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**The Politics of Rationality in Early Neoliberalism:
Max Weber, Ludwig von Mises, and the Socialist Calculation Debate**

Marching under the diverse flags of classical liberalism, neoliberalism, libertarianism, paleoliberalism, or anarcho-capitalism, contemporary proponents of the Austrian School draw different lessons from their “founding fathers,” Ludwig von Mises and Friedrich A. von Hayek. Some celebrate Mises and Hayek’s work on central banking as the foundation for alternative monetary arrangements like cryptocurrencies. Others pull from their methodological writings on subjective value and limited knowledge to criticize the mathematical trajectory of neoclassical economics. But there is one position that not only unites the tradition’s various currents, but serves as their litmus test—namely, that the historical origins and ultimate stakes of the Austrian School lay in the “socialist calculation debate.”¹ From the Mises Institute in Alabama and the Adam Smith Institute in Britain to the Mont Pelerin Society’s global network of neoliberal intellectuals, Austrian School acolytes continuously return to the calculation debate to challenge the validity and viability of socialism.

¹ By “litmus test” I mean the centrality of the debate for the Austrian tradition’s leading figures. See for example, Don Lavoie, “Critique of the Standard Account of the Socialist Calculation Debate,” *The Journal of Libertarian Studies* 5/1 (Winter 1981): 41-88; Israel Kirzner, “The Economic Calculation Debate: Lessons for Austrians,” *The Review of Austrian Economics*, 2 (1988); Murray N. Rothbard, “The End of Socialism and the Calculation Debate Revisited,” *The Review of Austrian Economics*, 5 (1991); Murray N. Rothbard, “Ludwig von Mises and Economic Calculation under Socialism” in *The Logic of Action One: Method, Money, and the Austrian School* (Glos: Edward Elgar, 1997): 397-407; Hans-Hermann Hoppe, “Socialism: A Property or Knowledge Problem?” in *The Review of Austrian Economics*, 9 no. 1 (1996): 143-149; Peter J. Boettke, “Economic Calculation: The Austrian Contribution to Political Economy,” *Advances in Austrian Economics* 5 (1998): 131-58; and Jesús Huerta de Soto, *Socialism, Economic Calculation and Entrepreneurship* (Glos: Edward Elgar, 2010).

Initiated by Mises in 1920 and popularized by Hayek in the 1930's, the so-called calculation debate concerned the nature and function of economic value in a (hypothetical) socialist state that would, to greater or lesser extent, socialize the means of production, plan the distribution of goods, and either fix prices or abolish money altogether. At the end of WWI, these were pressing questions for ascendant workers' councils and socialist parties, which hoped to construct a "rationally planned economy" using wartime state planning—that is, to establish a planned economy (*Planwirtschaft*) using the techniques of the war economy (*Kriegswirtschaft*). Amidst the dissolution of the Hapsburg Empire and the emergence of Red Vienna, Mises drew from the work of Austrian School founder Carl Menger to argue that the basic premises of the socialist project were intellectually bankrupt. Absent the "price mechanism" of liberal capitalism, Mises contended, socialism lacked a theoretical foundation for rational calculation. In practice, it also portended a complete "abolition of the rationality of the economy."² Eventually Mises and Hayek received rebuttals from market socialist economists like Oskar Lange, Abba Lerner, and Fred M. Taylor. Yet the terms of debate were not set by socialists, but by their Austrian critics.

Most intellectual histories of neoliberalism locate its birth in the gathering of Mises, Hayek and other key figures—e.g., Wilhelm Röpke, Alexander Rüstow, Lionel Robbins and Milton Friedman—at the 1937 Walter Lippmann Colloquium and the 1947 founding of the Mont Pèlerin Society.³ However, the early neoliberals' methodological interventions predated these meetings by nearly two decades, and the "calculation debate" played a decisive role in building conceptual

² Ludwig von Mises, "Economic Calculation in the Socialist Commonwealth" in Friedrich von Hayek (ed.), *Collectivist Economic Planning: Critical Studies on the Possibilities of Socialism* (London: George Routledge & Sons, 1935); first published in Weber's own journal as Mises, "Die Wirtschaftsrechnung im sozialistischen Gemeinwesen," *Archiv für Sozialwissenschaft und Sozialpolitik* 47.1 (1920): 86-121.

³ See for example Philip Mirowski and Dieter Plehwe (eds.), *The Road from Mont Pèlerin: The Making of the Neoliberal Thought Collective* (Cambridge: Harvard University Press, 2009); Daniel Stedman Jones, *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberalism* (Princeton: Princeton University Press, 2013); Angus Burgin, *The Great Persuasion: Reinventing Free Markets since the Depression* (Cambridge: Harvard University Press, 2015).

and methodological schemas for their anti-socialist front. In this sense, the early Austrian interventions formed a trunk for different branches of neoliberalism's family tree.⁴ Long before the start of the Cold War and “rational choice theory,” then, the political battle between capitalism and socialism was framed, at the social scientific register, as a battle between rationality and irrationality.

This article offers an alternative historiography of early neoliberal thought by examining an underexplored contributor to the conception of rationality and the critique of planning in the socialist calculation debate: Max Weber. The calculation debate was not only based on Menger's marginalist axioms, but also on Weber's binaristic “real types” [*Realtypen*], such as “market exchange” vs. “state planning,” “formal rationality” vs. “substantive rationality,” and “economic value” vs. “political values.” As an economics lecturer in Vienna and Munich toward the end of WWI, Weber established these and other typologies, which then appeared in the second chapter of *Economy and Society* (1921). Because of his personal connections with and intellectual influence on certain members of the Austrian and Freiburg Schools, Stefan Kolev has referred to Weber as a (soon abandoned) neoliberal “father figure,” or *Übervater*.⁵ As this article will show, Weber's chapter on economic methodology relied on the cutting-edge concepts of Austrian marginalism to challenge the viability of socialist planning. In turn, it also served to guide Mises and Hayek's own critiques of socialism.

