasion of his accession to a professorship at the University of Vienna in 1904 which was published in the *Zeitschrift für Volkswirtschaft, Sozialpolitik und Verwaltung* under the title "Der Geldwert und seine geschichtlichen Veränderungen" (Wieser 1904). The second (partly written and partly spoken[36]) represents a considerable development of the first.

Dullart (1988) also includes Wieser's (1927b) final article on money in the discussion.

To sum up the main arguments, Wieser's first exposition is an unconvincing attempt to provide an explanation of the value of money *via* marginal utility, which rests on a tautological proposition: the value of money is determined by the relation of money to all other goods which are exchanged.

[34] Dullaart (1988) notes that the Austrian revival which affected Menger, von Mises, Hayek, and to a lesser extent Böhm-Bawerk, since the mid-1980s, did not lead to a similar re-emergence of Wieser. He suggests also that this is because economic theorists and policy makers in many countries were showing an increased interest in the possibilities of the market and the applicability of quantity theory while Wieser was critical of both (Dullaart 1988, p. 123).

[35] All translations are either our own or were suggested by reviewers of earlier versions of the paper.

[36] The written and spoken parts were entitled respectively "Der Geldwert und seine Veränderungen" (Wieser 1909a) and "über die Messung der Veränderungen des Geldwertes" (Wieser 1909b).

In other words, the value of money depends not on its subjective use-value, its own marginal utility – it has none. The (objective) value of money depends on its value in exchange, on the marginal utility of the goods that are exchanged for it. However this depends on prices, and prices depend, in part, on the value of money.

Wieser's explanation is developed further in his second exposition in which he seeks to escape the circularity involved in the conception of purchasing power and achieve an absolute conception, which would be a causal factor in the determination of general prices rather than a mere reflection of them. Therefore, he introduces a distinction between a conventional or normative public economic value of money – the "*volkswirtschaftlicher Wert*" as he calls it – which differs from the more traditional objective value concept he exploits in his earlier article since it is "the common subjective part of the individual valuations leaving out the remainder of individual peculiarities"[37], and the personal individual idiosyncratic value of money (1909a, p. 502) which is more 'relative' since it changes with the volume of one's personal income, with the intensity of one's need for money, and with market prices (Wieser 1909a, p. 509).

The rationale for this distinction is to identify a "concept of the public economic value of money which, to be sure, proceeds from the general price-level, but which excludes from its content everything that comes purely from the value of goods" (Wieser 1909a, p. 511). However, as Anderson (1911, p. 88) stresses, we find no independent definition of the economic value of money; quite the contrary since the definition runs in terms of the values of goods: "the value of money rises when the same inner values of commodities are expressed in lower prices; it falls, when they are expressed in higher prices" (Wieser 1909b, pp. 511-512).

Later in his article "*Geld"* (Wieser 1927b, p. 682), Wieser refines his 'conventional' objective notion of money value by referring to the nature of money as something to be

[37] This is the translation provided in Anderson (1911, p. 87), of "der allgemeinen subjective Teil der persönlichen Wertschäftzungen mit Verschweigung des individual eigenartig empfundenen Restes".

"commonly accepted by the masses" ("*Massengewohnheit der Annahme*"), and seems to endorse a view of the emergence of money which in many but not all respects is similar to Menger's, as we discuss later.

This introduction of a mix of sociological and economic factors in the explanation of the value of money adds to the confusion in Wieser's monetary thinking. According to Dullaart (1988), some of the confusion can be put down to Wieser's hesitation over the relevance of quantity theory. Before 1914, he rejects it for technical reasons but mainly because he is a supporter of the Banking Principle and adopts Fullarton's principle, which implies that the quantity of money is an endogenous variable that adjusts to the needs of the economy. As Arena (2004, p. 16) mentions, adoption of Fullarton's principle implies also that Wieser agrees with the distinction between credit (i.e. the money issued by commercial banks) and notes (i.e. Central Bank money). Wieser makes it clear that the first type is temporary but the second type is definitive: "Commercial paper is a means of only provisional payment. Notes are a means of final and conclusive payment just as is money" (Wieser [1927a] 1967, pp. 245-246). However, after 1914, and in 1927 in particular, Wieser would seem to have abandoned his resistance to quantity theory and expresses explicit agreement with the statement "depreciation follows inflation" (Wieser 1927b, p. 702), giving the reader the impression that his former critique of the quantity theory regarded only alternative explanations of the problem of rising prices.

