AUSTRIAN THINKING ON INTERNATIONAL ECONOMICS

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by H. Visser

Introduction

The epithet 'Austrian' in 'Austrian economics' is applied to the work of economists as far apart in time as Carl Menger, whose *Grundsätze der Volkswirtschaftslehre* ('Principles of Political Economy') first appeared in 1871, and Ludwig Lachmann, Israel Kirzner and Murray Rothbard, writing a century or more later. It would be vain to attempt to define 'Austrian economics' by a set of beliefs, commonly held by its adherents. There is much to be said for following Zuidema (1987), who prefers to speak of 'styles' rather than of 'schools'. This implies that there need be no clear-cut dividing lines between Austrians and the rest of the economics fraternity and that not all those dubbed 'Austrian' necessarily are 'typically' Austrian all of the time. There certainly seems to be a style of reasoning that can be seen as specifically Austrian. Some of the components of a 'style' mentioned by Zuidema are:

- there is a set of values, of ideals which seek expression;
- there is an inspiring master who looks at values from a fresh angle and who shows the way to the realisation of those values;
- there is a combination of values and techniques that permits of tackling some problems but not of others;
- the new combination of values and techniques causes unforeseen problems that seek solution. It is a research programme. A style is not stationary but evolves in a certain direction.

What sets the concept of 'style' apart from that of a 'school' in a loose sense, according to Zuidema (1987 p. 199), is, firstly, the aspect of values and ideals and, secondly, a relationship between the theoretical approach and the preferred organisation of society.

Austrian economics certainly shows some of these components. Austrians share a set of values, putting the protection of individual liberty against the encroachment by the state at the top of their agenda. Coercion by the State should be confined to the enforcement of a number of rules. After the founding fathers, Menger, Von Wieser and Von Böhm-Bawerk, inspiration has been provided by Von Mises and Von Hayek. Their contributions were above all in monetary theory and trade cycle theory. As for techniques, Austrians show a predilection for deductive, *a priori* reasoning, which shows up in their subjectivist value theory in particular. They firmly believe in *methodological individualism*, i.e., in the words of Haberler (1951 p. 42), the principle that social phenomena and forces must be defined and interpreted in terms of interrela-
International economics never occupied the centre stage in Austrian economics. Anathesis has generally been confined to micro-economic frameworks, though not pertaining to the topic (proposals for exchange). In 1937, but a kernel had already been present.

Hayek, O.C. p. 144. "There are many not have been spotted out before. At least been discovered and there is no discovery taking place any more. A kernel that is forming, according to Hayek. The concept of competition was a discovery, according to Hayek. The concept of competition is a discovery process which makes every process of competition itself, according to Hayek, general-equilibrium approach of Hayek..."
The quantity theory may be further developed in the direction of the modern subjectivist approach. In these, a greater emphasis is placed on the role of expectations and psychological factors in economic decision-making.  

In most countries apart from the United States, where the gold standard is still in force, the effects of gold prices on other exchange rates and money variables are significant. According to the classical economists, the gold price remains constant (Knes 1924, P. 22). The quantity theory of money and the quantity theory of exchange rates have been developed by the classical economists.

The classical economists' views on the quantity theory are still relevant today. In many countries, especially those with fixed exchange rates, the quantity theory of money remains a useful tool for policy makers. However, in countries with flexible exchange rates, the role of expectations and psychological factors becomes more significant.

In recent years, the quantity theory has been extended to include the role of technology and innovation in economic growth. The quantity theory is still a valuable tool for understanding economic phenomena, but it must be used in conjunction with other economic theories and models.
First, this is an excerpt from a book discussing monetary policy and the gold standard. Here is the text from the document:

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In the post-World War II era, the gold bullion standard replaced the gold standard. Under the Bretton Woods Agreement, established in 1944, countries agreed to fix the value of their currencies to the US dollar, which was pegged to gold. This system, known as the Bretton Woods system, was in place from 1944 to 1971.

The gold standard was based on the belief that holding gold reserves would prevent governments from printing too much money. However, the gold standard also had its drawbacks. For example, it constrained government spending and could lead to deflation if gold prices rose too rapidly.

The Bretton Woods system was designed to provide stability and predictability in international monetary transactions. However, it was not without its problems. As the world economy grew and became more interconnected, the system became increasingly fragile.

In 1971, President Nixon announced the suspension of the convertibility of the US dollar to gold. This marked the end of the Bretton Woods system and the beginning of the era of floating exchange rates.