⁴ Among the historical accounts of neoliberalism that highlight the role of the early Austrian School are Johanna Bockman, *Markets in the Name of Socialism: The Left-Wing Origins of Neoliberalism* (Stanford: Stanford University Press, 2011); Quinn Slobodian, *Globalists: The End of Empire and the Birth of Neoliberalism* (Cambridge: Harvard University Press, 2018); Niklas Olsen, *The Sovereign Consumer: A New Intellectual History of Neoliberalism* (Palgrave Macmillan, 2019); and Janek Wasserman, *The Marginal Revolutionaries: How Austrian Economists Fought the War of Ideas* (New Haven: Yale University Press, 2019).

⁵ Kolev does not focus on Mises, but explores F.A. Hayek, Walter Eucken and Wilhelm Röpke's relationship to Weber. See Stefan Kolev, “The Abandoned *Übervater*: Max Weber and the Neoliberals,” *CHOPE Working Paper* No. 2018-21 (December 2018). For an important and related reading, see Nicholas Gane, “Sociology and Neoliberalism: A Missing History,” *Sociology*, 48/6 (2014): 1092-1106.

Much like Menger and Weber, Mises believed that the marginalist understanding of “market calculation” provided a model for the most effective and *formal* type of economic rationality, as opposed to the *value-laden* (ir)rationality of economic planning. Yet Mises also radicalized the Mengerian and Weberian conceptions of formal rationality, effectively reducing the meaning of “rationality” to market calculation and constraining the domain of politics writ large. Even if Mises’ premises were not adopted wholesale by Hayek, Robbins, or later generations of neoliberals, his binary framework has proven pivotal for their continuous attack on socialist “planning” to this day.

The German Historical School, the Austrian School, and the Politics of Method

A child of Wilhelmine and Bismarckian Germany, Max Weber studied law, philosophy and economics. In an era dominated by historicist methodologies, Weber was particularly drawn to the neo-Kantian philosopher Heinrich Rickert and the economic historians Wilhelm Roscher and Karl Knies. It was through Rickert that Weber first encountered the concept of the “ideal type,”⁶ and as H. Stuart Hughes observed, it was through Roscher and Knies that he encountered “a brand of economics that embraced virtually the whole field of social science and that was energetically committed to ethical judgments and practical applications.”⁷ Along with latter two historians, Weber became a member of the *Verein für Sozialpolitik* and the German Historical School—powerful research institutions with deeply political outlooks.⁸ Under the broad umbrella

⁶ See Rickert, *Die Grenzen der naturwissenschaftlichen Begriffsbildung* (Volume 1, 1896; Volume 2, 1902).

⁷ H. Stuart Hughes, *Consciousness and Society: The Reorientation of European Social Thought, 1890-1930* (New York: Vintage Books, 1977), 293-4.

⁸ This is where Weber witnessed the “troubling” intersection of economics (science) and politics (values). See Wilhelm Hennis, “The pitiless ‘sobriety of judgment’: Max Weber between Carl Menger and Gustav von Schmoller—The Academic Politics of Value Freedom” in *History of the Human Sciences*, 4/1, 1991, 34; see also Patrick Mardellat, “Max Weber’s Critical Response to Theoretical Economics,” *The European Journal of the History of Economic Thought* 16/4 (2009).

of *Staatswissenschaften*, these scholars produced culturally-specific knowledge applicable to the practice of state administration.⁹

Repulsed by his colleagues' conviction that political economy comprised an inherently normative mode of inquiry, Weber eventually sought to separate science from politics to the greatest extent possible. To this end he elaborated the meta-doctrine of *Wertfreiheit*, variously translated as "value freedom" or "value neutrality." With this concept Weber sought to draw an epistemological line between the domains of fact and value and a practical line between the vocations of science and politics. In this way, "value neutrality" characterized an approach to scholarship and pedagogy that acknowledges the inescapable role of values for choosing an initial set of research questions but that in turn completely brackets values from science's methodological makeup and argumentative conclusions.¹⁰ And it was likely Weber's commitment to *Wertfreiheit* that pulled him, slowly but steadily, from the German economic tradition to its emergent rival, the Austrian School.

In the 1870's, the German Historical School became embroiled in a methodological debate—dubbed the *Methodenstreit*, or "the dispute over method"—concerning the study of history, society and economics. The debate commenced when Austrian School founder Carl Menger attacked the German Historical School's leading figure, Gustav von Schmoller, for the unsystematic character of his historicist methodology. Schmoller responded with a counterattack on Menger's axiomatic approach to economic action, which he dismissed as a simplistic revision

⁹ For a discussion of Gustav von Schmoller and *Staatswissenschaft*, see Keith Tribe, *Governing Economy: The Reformation of German Economic Discourse, 1750-1840* (Cambridge: Cambridge University Press, 1988); and Tribe, *Strategies of Economic Order: German Economic Discourse, 1750-1950* (Cambridge: Cambridge University Press, 1995).