To sum up, according to Wieser, the value of money is determined in the markets for consumption goods, by the relation between real income (i.e. the total volume of consumption goods to be paid for out of money income), and money income (including borrowings, not including savings[38]). Taking account of the distinction between personal and public value of

[38] As rightly pointed out by Arena (2004, 17-18), Wieser, like other economists of the 20th century interested in the field of monetary theory, describes the national economy as a "community of payment" (Wieser [1927a] 1967, 250), involving two different types of circulation: income circulation, or in Wieser's terms "the exchange of natural values for money" (Ibid), which attributes social utility to produced goods according to the prevailing

money, Wieser explains that the personal value of money – which concerns only the laborer's calculation, not that of the business man – depends on the relation between an individual's money income and his real income in terms of goods, while the public economic value of money depends on the money income of the community as a whole, and its real income (Wieser 1909a, pp. 516-518). Therefore, a higher personal money income – at an unchanged price level – will decrease the personal exchange value of money, thereby inducing consumers to substitute goods for money, which, at an unchanged real income, will produce higher demand prices. In a nutshell, Wieser locates the origin of a rise in price levels, in a diminishing personal value of money, which may spread to the whole economy. Von Mises ([1924] 1953) criticizes Wieser on this point; for von Mises, the diminishing marginal utility is the effect and not the cause of a rise in the price level. Also, Wieser's point of view is not very convincing since the causality between the marginal utility of money and the price level cannot be assessed on account of a discrepancy of different marginal utilities of money and commodities. There is no reason why a higher price level would not cause also a lower marginal utility of commodities since consumers suppose that they are able to expand their consumption (see von Mises [1924] 1953, p. 157).

However, what is interesting is that Wieser generalizes his argument in order to provide an explanation of historical inflationary trends, such periods of European inflation in the 16th-century and around 1900. The explanation runs as follows: the mere extension of the money economy increases the amount of money income, lowers the personal value of money, lowers its public economic value, and raises prices. Hence, there is a tendency for the public economic value of money to sink and this has been the historical fact (Wieser 1909a, pp. 519-520).

---

division of labor between households and firms; and the circulation of "derived income" made up of what Wieser calls "payment by assignments" (transactions related to changes of ownership, interest payments, gift, tax payments, etc.). The capital market (i.e., the sum of the "money markets" – i.e., the liquidity market – and the "investment markets" – i.e., savings and financial assets) plays a crucial role in this second circulation (Ibid, 303).

Now, what causes the extension of money income? Wieser's argument is worthy of a lengthier discussion since it is another example of the sociological and institutional imprint of his work. Dullaart (1988, p. 131) develops that, despite von Mises's critique, Wieser's explanation of the monetization of the economy borrows from Georg Simmel's ([1900] 2004) analysis of money as the bearer of impersonal relations between men, and as a consequence, of individual freedom. It is also reminiscent of Karl Polanyi's (1968, p. 89) account of the passage from barter to monetary exchange as involving a crowding out of reciprocity: "Reciprocity demands adequacy of response, not mathematical equality".

For the sake of brevity, let us focus on Wieser's main argument. According to him, the extension of the monetary economy involves more calculation, and additional costs compared to the natural economy where some costs are not included in the supply side. In other words, the passage from the natural to the monetary economy is never neutral with regard to commodity values. The additional costs include among others, moral and insurance costs due to increasing opportunism, rising opportunity costs due to the generalization of market transactions[39], and increased tax levies to finance education, culture, and armament programs[40]. To sum up, Wieser not only tackled the main questions in monetary theory, he also touched on the issue of monetary development. Moreover, he paid special attention to the problem of the origin of money, the topic to which the rest of the paper is devoted.

Wieser's analysis of the emergence of money

Our reconstruction of Wieser's conception of the origin of money is based mainly on three references: *Social Economics* ([1927a] 1967, Op. Cit.), "*Geld"* (1927b) and *The Law of Power* ([1926] 1983, Op. Cit.). Wieser's view of the emergence of money can be reconstructed from what we have emphasized concerning his conception of institutions, and

[39] Think for instance of an unpaid volunteer, who gradually comes to realize that he could have received money income during the time he or she rendered their unpaid services.
[40] This is reminiscent of Schumpeter's 1919 essay "The Crisis of the Tax State".

his specific critical account of Menger's much better known explanation of the origin of money.