Since then, many countries have adopted various forms of monetary policies, including inflation-targeting and quantitative easing. The choice of monetary policy depends on factors such as inflation, unemployment, and economic growth.

In conclusion, while the Bretton Woods system provided a stable framework for international monetary transactions, its limitations and the changing nature of the global economy mean that new approaches to monetary policy are necessary."

HEATH

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The gold bullion standard, together with cooperation between central banks, enabled the monetary authorities in the United States to overexpand credit without losing reserves, as credit expansion took place in Europe as well. The fall in prices which should have taken place was in this way forestalled, so that prices had to fall faster afterwards. Overexpansion of credit caused a misdirection of production and in that way was responsible for the ensuing depression. Hayek sees little scope for any stabilisation policy, once a depression has set in. It simply has to run its course. Hayek can be seen as a latter-day adherent of the therapeutic nihilism that, according to William Johnston (1972 p. 223), loomed so large in nineteenth-century Viennese intellectual life and which concentrated on diagnosis to the neglect of therapy.

The gold Standard was in Hayek's eyes the best defense against debasement of the currency, but only if the monetary authorities followed the rules of the game, i.e. would not resort to sterilising inflows and outflows of international reserves. Hayek had an additional motive for supporting the gold standard. Under the gold standard, world financial markets would be integrated, which would minimise the intensity of disturbances after a shock. Imagine that the shock consists of a shift in preferences from goods produced by country A to goods produced by country B (Hayek 1937 p. 20 ff.). Under the gold standard, money income in A falls, leading to reduced purchases from B and/or a fall in the prices of some A-goods and a resulting increase in exports to B. Money income in B rises. Imports from A increase and/or the prices of some B-goods increase, resulting in lower exports to A. After a certain period of time, international trade will be in equilibrium again. During the adjustment period, under the pure gold standard the accumulated money flow from A to B will be equal to the fall in cash balances in A and the increase in cash balances in B. With two separate monetary systems, in A and B, complications arise. Under a gold-bullion standard with fractional-reserve banking systems, central banks will be forced to assist the adjustment process by manipulating discount rates. The central bank in A will increase the discount rate. The interest rate is driven up, even if there is no change in investment and saving propensities, i.e., the market rate of interest is driven above the 'natural' rate. Now bank loans are primarily made for investment purposes, so investment carries a disproportionate burden during the adjustment process. The result, in typically Hayekian fashion, is a disruption of the production structure. Under a system of freely floating exchange rates, inflationary forces will be unleashed (Hayek 1937 p. 38 ff.). If demand conditions change, as in the case pictured above, relative prices should change. Relative prices of export industries in A would have to fall. With freely floating exchange rates, A's currency will depreciate and most probably a fall in the relative price of A's worst
hit export industries will be brought about by a rise in the price of
the other industries. In country B, appreciation of the currency with
the money supply held constant would imply that some prices rise while
others, especially those of import-competing industries, would have to
fall. Hayek finds it most improbable that central banks will let this
happen. In other words, under a freely floating exchange-rate system,
there is a kind of ratchet effect at work. Hayek apparently subscribes
to the Mundell-Laffer argument as expounded by Corden (1978 p. 77). It
may be noted in passing that Haberler (1975) came, by a similar chain
of reasoning, to the conclusion that a fixed-exchange rate system has a
built-in tendency to inflation. A further drawback of freely floating
exchange rates is the increased volatility of capital movements it
brings about, for speculative reasons (Hayek 1937 p. 56, 63).

Hayek's argument runs in terms of relative prices. Magnitudes such as
'price levels', 'terms of trade', 'multiplier' come in for diatribes
(Hayek 1937 p. 45). One wonders if his aversion of average values and
aggregates did not make him lose simple macroeconomic identities out of
sight. In his criticism of people such as Harrod who advocated floating
exchange rates because in such a system central banks are free to keep
interest rates low, Hayek argued that low interest rates will induce
capital exports (1937 p. 66). Such capital exports, according to Hayek,
will be at the expense of bank liquidity and can only continue through
credits from the central bank to the banks. Moreover, Hayek argued,
there would be an adverse balance of trade, as part of the export
receipts are used to make new loans abroad. This looks like either a
slip of the pen on Hayek's part or an utter misunderstanding of the
system of floating exchange rates, as the use of export receipts for
capital exports implies a positive balance of trade, or rather a posi-
tive current account, as indeed is necessarily the case in a freely-
floating system where the central bank does not intervene in the
foreign-exchange market (and commercial banks have no varying net-
foreign-assets position). Hayek's argument that such an adverse balance
of trade "means that the supply of real capital and therefore the
"natural" rate of interest in the country will rise" is rather opaque
too. Under freely floating exchange rates, capital exports induced by a
low rate of interest will tend to push the rate of exchange up, i.e.,
will tend to depreciate the currency and call forth an improvement of
the current account. Bank liquidity is not impaired by capital exports
in this system. Only if capital exports are fully interest-elastic will
a central bank be tempted to continually increase the money supply,
though not in order to replenish the liquidity of the commercial banks,
but in a vain effort to pull the rate of interest down.