¹⁰ Among Weber's most pointed formulations of *Wertfreiheit* is the following: "Whenever the person of science introduces his personal value judgments, a full understanding of the facts *ceases*." Max Weber, "Science as Vocation" in *From Max Weber*, Gerth and Mills, eds. (London: Kegan Paul, 1947).

of the classical fiction: ahistorical “Economic Man.”¹¹ Menger replied in turn with pamphlets titled *Errors of Historicism in German Economics* (1884), written in the form of letters to a friend. Not only did these papers mock the Historical School; they also “ruthlessly demolished Schmoller’s position,” at least according to Friedrich von Hayek.¹²

In *Principles of Economics* (1871), Menger introduced an approach that was later called “marginal analysis.” Through logical axioms or “principles,” Menger explained how formerly “non-economic” objects take on an “economic” character. His methodological writings won over his first disciples, Eugen Böhm von Bawerk and Friedrich von Wieser, who helped pioneer a distinctly “Austrian” method against Schmoller’s circle of influence. While Wieser coined the concept of “marginal utility” [*Grenznutzen*] to characterize Menger’s theory of value as *the* basis of the Austrian School,¹³ Böhm-Bawerk used Menger’s psychologistic formalism as weapon of combat against Marx’s labor theory of value.¹⁴ Together, the Austrians helped pioneer a non-historical, formalist approach to economic theory with a “revolutionary” thesis about the origin of economic value.¹⁵ Contra the German Historical School, Marxist economics, and classical English political economy, Menger argued that there is nothing particularly historical, material, or *objective* about economic value. Rather, there is something radically *subjective* about it—a subjectivism and formalism that methodologically eschewed questions of (collective) value and that became increasingly important for Weber’s work on economics, especially in the last decade of his life.

¹¹ See Fritz Ringer, *The Decline of the German Mandarins: The German Academic Community, 1890-1933* (Wesleyan University Press, 1990), 144-46; see also Tribe, *Governing Economy*, 74.

¹² Friedrich Hayek, “Introduction” in Carl Menger, *Principles of Economics*, Hayek, ed. (New York: The Free Press, 1871/1950), 24.

¹³ Friedrich von Wieser, “The Austrian School and the Theory of Value,” *The Economic Journal*, Volume 1, 1891.

¹⁴ See Eugen Böhm von Bawerk, *Karl Marx and the Close of his System* [1896] and Rudolf Hilferding *Böhm-Bawerk’s Criticism of Marx* [1904], ed. Paul Sweezy, (New York: Augustus M. Kelley, 1949); see also Wasserman, *The Marginal Revolutionaries*.

¹⁵ See Ringer, *The Decline of the German Mandarins*, 151.

Weber's Calculation: The Formal Rationality of Economic Order

Weber considered the crown jewel of science to be its *formal* rationality—i.e., the rational *qua* quantifiable or generalizable character of its knowledge. For Weber, the logic of scientific research possessed the same *form* as the “technical” and “economizing” rationality outlined by Menger. He thus characterized economic, technical, and scientific rationality as possessing a similar *type* of rationality: “‘Rational’ technique is a choice of means which is consciously and systematically oriented to the experience and reflection of the actor, which consists, at the highest level of rationality, in scientific knowledge.”¹⁶ Given this conception of rationality and a shared commitment to “value neutrality,” it not surprising that Weber increasingly affirmed the Austrian model—over and against the German Historical School with which he is normally associated.

Weber’s most explicit approval of the Austrian School came in “Marginal Utility Theory and ‘The Fundamental Law of Psychophysics’” (1908), an influential essay praised by Eugen von Böhm-Bawerk, Friedrich von Hayek, Lionel Robbins, and George Stigler, among others.¹⁷ In this methodological intervention, Weber distinguished marginal value theory from other methods that rooted “economic rationality” in biological traits or “psychophysical” laws.¹⁸ But even if Weber was more “reluctant to attribute universality to the assumptions of economic theory, including

¹⁶ Max Weber, *Economy and Society*, Roth and Wittich, eds. (Berkeley: University of California Press, 1921/1978), 65.

¹⁷ Max Weber, “Marginal Utility Theory and ‘The Fundamental Law of Psychophysics,’” translated by Louis Schneider, *Social Science Quarterly* 56/1, 1908/1975: 21-36. See also Stefan Kolev, “The Weber-Wieser Connection: Early Economic Sociology as an Interpretative Skeleton Key,” *The Center for the History of Political Economy Working Paper Series* No. 22 (2017).

¹⁸ “[B]y and large, the most general hypotheses and assumptions of the ‘natural sciences’ (in the usual sense of the term) are the most irrelevant ones for our discipline. But further, and above all, precisely as regards the point which is decisive for the peculiar quality of the questions proper to our discipline: In economic theory (‘value theory’) we stand entirely on our own feet.” Max Weber, “Marginal Utility Theory,” 31. Nicolo Giocoli describes this movement as the “escape from psychology,” though he does not mention Weber. See Nicola Giocoli, *Modeling Rational Agents: From Interwar Economics to Early Modern Game Theory* (Edward Elgar, 2003), 15.

rationality,” than Austrian economists, this was true in a fundamental but not a practical sense.¹⁹ Although Weber believed that economic life is “ontologically irrational,”²⁰ as Schumpeter later echoed, he considered it the mission of economic theory to apply ideal types *as if* the opposite were the case.

If Weber countered interpretations of economic rationality as a biological fact, he nonetheless made it a typological “pole” against which all existing practices could be measured. In this sense Weber concurred with Menger that economic theory must accept and operate upon an assumption of economizing and instrumentalizing rationality, even if he also saw it as the role of economic sociology to inquire into the cultural and historical variability of this construct. Weber likewise favored Menger’s praxeological approach to “the human economy” over Schmoller’s “national economy.” “Specifically economic motives,” Weber wrote, “operate wherever the satisfaction of even the most immaterial need or desire is bound up with the application of scarce material means.”²¹ By linking together methodological individualism, value neutrality, and a revised concept of *homo oeconomicus* as the paradigmatic foundations of the discipline, Weber stood firmly on the Austrian side of the *Methodenstreit*.²²

While teaching at the University of Vienna in 1918, Weber became good friends with the younger Austrian economist Ludwig von Mises. Having already placed “value neutrality” (*Wertfreiheit*) at the center of German-language debates, Weber led the charge in a battle over

¹⁹ Milan Zafirovski, “Max Weber’s Analysis of Marginal Utility Theory and Psychology Revisited: Latent Propositions in Economic Sociology and the Sociology of Economics” in *History of Political Economy*, 33/3, Fall 2001. Stefan Kolev notes that, though Mises called Weber a “great mind” and “genius,” he did not consider Weber a contributor to economic theory, and thus reduced him to a historian who “did not realize that there is a science that aims at universally valid propositions.” Kolev, “The Abandoned Übervater,” 3.