First, Wieser sees the process of the emergence of money as an example of historical formations, and more specifically, of "objective ones which are by no means planned institutions but results of historical development nurtured by success, an example of this being money in its original form, as yet unregulated by the state" (Wieser [1926] 1983, p. 143). However, he departs from Menger by considering that other factors such as the intervention of the State or power strata have a determining influence on this process in so far as its maintenance and future development are concerned. For instance, he sometimes touches on the problem of the social norm nature of money by pinpointing the "binding force" or the "social power" of money through the notion of the "obligation to accept it" which makes the payer feel protected against shifty refusal of payment (Ibid, p. 165). We find a similar idea in *Social Economics*, where he writes that: "certain goods … will be universally used, because everybody may be convinced that there is *no one who will refuse to accept* [them]" (Wieser [1927a] 1967, p. 164 - original emphasis).

In "*Geld"*, he characterizes money using a somewhat different terminology than that used in *Gesetz der Macht*, as "a historical-social formation [*geschichtlich-gesellschaftliche Bildung*)" (Wieser 1927b, 683). He makes clear his rejection of the view of "money as an intentionally designed institution, created either by the state or by a free contract among its citizens" (Ibid). Rather, he states that:

> Money emerged from small beginnings little by little to reach its final form. This has happened, when one or another particularly alert economizing individuals [*Wirtschafter*] has recognized the benefits [of using a medium of exchange]. … The example of the advantage that these individuals are able to realize induces others to imitate them. These

> alert individuals become the leaders with respect to others, who followed them in the use of money (Wieser 1927b, p. 683).

In conclusion, "the emergence of money can be traced back to individual incentives, but it has been only completed when the mass custom of acceptance [*Massengewohnheit der Annahme*] has bestowed on money a compulsory social character" (…) When money has [thus] been introduced as a social formation, it becomes the task of the state to regulate its technical and legal features for the general interest" (Wieser 1927b, pp. 683-684 – all our own translations).

These quotations help to clarify Wieser's reasons for disagreeing with Menger's proposition that social institutions are nothing more than the unintended social results of individual teleological factors[41]. Wieser's main objections to Menger are related to his strictly "individualistic point of view" and the teleological character of his explanation. For Wieser, it is clear that the final form of money that emerges is not the mere result of "the individual aims of leaders whom the masses follow" (Ibid, p. 165) because the process of emergence of money releases a power which produces results far beyond those set by the masses or desired by the leaders:

> Money represents *something more and stronger than the will of participating individuals*. A money for which a mass habit of acceptance has once been established is no longer the mere result of the individual aims of leaders whom the masses follow. Neither in the beginning nor later did the leaders have in mind a social institution. … The final form of money is not a mere resultant; because of the universal social

[41] He however praises Menger to have been among the most penetrating writers who "sought to explain money as an individualistic institution" meaning that Menger's more subtle explanation of the emergence of money as an intended process involved a reduction of the individualistic stress that has marked former theories of money (Wieser [1927a] 1967, 163).

> resonance that it awoke it represents a tremendous strengthening of their endeavors. (Wieser [1927a] 1967, p. 165 - emphasis added)

This passage is a good illustration of Wieser's institutional individualism and economic sociology. It helps also to explain his dissatisfaction with Menger's method. As rightly pointed out by Ekelund (1986, p. 4), Wieser accepts the kernel of Menger's individualist explanation but laments that he does not go far enough.

As emphasized above, the passage from the simple economy to the social economy involves the intrusion of power through social stratification. Under these circumstances, individuals do not act independently and do not carry through their activity entirely by their own will. Rather they "act under the control of the more or less felt influence of the natural controls or compulsion that give them the power or force them to decision" (Wieser [1927a] 1967, p. 166). This implies that, for Wieser, the process of the emergence of money does not consist only of a change in the technique of exchange – i.e., the passage from barter to indirect exchange – but also involves social dynamics that modify the structure of the society, and therefore, individual behaviors.

Hodgson (1992), referring to Mitchell (1937, pp. 175-176 and pp. 305-306) expresses a similar view that: "[t]he penetration of money exchange into social life alter[s] the very configurations of rationality, involving the particular conceptions of abstraction, measurement, quantification and calculation intent. It [is] thus a transformation of individuals rather than simply the emergence of institutions and rules." (Geoffrey Martin Hodgson, 1992, p. 407).

By the same token, this explains Wieser's insistence on forging a conventional concept of the objective value of money (i.e., the notion of public economic value of money) and its

associated failure, according to his critics, to get rid of any causal psychological explanation[42].