²⁰ Schumpeter, “Max Weber’s Work” in Richard Swedberg, ed., *Joseph A. Schumpeter: The Economics and Sociology of Capitalism* (Princeton: Princeton University Press, 1991), 220.

²¹ Max Weber, *The Protestant Ethic and the Spirit of Capitalism* (London: Routledge, 1905/1992), 65.

²² Weber was among the most active “young rebels” in his open confrontation with the preceding generation, initiating the “Werturteilsstreit” at the 1909 Vienna Meeting. Here he also found common cause with Austrian economists like Wieser. See Kolev, “The Weber-Wieser Connection,” 6.

value judgements (*Werturteilstreit*) that nearly tore the *Verein* apart. And Mises stood firmly on his side. Together in Vienna, Weber instructed Mises: “You do not like the *Verein für Sozialpolitik*; I don’t like it much either. But the only remedy is for us to take an active part in the work of the society.” Mises took the message to heart, took the group under his wing, and took the lead in discussing “problems relating to the theory of value” with members of the *Verein*.²³

Of all the posthumously published material in *Economy and Society* (1921), which soon shaped the trajectory of entire disciplines, Weber’s contribution to contemporary economic theory was concentrated in the second chapter.²⁴ Though comparatively little known, it became the neoliberals’ chapter of choice. Mises and Hayek found in Weber’s scientifically hypostatized “real types” [*Realtypen*] fitting concepts for their critiques of state planning. As revolutionary movements sprouted up across Europe, a binary choice seemed to be at hand: capitalism vs. socialism or, in Weber’s terminology, “market economy” vs. “planned economy.”

For Weber, “ideal” or “real” types are revisable heuristics, not axiomatic principles or assumed realities. But if typologies are the method to study the (relative) rationality of individual conduct, any interpretation will depend on how the line between the rational and the irrational is drawn. Here is one way in which Weber drew the definitional line:

The construction of a purely rational course of action in such cases serves the sociologist as a type (ideal type) which has the merit of clear understandability and lack of ambiguity. By comparison with this it is possible to understand the ways in which actual action is influenced by irrational factors of all sorts, such as affects and errors, in that they account for the deviation from the line of conduct which would be expected on hypothesis that the action were purely rational.²⁵

²³ Recalling his conversation with Weber, Mises notes that “I followed his advice. Beginning in 1919, I was on the board of directors, and from 1930 I also served on the board of governors. I promoted the discussion of problems relating to the theory of value.” Mises, *Monetary and Economic Policy Problems Before, During, and After the Great War* (Indianapolis: Liberty Fund, 2012).

²⁴ See Guenther Roth, “The Near-Death of Liberal Capitalism: Perceptions from Weber to the Polanyi Brothers,” *Politics and Society*, 31/2 (2003), 270.

²⁵ Weber, *Economy and Society*, 108.

But what kind of conduct would be (however hypothetically) “purely rational”? All roads lead back to Weber’s four-part typology of social action in the first chapter of the manuscript: *tradition-oriented*, *affectually-oriented*, *value-oriented*, and *instrumentally-oriented* action.²⁶ Yet implicit in Weber’s taxonomy is a “hierarchy of increasing voluntarism,” and it is clear to all readers that “purely rational” action sits at the top of this pyramid—that is, in an ideal type of instrumentality [*Zweckrationalität*].²⁷ Like the introduction to his *Protestant Ethic*, cited above, *Economy and Society* also depicted rationality in such a developmental prism, with Western (capitalist) modernity at the peak.

The manuscript’s second chapter follows the example of Menger and Wieser, and it maps onto Mises’ later methodological statements. Here Weber explained that economic action is the primary and most conscious form of “rational social action,” and that “the definition of economic action must be as general as possible.” Weber likewise provided a tautological definition of the “economic” as a rational *desire* for utilities, based only on a *subjective* meaning which “alone defines the unity of the corresponding [economic] processes.”²⁸ Ideal types may span a spectrum of the rational and the irrational, but “in economic theory they are always rational.”²⁹ “‘Economic action’ [*Wirtschaften*],” Weber elaborated, “is any peaceful exercise of an actor’s control over resources which is in its main impulse oriented towards economic ends. ‘Rational economic action’ requires instrumental rationality in this orientation, that is, deliberate planning.”³⁰ Yet following Austrian price theory, *conscious*, *deliberate* and *rational* “planning” is already (and

²⁶ Weber, *Economy and Society*, 108.

²⁷ Yet “in the great majority of cases,” as Weber notes, “actual action goes on in a state of inarticulate half-consciousness or actual unconsciousness of its subjective meaning... In most cases his action is governed by impulse or habit.” Weber, *Economy and Society*, 21.

²⁸ “Action will be said to be ‘economically oriented’ so far as, according to its subjective meaning, it is concerned with the satisfaction of a desire for ‘utilities’ (*Nutzleistungen*).” Weber, *Economy and Society*, 63-4.

²⁹ Weber, *Economy and Society*, 21.

³⁰ Weber, *Economy and Society*, 63.

only) subjective rather than collective, already individual rather than institutional. It is less on a classical basis of self-interest than one of *subjective desire* that actors calculate value and order preferences in a “rational” way. Economic rationality and market rationality are equivalent; political and socialist rationality fall outside the gambit of scientific exposition.