More specifically, one can reconstruct how Wieser viewed the emergence of money by emphasizing the key roles of anonymous leadership and internal power for understanding the complex dynamics between leaders and masses. As already noted, for Wieser, leaders initiate a social movement whose outcome, through the masses' selection, goes well beyond the expected results: "Only a part of the force that builds social institutions is directed by purposes; the final decisive mass-influence operates beyond the purpose" (Wieser [1927a] 1967, p. 165). Moreover, we stressed earlier that Wieser sees the dynamics between leaders and the masses as involving "true following", a notion that we find it interesting to compare to André Orléan's (2001) concept of "self-referential imitation", i.e. as the kind of imitation that takes place when agents imitate but by so doing, create a social value or a convention that gathers some momentum and gains some autonomy vis-à-vis the individuals that initiated the dynamics. Or, to use James McGill Buchanan's (1982) phrase, money is an example of an "order defined in the process of its emergence" which cannot be traced back unequivocally to the initial conditions that permitted its emergence.

Wieser's recourse to the idea of "objective spirit" and the "law of upward mobility of classes" can be mobilized in order to understand how he conceives of the population's adhesion to the utilization of money as well as the recognition by the leaders that it is in their interests to favor the diffusion of monetary practices in the economy. In current economic parlance, this would be described by the notion of positive feedback (William Brian Arthur, 1990) or network externality (Michael L. Katz and Carl Shapiro, 1985).

However, more importantly, the emergence of money is part of a general process of institutional change that takes place in historical time, and implies feedback on the economic

[42] See Anderson (1911, p. 86).

sphere. From this standpoint, institutional impulses "are entirely dependent, [for the average man] upon the practice of his time and environment for their direction and their strength" (Wieser [1927a] 1967, p. 159).

III. CONCLUDING REMARKS

Certainly, as our reconstruction of Wieser's conception of institutions through the example of money shows, Wieser's approach cannot be confined to an analysis in terms of equilibrium states since it is much more in line with the Schumpeterian notion of creative destruction. However, in contrast to Schumpeter, the process of congruence between leaders and imitators' values and beliefs, which conditions the successful adoption of an innovation, does not necessarily converge into a better economic situation, i.e., a greater national wealth, except for the losses implied by the destruction of pre-existing lines of production. For Wieser, there is no guarantee of society's better performance or progress. He refers to the "inner rules" such as inertia effects or self-destruction mechanisms that underlie the law of power. These mechanisms belong to the psychology of power, and constitute what Wieser refers to as the 'supra-social' or 'anti-individual' or even 'anti-social' character of power, which stands "in complete reversal to the law of success" (Wieser [1926] 1983, 71). They contribute also to explaining the emergence of collective wholes or social entities that have acquired some autonomy vis-à-vis individuals. However, this holistic feature does not lead to neglect of the role of individuals within social dynamics. Indeed, Wieser explains that personal strength is at the origins of the growth of power but "by aligning itself with the strength of a like-minded individual, [it] is being enhanced way beyond its inherent potential[;] [a]longside it, there is a strengthening of the feeling of power, though at the same

time strength *in no small degree is being deprived of its personal roots*" (Ibid, p. 70 – original emphasis).

By emphasizing the relationship of individuals towards their neighborhoods but also towards the society considered as a stratified entity, Wieser is able to deal not only with the emergence of institutions but also with the problems of their maintenance and evolution. For instance, Wieser points to the possibility of conflicts between a new historical task and existing historical powers (Ibid, 203), or the existence of tensions regarding the sharing of power between the leadership strata and the stratum representing the masses (Ibid, p. 52). In mathematical terms, leaving aside the well-known reservations of Austrian economists towards the use of mathematical relationships, these conflicts or tensions could be assimilated to path-dependency or hysteresis effects.

In summary, Wieser's approach is more focused on institutional change than on the problem of emergence of institutions. He describes the process of institutional change as both the result of and the cause of changes in individual behavioral patterns. This reciprocal causation between behavior and institutional change involves historical time but also positive and negative feedback.

All these arguments give strong support to an interpretation of Wieser's conception of money and its evolutionary features in terms of a more sophisticated dynamics of social interaction than that proposed by Menger. In particular, Wieser saw money as a "socially constructed institution" (see Philip Mirowski, 1990), undergoing permanent changes. Therefore, Wieser assumed a hierarchical or stratified society – in contrast to Menger's assumption of a horizontally fragmented population. Wieser emphasizes also the roles played by internal power, anonymous leadership, and objective spirit in social interactions, in order to make a population adhere or conform to a social norm of exchange.