The second chapter of *Economy and Society* thus took the premises of marginalist theory for granted and used them to build a binary typology of formal rationality [*formelle Rationalität*] and substantive rationality [*materielle Rationalität*]. While the former is inherently “economic” and “technical,” the latter is “non-economic” and “political” in orientation.³¹ Formal rationality is specifically defined as *quantitative calculation or capital accounting*.³² Money and profit are based on such formal calculability—not the substantive rationality of a particular (socialist) worldview. By definition, capitalist exchange is likewise formal rather than substantive because it relies on purely monetary “means” without predetermined “ends.”³³

By itself, Weber explained, formal rationality “does not tell us anything about the actual distribution of goods.”³⁴ Substantive rationality, by contrast, is based on “value-postulates” that determine the distribution of goods and resources. Based on criteria other than capital accounting and market calculation, *substantive* rationality is tendentially or perhaps even inherently political.³⁵ Individuals or groups may value social justice and equality, or state and military power, for instance, and thereby act upon substantive rationality. Yet these criteria are only significant as

³¹ “Economic theory, the theoretical insights of which provide the basis for the sociology of economic action, might (perhaps) be able to proceed differently.” Weber, *Economy and Society*, 69.

³² Weber juxtaposes “the formally most perfect rationality of capital accounting” with all “substantive postulates.” Since money is the “most rational” means to “steer” economic activity, formal rationality is “optimized” by this calculable medium of exchange.

³³ For the definition of profit as non-substantive, see Weber, *Economy and Society*, 90.

³⁴ Weber, *Economy and Society*, 108.

³⁵ “Formal and substantive rationality, no matter by what standard the latter is measured, are always in principle separate things, no matter that in many (and under certain very artificial assumptions even in all) cases they may coincide empirically.” Weber, *Economy and Society*, 108.

“bases from which to judge the *outcome* of economic action,” since their “approaches may consider the ‘purely formal’ rationality of calculation in monetary terms as of quite secondary importance or even as fundamentally inimical to their respective ultimate ends.”³⁶ Revolutionary movements are substantive in orientation, too, because political (non-economic) *values* are placed above market (economic) *value* in assessing and determining possible courses of action.

The division between formal and substantive rationality parallels Weber’s more famous distinction between instrumental rationality [*Zweckrationalität*] and value rationality [*Wertrationalität*]. But whereas the former are defined as “ideal types” [*Idealtypen*], his second chapter posits “real types” [*Realtypen*] to construct capitalism and socialism as opposing economic orders.³⁷ Each comprises its own “rational” features; and each produces its own kinds of “irrational rationalities.”³⁸

Capitalism prioritizes *Zweckrationalität* through private ownership of property and private management of “free” labor. In the production process, Weber explains, these conditions yield the “most technically rational” organization of training, supervision, incentives, and standardization (e.g., Taylor system). As structures of power, they also provide “the most rational” way of adjusting to shifts in market situations.³⁹ Analytically, “market rationality” is “a force which promotes the orientation of the economic activity of strata interested in purchase and sale of goods on the market to the market situations.”⁴⁰ Historically, the capitalist “voluntary market organization” is set against “the primitive, irrational forms of regulation,” where status and tradition have the “rationality-impeding effect” of limiting “market freedom” and “the

³⁶ Weber, *Economy and Society*, 86.

³⁷ Weber, *Economy and Society*, 109.

³⁸ Weber, *Economy and Society*, 84.

³⁹ Weber, *Economy and Society*, 138.

⁴⁰ Weber, *Economy and Society*, 84.

marketability of goods.”⁴¹ Once again, Weber’s distinction is constructed around the “pure” or “modern” type of economic order embodied by Western capitalism.

Socialism, by contrast, entails the “appropriation of jobs or the existence of rights to participate in management.” This comes with significant costs, Weber claimed, as “it is generally possible to achieve a higher level of economic rationality if the management has extensive control over the selection and the modes of use of workers.” Private ownership is more rational, in other words, even if market rationality may “produce technically irrational obstacles as well as economic irrationalities.”⁴² Weber offered two examples for how market orders can engender irrationalities of their own: the domination of workers and the “substantive” effect of “outside” interests. “The fact that the maximum of *formal* rationality in capital accounting is possible only where the workers are subjected to domination by entrepreneurs,” wrote Weber, “is a further specific element of *substantive* irrationality in the modern economic order.”⁴³ The domination of workers is thus irrational only if one presupposes a “substantive” perspective rather than a purely “formal” (and thus scientific) approach to the matter. If and when management or “speculative interests” become “sources of the phenomena known as the ‘crises’ in the market economy,” observed Weber, then market rationality may also drive capitalism to more systemic irrationalities. His point, however, is not nearly as Marxist as it might seem. For here Weber only meant: “The fact that such ‘outside’ interests can affect the mode of control over managerial positions, even and especially when the highest degree of *formal* rationality in their selection is attained, constitutes a further element of *substantive* irrationality specific to the modern economic order.”⁴⁴ Formal rationality, as Mises

⁴¹ Weber, *Economy and Society*, 84.

⁴² Weber, *Economy and Society*, 138.

⁴³ Weber, *Economy and Society*, 138-140.

⁴⁴ Weber, *Economy and Society*, 140.

later noted, can only be deemed irrational from a *moral* (and thus unscientific) perspective external to its own logic.

The Socialist Calculation Debate and the “Rationality” of Early Neoliberalism

If neoliberalism began as a movement to revise and reinvent liberalism at the moment of its historic crisis, Mises’ anti-socialist intervention was among the first properly “neoliberal” responses to it. Following WWI, Mises was part of a trans-disciplinary sea change in social scientific epistemology. Against German Historical School, the task of economic science was now to formalize (so as to potentially stabilize) human conduct. Methods and models were increasingly placed above research questions and the detailed knowledge relevant to answer them. And Carl Menger was among the first to base scientific method on the idea of scarcity. In pursuit of a uniform theory of price—covering phenomena like interest, wages, and rent—Menger displaced the structural analysis of historical dynamics and recentered it on subjective valuations of scarce economic goods. Subjective preferences are ranked according to relative importance for a given individual; in turn, the value (price) of goods and labor are derived from their overall desirability and scarcity. Less a philosophical anthropology of “maximization” than one of “economization,” Menger recast human action in terms of *methodological subjectivism*.⁴⁵ To this day, economists of various stripes maintain that Menger’s “Law” of marginal utility “resolved” the paradox of value in classical political economy.