REFERENCES

Agassi, Joseph. 1975. “Institutional Individualism.” *British Journal of Sociology* 26 (2): 144-55.

Anderson, Benjamin. 1917. *The value of money*. New York: The Macmillan Company.

Arena, Richard. 2004. “Money in Wieser’s Social Economics.” In R. Arena and Neri Salvadori, eds., *Money, Credit and the Role of the State. Essays in Honor of Augusto Graziani*. Aldershot, UK and Burlington, USA: Ashgate Publishing Company.

Arena, Richard, and Gloria-Palermo, Sandye. 2001. “Evolutionary themes in the Austrian tradition: Menger, Wieser and Schumpeter on institutions and rationality.” In Pierre Garrouste and Stavros Ionnadides, eds., *Evolution and Path Dependence in Economic Ideas: Past, Present*. Aldershot: Edward Elgar.

Arthur, Brian. 1990. Positive feedbacks in the economy: A new economic theory elucidates mechanisms whereby small chance events early in the history of an industry or technology can tilt the competitive balance. *Scientific American* 262: 92-99.

Boettke, Peter. 1989. “Evolution and economics: Austrians as institutionalists.” *Research in the History of Economic Thought and Methodology* 6: 73−89.

Böhm, Stephan. 1985. “The political economy of the Austrian School.” In Piero Roggi, ed., *Gli economisti e la politica economica*. Naples: Edizioni Scientifiche Italiana.

Bostaph, Samuel. 2003. “Wieser on economic calculation under socialism.” *Quarterly Journal of Austrian Economics* 6 (2): 3−34.

Buchanan, James M. 1982. “Order defined in the process of its emergence.” *Literature of Liberty* 5 (4).

Campagnolo, Gilles, and Vivel, Christel. 2012. “Before Schumpeter : Forerunners of the theory of the entrepreneurs in 1900s German political economy – Werner Sombart, Friedrich von Wieser. ” *European Journal of the History of Economic Thought* 19(6): 908-943.

Dullaart, M.H.J. 1988. “Wieser’s theory of money.” *Journal of Economic Studies* 15 (3/4): 123−135.

Ekelund, Robert B. 1986. “Wieser’s Social Economicsm: A link to modern Austrian Theory?” *Austrian Economics Newsletter* 6 (3): 1-2, 4, 9-11.

Ekelund, Robert B and Thornton, Mark. 1986. “Wieser and the Austrian connection to social economics.” *Forum for Social Economics*, 16:1−12.

Endres, Anthony M. 1991. “Menger, Wieser, Böhm-Bawerk, and the analysis of economizing behavior.” *History of Political Economy* 23 (2): 279−299.

Festré, Agnès, and Garrouste, Pierre. 2008. "Rationality, behavior, institutional and economic change in Schumpeter." *Journal of Economic Methodology* 15 (4): 1−26.

Festré, Agnès, and Nasica, Eric. 2009. "Schumpeter on money, banking and finance: An institutionalist perspective." *European Journal of the History of Economic Thought* 16 (2): 325-356.

Gloria-Palermo, Sandye. 1999. *The evolution of Austrian economics: From Menger to Lachmann*. London: New York: Routledge.

Gloria-Palermo, Sandye. 2002. "Schumpeter and the old Austrian School. In Richard Are,a and Cécile Dangel-Hagnauer, eds., *The contribution of Joseph Schumpeter to economics*. New York: Routledge, pp. 21-39.

Hayek, Friedrich A. 1926. "Friedrich Freiherr von Wieser." *Jahrbücher für Nationalökonomie und Statistik* 125: 513-530. Reprinted in Hayek (1992).

Hayek, Friedrich A. 1992. The Collected of Hayek, F. A.: The Fortune of Liberalism: Essays on Austrian Economics and the Ideal of Freedom, edited by P. G. Klein. London: Routledge.

Hodgson, Geoffrey M. 1992. "Carl Menger's theory of the evolution of money: Some problems." *Review of Political Economy* 4 (4): 396−412.

Katz, Michael L., and Shapiro, Carl. 1986. "Technology Adoption in the Presence of Network Externalities." *Journal of Political Economy* 94(4): 822-841.

Knight, Frank H. 1925. "A note on professor Clark's illustration of marginal productivity." *Journal of Political Economy* 33: 550−553.