Mises’ essay on “Economic Calculation in the Socialist Commonwealth” appeared in the 1920 issue of *Archiv für Sozialwissenschaft und Sozialpolitik*, the journal Weber co-founded and in which “The Protestant Ethic” first appeared as two essays. Unlike Mises’ later polemical pieces,

⁴⁵ Schumpeter drew from Menger in coining the term *Methodological Individualism* (1909), even though his approach straddled the German Historical School and the Austrian School.

this early essay garnered wide interest and serious discussion from friends and foes alike. Much like Weber, Mises' essay made Otto Neurath into the socialist caricature of his critique. Neurath was a Vienna Circle positivist, a physicalist, and a believer in "the essential rationality of 'modern man' and his ability purposefully to order the world in a socially optimal fashion."⁴⁶ In the attempt to secure optimal socio-economic conditions, Neurath believed that centralized planning offered a superior form of rationality to market calculation. His proposal for a planned socialist economy called for the abolition of money, a prevalent but by no means unanimous position among socialist thinkers and politicians. Though Neurath's idiosyncratic position was vastly different from other participants in the debate, such as Karl Polanyi and Felix Weil, Mises made him stand in for every kind of "socialism," as the "pure type" against which to do battle.

Because he struck his unassuming adversary first, Mises was afforded some latitude in his framing definitions. The essay did not elaborate but rather assumed the axiomatic principles and "value neutral" veneer of the Austrian School. At the same time, Mises pushed its *formal* features to their logical and political limits—a *scientific* demonstration of socialism's *practical* impossibility. Proceeding from Menger's own distinctions, the essay differentiated goods of higher and lower order; distinguished "the economic" from the "extra-economic"; equated marginal value theory with calculation *tout court*; asserted money as necessary for economic calculation and exchange; and questioned whether socialism could function absent these conditions. By answering the latter question in the negative, Mises radicalized Mengerian epistemology. At the core of human behavior, he claimed, lay a formally rational constant: the *economic* orientation and *economizing* capacities of "man." That is to say, individuals cannot but "economize" when evaluating the real or imagined objects of their action according to their *subjective* value. Though

⁴⁶ See Otto Neurath, *Economic Writings: Selections 1904-1945*, Uebel and Cohen, eds. (Springer, 2004).

possible *in principle*, to deny this would be to not act at all. The “non-acting man,” Mises explained, effectively suspends human rationality, thereby reducing humankind to a “plant-like” status and portending his status as a “suicide” [*Selbstmörder*].⁴⁷

Because socialism discards the price mechanism, Mises argued, it must result in self-abolition. His axiomatic equation of “economy” with “rationality” and “planning” with “irrationality” paralleled the claims of Max Weber, albeit with less subtlety. As an *a priori* rationalist and disciple of Menger, Mises did not believe such principles needed much hermeneutic or contextual qualification. “Historically,” as Mises had already suggested in *Theory of Money* (1912), “*human rationality is a development of economic life.*”⁴⁸ Absent “the economy,” Mises now asked, could there be “any such thing as rational conduct at all, or, indeed, such a thing as rationality and logic in thought itself?” Not in the strict sense, he replied, for rationality and economy are co-constitutive. Rational conduct is rooted in economic calculation, and “without economic calculation there can be no economy.”⁴⁹ By “economy” Mises meant monetary economy, and by monetary economy he meant *market* economy.⁵⁰ If Neurath’s model for central planning and *in natura* exchange represented socialism’s typological core—as Weber and Mises assumed—then a socialist economy is in fact no economy at all.⁵¹ “Socialism” implies, in Mises’ famous line, “the abolition of rational economy.” Or, in a more direct translation of the German

⁴⁷ See Mises, *Nationalökonomie: Theorie des Handelns und Wirtschaftens* (Editions Union Genf: 1940), 74.

⁴⁸ Mises’s 1912 book on monetary theory, praised by Weber as the finest treatment of its subject, only suggested this in passing. Mises, *The Theory of Money and Credit* (New Haven: Yale University Press, 1912/1953), 48. It was not until his 1920 article and 1922 book that Mises asserted the mutual constitution of rationality and economy, while also asserting historical development as its quasi-evolutionary basis.

⁴⁹ Mises, “Economic Calculation in the Socialist Commonwealth,” 18.

⁵⁰ Like the Austrian School, Walter Eucken and the Freiburg School ordoliberalists also believed economies were characterized by “the market form” long before the historical emergence of capitalism.

⁵¹ “In a socialist state, wherein the pursuit of economic calculation is impossible, there can be—in our sense of the term—no economy whatsoever.” Mises, “Economic Calculation in the Socialist Commonwealth.”

original: “Socialism is the abolition of the rationality of the economy” [*Sozialismus ist Aufhebung der Rationalität der Wirtschaft*].⁵²

So began the so-called “socialist calculation debate,” a term Hayek popularized a decade later. Though hardly “value neutral” as he claimed, Mises’ scientific strategy was well designed for the purposes of early neoliberalism. The “modern” theory of rationality qua market calculation was already half a century in the making and, by the turn of the century, orthodox Marxists and reform-minded socialists had foregrounded the *rationality* of their programs as well. For the left, the question was what kind of rational framework could be intellectually designed and institutionally implemented so as to achieve ends like meeting basic needs, securing freedom and equality, or overcoming the “irrational rationality” of capitalism. For the neoliberals, the question was how to reestablish the legitimacy and renovate the functionality of free markets.

In this way Mises provided early neoliberalism with a scientific strategy for flanking socialism—namely, imposing a binary frame on one’s opponents. But it was Hayek who soon perfected Mises’ maneuver. In 1931 Hayek joined the LSE economics faculty at Lionel Robbins’ invitation. Upon arrival, Hayek was surprised to find that British students were largely market socialists working on neoclassical assumptions. The young Ronald Coase, for instance, melded neoclassical methods with a strong political predilection for socialism.⁵³ The question of formal calculation was alive and well in Britain, though the methodological landscape was tilting in the socialists’ direction. Hayek thus took it upon himself to show his students and colleagues the

⁵² Mises, “Economic Calculation in the Socialist Commonwealth,” 23.

⁵³ In 1930, the future Chicago School economist Ronald Coase took a class on price theory with Arnold Plant at the LSE. Coase did not find a way to pair his socialist sympathies with Plant’s approach, but he did come to realize that a corporate firm was a “little planned society.” Bockman notes that, “[e]merging from the debates in Vienna about centralized planning versus the market, Hayek found the socialist students at LSE espousing free markets and socialism, which sounded familiar to the contemporary German market socialists,” such as Landauer and Heimann. “In response to their embrace of market socialism,” Bockman rightly observes, “Hayek repacked older Central European debates for his new audience.” Bockman, *Markets in the Name of Socialism*, 30.

light—and logical conclusions—of *market* rationality. Seen in this light, the road to socialism was a road to irrationality, to Western civilization’s self-abolition.

Hayek’s first moves were telling. In 1933 he penned a memorandum, “Nazi-Socialism,” which argued, as the title indicates, that Nazism represents a “genuine socialist movement.” Hayek’s reasoning returned to the epistemic roots of the Austrians, but added a concern about the *political* and *cultural* character of the problem. “Socialism and Nazism,” he explained, “both grew out of the antiliberal soil that the German Historical School economists had tended.”⁵⁴ The significance of Menger’s battle with the Germans, it turns out, was about more than the pursuit of objective methods or scientific truth. For Hayek, this was as much about economic methodology as it was cultural politics. In Bruce Caldwell’s elaboration on Hayek’s thinking, “though the German Historical School economists were conservative imperialists, cheerleaders for a strong German Reich and opponents of German social democracy... they also were the architects of numerous social reform policies.”⁵⁵ Defending economic liberalism from welfare state reforms made the question of socialist calculation into Hayek’s own *Methodenstreit* 2.0—a new debate with higher, even “civilizational” stakes.⁵⁶

In a related move, Hayek borrowed Weber and Mises’ strategy of running “the rational” through the binary of “markets” and “planning.” According to Stefan Kolev, Weber’s unacknowledged influence on Hayek constitutes a “curious relation”: though Hayek had missed much of Weber’s time in Vienna between 1917-18 due to the former’s participation in WWI, he “intended to follow Weber to Munich as student after the war”—a plan that ultimately failed to

⁵⁴ Caldwell, “Introduction” in Hayek, *The Road to Serfdom*, 6.

⁵⁵ Caldwell rightly adds that “Bismarck embraced these reforms while at the same time repressing the socialists; indeed, the reforms were designed at least in part to undermine the socialist position and thereby strengthen the empire.” Caldwell, “Introduction” in Hayek, *The Road to Serfdom*, 4.

⁵⁶ See for example Erwin Dekker, *The Viennese Students of Civilization: The Meaning and Context of Austrian Economics Reconsidered* (Cambridge: Cambridge University Press, 2016).

materialize.⁵⁷ In the 1930's, Hayek now advanced Weber and Mises' argument about socialism's irrational consequences in a modified form. Socialist planning may not collapse *by necessity*, he suggested, but it will *almost surely* fail due to its inferior form of economic rationality.

Hayek made this argument in an edited volume entitled *Collectivist Economic Planning: Critical Studies on the Possibilities of Socialism*, published a decade before his anti-socialist bestseller, *The Road to Serfdom* (1944). Designed to dissuade socialist economists in the English-speaking world, Hayek's volume included essays by proponents and critics of market socialism. Yet each chapter assumed Mises' basic premise: namely that the market (price) mechanism is a necessary condition for economic rationality. Only through market exchange, in other words, is economic valuation *calculable, predictable, and possible* in the first place. To support his own position, Hayek leveraged an unlikely ally in Russian economist Boris Brutzkus, as well as the second chapter of Max Weber's *Economy and Society*, as discussed above:

Like Professor Mises, [Max Weber] insisted that the *in natura* calculations proposed by the leading advocates of a planned economy could not possibly provide a rational solution... and that the wastes due to the impossibility of rational calculation in a completely socialized system might be serious enough to make it impossible to maintain alive the present populations of the more densely populated countries.⁵⁸

Alongside Mises, Hayek claimed, Weber and Brutzkus had *independently* arrived at the same conclusion: "the impossibility of a rational calculation in a centrally directed economy from which prices are necessarily absent."⁵⁹

⁵⁷ On Weber's Viennese influence and Hayek's Munich plans, Kolev writes: "It has been adequately portrayed as a riddle... [regarding] 'the negligence with which Hayek later ignored Weber.' Regarding Hayek's cursory references to Weber, a prominent Weber scholar has characterized Hayek's refusal to acknowledge Weber's understanding of emergence and of spontaneous orders as 'absurd' and 'polemical.' Thus the fact that Weberian notions like the interdependence of orders are omnipresent in the Hayek-Eucken-Röpke generation's works may well also be attributed to the role of intermediaries and transmitters like Wieser and Mises." Kolev, "The Weber-Wieser Connection," 19-20.

⁵⁸ Hayek, *Collectivist Economic Planning*, 34.

⁵⁹ Hayek, *Collectivist Economic Planning*, 35. See also Caldwell, "Introduction" in Hayek, *Socialism and War*, 47.