Kurz, Heinz D., and Sturn, Richard. 1999. "Wiesers 'Ursprung' und die Entwicklung der Mikroökonomik. In H. Hax, ed., *Friedrich von Wiesers "Über den Ursprung und die Hauptgesetze des wirtschaftlichen Werthes"*. Düsseldorf: Verlag Wirtschaft und Finanzen, pp. 59-103.

Menger, Carl. [1883] 1963. *Problems of Economics and Sociology*. Urbana: University of Illinois Press. English translation of *Untersuchung über die Methode der Sozialwissenschaften und der Politischen Ökonomie insbesondere*, Leipzig: Dunker & Humbolt.

Menger, Carl. 1892. "On the origin of money." *Economic Journal* 2: 239−55.

Mirowski, Philip. 1990. "Learning the meaning of the dollar: conservation principles and the social theory of value in economic theory." *Social Research* 57: 689−717.

Mises, Ludwig von [1924] 1953. *The Theory of Money and Credit*. Translated by H.E. Batson. New Haven: Yale University Press.

Mitchell, Warren C. 1917. “Wieser’s Theory of Social Economics.” *Political Science Quarterly* 32 (1): 95−118.

Mitchell, Warren. 1937. *The Backward art of spending money and other essays*. New York: McGraw-Hill.

Mitchell, Wesley C. 1967. “Foreword.” In Wieser (1967), *Social Economics*, New York: Augustus M. Kelley Publishers, pp. ix-xii.

Morgenstern, Oscar. 1927. “Friedrich von Wieser, 1851-1926.” *The American Economic Review* 17 (4): 669−74.

Opocher, Arrigo. 2005. “Formalizing Wieser’s Theory of Distribution: Consistent Imputation in Alternative Theoretical Perspectives.” *Metroeconomica* 56 (2): 200−220.

Orléan, André. 2001. Psychologie des marchés: comprendre les foules spéculatives. In Jacques Gravereau ands Jacques Tramman, eds., *Les crises financières*. Paris: Economica.

Polanyi, Karl. 1968. *Primitive, Archaic and Modern Economies: Essays of Karl Polanyi*, edited by George Dalton. Garden City, New York: Doubleday & Company, Inc.

Samuels, Warren J. 1982. “The influence of Friedrich von Wieser on Joseph A. Schumpeter.” *Presidential address History of Economic Society*, May 1982. Reprinted in *History of Economic Society Bulletin*, 1983, vol. 4, pp. 5-19.

Samuels, Warren J. 1983. “Introduction.” In Wieser (1983), *The Law of Power*, Bureau of Business Research, University of Nebraska.

Schumpeter, Joseph A. 1919. “The Crisis of the Tax State.” In Richard Swedberg, ed., *The Economics and Sociology of Capitalism*. Princeton: Princeton University Press, 1991, pp. 99-140.

Schumpeter, Joseph A. 1954. *History of Economic Analysis*. London: Allen & Unwin.

Schumpeter, Joseph A. 1927. “Obituary.” *The Economic Journal* 37 (146): 328−335.

Schumpeter, Joseph A. 1951. *Ten Great Economists: From Marx to Keynes*. San Diego: Simon Publications.

Shionoya, Yuichi. (ed.) 2001. *The German Historical School : The Historical and Ethical approach to economics*. London and New York : Routledge.

Simmel, Georg. [1900] 2004. *The Philosophy of Money* (3rd edition). London and New York: Routledge. English translation of *Philosophie des Geldes* (1900).

Stigler, George. J. 1941. *Production and distribution theories*. New York: Macmillan.

Streissler, Eric W. 1972. “To what extent was the Austrian School marginalist?” *History of Political Economy* 4 (2): 426−441.

Streissler, Erich. 1986. “Arma virumque cano: Friedrich von Wieser, the bard as economist.” In Norbert Leser, ed., *Die Wiener Schule der Nationalökonomie*. Vienna: Böhlau.

Streissler, Erich. 1988. “The intellectual and political impact of the Austrian School of Economics.” *History of Economic Ideas* 9 (2): 191−204.

Wieser, Friedrich von. 1884. *Ursprung und Hauptgesetze des wirtschaftlichen Wertes*. Vienna: A. Hölder.

Wieser, Friedrich, von. 1889. *Der natürliche Wert*. Vienna: A. Hölder.

Wieser, Friedrich, von.1893. *Natural Value* (Translation of *Der natürlich Wert* by Christian A. Malloch). New York: Macmillan and Co.

Wieser, Friedrich, von. 1901. “Über die gesellschaftlichen Gewalten.” In Friedrich Hayek, ed., *Wieser, Gesammelte Abbandlungen*. Tübingen: Mohr, 1929, pp. 346-376.