Few have recognized just how foundational this “debate” was for Hayek’s overall trajectory. Hayek famously concluded that socialism’s danger lies in the attempt to substitute a political for an economic form of rationality, or to “replace the impersonal and anonymous mechanism of the market by collective and ‘conscious’ direction of all social forces to deliberately chosen goals.”⁶⁰ In addition to *The Road to Serfdom*, however, the calculation debate also inspired the methodological writings that would later win him the Nobel Memorial Prize in Economic Sciences—in particular, his essays on “Economics and Knowledge” (1936) and “The Use of Knowledge in Society” (1945).⁶¹ Despite Hayek’s qualms with his colleague’s apriorist epistemology, he explained that Mises not only personally disabused him of socialism, but also provided him with a model for its critique: “[Mises] wrote that article, and then particularly a book [*Socialism*] which had the decisive influence of curing us [of our infatuation with socialism], although it was a very long struggle... The question of why Mises’ argument hadn’t persuaded most other people became important to me, so I became anxious to put it in a more effective form... without accepting his apriorism.”⁶²

Lionel Robbins was also among the early neoliberals for whom Mises’ intervention proved decisive.⁶³ In his one-sentence definition of economic science, Robbins famously wrote that the increasingly formalized discipline “studies human behaviour as a relationship between ends and

⁶⁰ Hayek, *The Road to Serfdom* (London: Routledge, 1948/2001), 20-21.

⁶¹ See Hayek, *Individualism and Economic Order* (Chicago: University of Chicago Press, 1948); and Bruce Caldwell, “Hayek’s Transformation,” *History of Political Economy* (1988) 20/4: 513-541.

⁶² Hayek explained that “you can’t claim, as Mises does, that the whole theory of the market is an a priori system, because of the empirical factor which comes in that one person learns about what another person does. That was a gentle attempt to persuade Mises to give up the a priori claim, but I failed in persuading him... I’ve been very much guided by him: both the interest in money and industrial fluctuations and the interest in socialism comes very directly from his influence.” Hayek in “Nobel Prize-Winning Economist Friedrich A. von Hayek,” interviewed by Graver, Leijonhufvud, Rosten, High, Buchanan, Bork, Hazlett, Alchian, and Chitester (Oral History Program, University of California Los Angeles, 1983).

⁶³ See also Albert Hunold, “How Mises Changed My Mind,” *The Mont Pelerin Quarterly* 3/3 (October 1961), 16.

scarce means.”⁶⁴ As is well known, Robbins’ (re)definition of economics embraced and operationalized by postwar economists, including Paul Samuelson’s *Foundations of Economic Analysis* (1947).⁶⁵ One less familiar feature of his succinct definition, however, is the footnote attached to it, which references Menger’s *Principles* and Mises’ *Socialism*. An avid reader of German-language economics, Robbins’ book and thinking was also shaped by Max Weber’s work—in particular, his account of value neutrality and social scientific objectivity. Throughout this book, Robbins split economics from politics in Weberian spirit. But it was Mises, again, who sought to press the distinction to its limits: “we may say that economics is apolitical or nonpolitical, although it is the foundation of politics and of every kind of political action. We may furthermore say that it is perfectly neutral with regard to all judgments of value, as it refers always to means and never to the choice of ultimate ends.”⁶⁶ Much of Mises, Hayek, and Robbins’ maneuvers were made possible by Weber’s partition of “rationality,” a formalistic binary that ran through and beyond the socialist calculation debate.

Conclusion

Weber may have ultimately been a pawn in the long-game of neoliberalism. Yet his “value neutral” partition of capitalist markets vs. socialist planning helped guide the Austrians’ interwar interventions, which in turn shaped the early neoliberals’ methodological and political strategies.⁶⁷

⁶⁴ Lionel Robbins, *An Essay on the Nature and Significance of Economic Science* (London: Macmillan, 1932), 15.

⁶⁵ Roger E. Backhouse and Steven G. Medema, “Defining Economics: The Long Road to Acceptance of the Robbins Definition,” *Economica* 76 (2009): 805-820.

⁶⁶ Mises, “Economics and Judgements of Value” in *Human Action: A Treatise on Economics* (Indianapolis: Liberty Fund, 1949), 881. See also João Rodrigues, “The Political and Moral Economies of Neoliberalism: Mises and Hayek,” *Cambridge Journal of Economics* 37 (2013): 1001-17.

⁶⁷ Kolev writes that “Weber’s economic sociology was largely disregarded by Mises. It is quite possible that this verdict discouraged Hayek, Eucken and Röpke,” thus explaining the neoliberals’ “increasing disregard” for Weber over time. He adds that “The attitude to Weber of the Hayek-Eucken-Röpke generation is to a certain extent comparable to their treatment of Mises. Mises was certainly a formative scholar for the younger generation, but their attitude to him was anything but free from conflicts.” Kolev, “The Abandoned Übervater,” 19-20.

The Austrian neoliberals split *formal* economic value from *substantive* political values, with the intended effect of preventing the spread of “Keynesian and Marxist planning.”⁶⁸ Modeled on the *Methodenstreit*, the Austrian side of the calculation debate redefined the rationality of markets against the irrationality of the socialists who wished to abolish them. Amidst the crisis of liberalism and the rise of Keynesianism, the Austrians thus constructed anti-socialist premises and “counter-revolutionary” strategies—premises and strategies that informed other early neoliberals even before the intellectual gatherings in Paris and Mont Pèlerin.⁶⁹ Through these social scientific interventions, both the early neoliberals and their contemporary disciples split economics (*qua* market rationality) from politics (*qua* social justice) so as to place the latter beyond the epistemological pale.

⁶⁸ Hayek, quoted in Ronald M. Hartwell, *A History of the Mont Pèlerin Society* (Indianapolis: Liberty Fund, 1995).

⁶⁹ In 1919, Mises harkened back to the rationalistic ideals of 1789—not in the name of a socialist revolution, but a liberal one that aimed at a form of “rational politics” and “rational economy” [*die rationale Politik und die rationale Wirtschaft*]. See Mises, *Nation, Staat und Wirtschaft* (Wien: Manzsche Verlag, 1919), 175.