Wieser Friedrich von 1904. “Der Geldwert und seine geschlichtlichen Veränderungen.” *Zeitschrift für Volkswirtschaft, Sozialpolitik und Vervwaltung* 13. Reprinted in Friedrich Hayek, ed., *Wieser, Gesammelte Abbandlungen* (chap. 9). Tübingen: Mohr, 1929.

Wieser, Friedrich von. 1905. *Über Vergangenheit und Zukunft der österreichischen Verfassung*. Vienna: C. Konegen.

Wieser, Friedrich von. 1909a. “Der Geldwert und seine Veränderungen.” *Schriften des Vereins für Soziakpolitik* 132. Reprinted in Friedrich Hayek, ed., *Wieser, Gesammelte Abbandlungen* (chap. 10), Tübingen: Mohr, 1929

Wieser, Friedrich von. 1909b. “Über die Messung der Veranderungen des Geldwertes.” *Schriften des Vereins für Sozialpolitik* 132, 545 ff.

Wieser, Friedrich von. 1910. *Recht und Macht*. Leipzig: Duncker & Humblot.

Wieser, Friedrich von. 1911. “Das Wesen und der Hauptinhalt der theorischen Nationalökonomie - kritische Glossen.” *Volkswirtschaft im glossen deutschen Reich* 35(2). Reprinted in Friedrich Hayek, ed., Wieser, Gesammelte Abbandlungen. Tübingen: Mohr.

Wieser, Friedrich von. 1914. *Theorie der gesellschaftlichen Wirtschaft*. Tübingen: Grundriss der Sozialökonomik.

Wieser, Friedrich von 1923. “Macht-psychologie.” *Zeitschrift für Volkswirtschaft* 3.

Wieser, Friedrich von 1924. “Die Formen der gesellschaftlichen Verfassung.” *Archiv für Rechtsphilosophie* 17.

Wieser, Friedrich von [1926] 1983. *The Law of Power*. Bureau of Business Research, University of Nebraska-Lincoln. English translation by W. E Kuhn of *Das Gesetz der Macht*, Vienna: Julius Springer, 1926.

Wieser, Friedrich von. [1927a] 1967. *Social Economics*. New York: Adelphi Company. English translation of *Theorie der Gesellschaftlichen Wirtschaft* (1914). Reprinted by Augustus M. Kelley Publishers in Series of Economic Classics in 1967.

Wieser, Friedrich von 1927b. Geld. In Ludwig Elster, Adolph Weber and Friedrich Wieser, eds., *Handwörterbuch der Staatwissenschaften*. Jena: Verlag von Gustav Fischer.

Wieser, Friedrich von. 1971. *Natural Value* (Vol. 2). Reprints of Economic Classics. New York: Augustus M. Kelley Publishers. English translation of *Der Näturliche Wert* (1889).

Yagi, Kiichito. 2012. "Anonymous history in Austrian Economic Thought: From Carl Menger and Anton Menger to Friedrich von Wieser." In Shionoya (2001), pp. 87-104.

DOCUMENTS DE TRAVAIL GREDEG PARUS EN 2015
GREDEG Working Papers Released in 2015

2015-01 Laetitia Chaix & Dominique Torre
The Dual Role of Mobile Payment in Developing Countries

2015-02 Michaël Assous, Olivier Bruno & Muriel Dal-Pont Legrand
The Law of Diminishing Elasticity of Demand in Harrod's Trade Cycle (1936)

2015-03 Mohamed Arouri, Adel Ben Youssef & Cuong Nguyen
Natural Disasters, Household Welfare and Resilience: Evidence from Rural Vietnam

2015-04 Sarah Guillou & Lionel Nesta
Markup Heterogeneity, Export Status and the Establishment of the Euro

2015-05 Stefano Bianchini, Jackie Krafft, Francesco Quatraro & Jacques Ravix
Corporate Governance, Innovation and Firm Age: Insights and New Evidence

2015-06 Thomas Boyer-Kassem, Sébastien Duchêne & Eric Guerci
Testing Quantum-like Models of Judgment for Question Order Effects

2015-07 Christian Longhi & Sylvie Rochhia
Long Tails in the Tourism Industry: Towards Knowledge Intensive Service Suppliers

2015-08 Michael Dietrich, Jackie Krafft & Jolian McHardy
Real Firms, Transaction Costs and Firm Development: A Suggested Formalisation

2015-09 Ankinée Kirakozian
Household Waste Recycling: Economics and Policy

2015-10 Frédéric Marty
Régulation par contrat

2015-11 Muriel Dal-Pont Legrand & Sophie pommet
Nature des sociétés de capital-investissement et performances des firmes : le cas de la France

2015-12 Alessandra Colombelli, Jackie Krafft & Francesco Quatraro
Eco-Innovation and Firm Growth: Do Green Gazelles Run Faster? Microeconometric Evidence from a Sample of European Firms

2015-13 Patrice Bougette & Christophe Charlier
La difficile conciliation entre politique de concurrence et politique industrielle : le soutien aux énergies renouvelables

2015-14 Lauren Larrouy
Revisiting Methodological Individualism in Game Theory: The Contributions of Schelling and Bacharach

2015-15 Richard Arena & Lauren Larrouy
The Role of Psychology in Austrian Economics and Game Theory: Subjectivity and Coordination

2015-16 Nathalie Oriol & Iryna Veryzhenko
Market Structure or Traders' Behaviour? An Assessment of Flash Crash Phenomena and their Regulation based on a Multi-agent Simulation

2015-17 Raffaele Miniaci & Michele Pezzoni
Is Publication in the Hands of Outstanding Scientists? A Study on the Determinants of Editorial Boards Membership in Economics

2015-18 Claire Baldin & Ludovic Ragni
L'apport de Pellegrino Rossi à la théorie de l'offre et de la demande : une tentative d'interprétation

2015-19 Claire Baldin & Ludovic Ragni
Théorie des élites parétienne et moment machiavélien comme principes explicatifs de la dynamique sociale : les limites de la méthode des approximations successives

2015-20 Ankinée Kirakozian & Christophe Charlier
Just Tell me What my Neighbors Do! Public Policies for Households Recycling

2015-21 Nathalie Oriol, Alexandra Rufini & Dominique Torre
Should Dark Pools be Banned from Regulated Exchanges?

2015-22 Lise Arena & Rani Dang
Organizational Creativity versus Vested Interests: The Role of Academic Entrepreneurs in the Emergence of Management Education at Oxbridge

2015-23 Muriel Dal-Pont Legrand & Harald Hagemann
Can Recessions be 'Productive'? Schumpeter and the Moderns

2015-24 Alexandru Monahov
The Effects of Prudential Supervision on Bank Resiliency and Profits in a Multi-Agent Setting

2015-25 Benjamin Montmartin
When Geography Matters for Growth: Market Inefficiencies and Public Policy Implications

2015-26 Benjamin Montmartin, Marcos Herrera & Nadine Massard
R&D Policies in France: New Evidence from a NUTS3 Spatial Analysis

2015-27 Sébastien Duchêne, Thomas Boyer-Kassem & Eric Guerci
Une nouvelle approche expérimentale pour tester les modèles quantiques de l'erreur de conjonction

2015-28 Christian Longhi
Clusters and Collective Learning Networks: The Case of the Competitiveness Cluster 'Secure Communicating Solutions' in the French Provence-Alpes-Côte d'Azur Region

2015-29 Nobuyuki Hanaki, Eizo Akiyama, Yukihiko Funaki & Ryuichiro Ishikawa
Diversity in Cognitive Ability Enlarges Mispricing

2015-30 Mauro Napoletano, Andrea Roventini & Jean-Luc Gaffard
Time-Varying Fiscal Multipliers in an Agent-Based Model with Credit Rationing

2015-31 Thomas Jobert, Fatih Karanfil & Anna Tykhonenko
Trade and Environment: Further Empirical Evidence from Heterogeneous Panels Using Aggregate Data

2015-32 Bertrand Groslambert, Raphaël Chiappini & Olivier Bruno
Bank Output Calculation in the Case of France: What Do New Methods Tell About the Financial Intermediation Services in the Aftermath of the Crisis?

2015-33 Mohamed Siry Bah & Thomas Jobert
Une analyse empirique du processus de convergence des pays africains

2015-34 Takashi Yamada & Nobuyuki Hanaki
An Experiment on Lowest Unique Integer Games

2015-35 Dino Borie, Pierre Garrouste & Ismaël Rafaï
Le temps et l'erreur comme mesures de la quantité d'attention : une approche expérimentale

2015-36 Agnès Festré & Pierre Garrouste
Michael Polanyi's Economics: A Strange Rapprochement

2015-37 Agnès Festré & Pierre Garrouste
Wieser as a Theorist of Institutional Change