Hayek was not what might be called a gold-fetishist. He clearly saw
one of the most serious problems of a gold standard, namely the slow-
ness with which the supply of gold adjusts itself to changes in demand. This causes price fluctuations and, Hayek adds, "leads to the increase in the production of the one thing which can be used for practically no other purpose than to provide a liquidity reserve for individuals" (Hayek 1943 p. 178). This is not so far removed from Keynes's quip that "gold-mining is the only pretext for digging holes in the ground which has recommended itself to bankers as sound finance" (Keynes 1961 p. 130). He therefore felt attracted to plans for introducing a commodity reserve currency. The price level would be less volatile than under a gold standard. Hayek also, surprisingly, given his lifelong fight against Keynesian 'misconceptions', argues that "the secured income of the producers of raw commodities would also go far to stabilise the demand for manufactures and to prevent the depression from becoming serious". The scheme would also serve to prevent overexpansion. Increased demand for goods would partly be satisfied by the monetary authorities selling raw commodities from their hoards. Money would in this way be siphoned off from circulation. This lapse in Hayek's uncompromising rejection of macroeconomic considerations does not seem to have last long. Ironically, Keynes himself had little time for this idea. It would impose outside limits on domestic wage-policies (Keynes 1943). Presumably that was not its worst feature in Hayek's eyes.

Recently, despairing that governments can ever be trusted not to tinker with the money supply, Hayek has made what at first sight might look like a volte-face. He now advocates freedom of money supply and a breakdown of the government monopoly (1978b, 1979, 1984b). But it appears that this is not a new idea. Drawing on a publication by Von Mises (1928), he already in 1937 maintained that there are only two rational monetary systems. One would be a system with an international central bank (would such a bank be able to withstand pressure for credit creation, one might well ask), the other one would be a system of "'free banking', which not only gives all banks the right of note issue and at the same time makes it necessary for them to rely on their own reserves, but also leaves them free to choose their field of operation and their correspondents without regard to national boundaries" (Hayek 1937 p. 77). Clearly his present ideas have been a long time gestating. He now wants to give private enterprises the right to create their own currencies. Competition will see to it that the issuers of money will take care not to over-issue money. It is in their own interest to keep the purchasing power of their currency roughly constant (even Hayek cannot do without averages and index numbers). A currency of which people fear that it will depreciate is unattractive for depositors, a currency with the prospect of appreciation is unattractive to borrowers. These currencies must be left free as to their exchange rates. In a world of floating rates Gresham's Law does not work, so
that 'bad' money will not drive out 'good' money (Hayek 1978b p. 38, cf also Starbatty 1982). Governments and central banks need not pull out of the market, they only would lose their monopoly. Competition by private monies would see to it that governments can no longer accommodate excessive wage increases, which would also keep the employers in check, but competition between different official national currencies would be useful as well. EC members could remove any restrictions on the use of other member states' currencies in their own territories (Hayek 1976). Presumably depositors would prefer currencies such as the DMark and the Dutch Guilder to currencies of inflation-prone countries and compel other governments to strive to maintain the purchasing power of their currencies.

Hayek's proposal may look somewhat quixotic. His aversion of governments tinkering with the money supply (one might object that postwar Swiss, German and Dutch governments and central banks do not deserve Hayek's wrath) seems to have made him lose the informational advantages of using one national currency out of sight. With a number of competing currencies circulating side by side, people will have to spend time and other resources on gathering information on the solidity of the various money suppliers. Moreover, if different currencies circulate within one geographical area, more information has to be digested, as people have to take account of sets of prices expressed in different currencies. On the other hand, it is conceivable that some currencies will be in use in more than one country, which does away with a number of transactions. Milton Friedman, in a critique of Hayek's proposal, argues that banks cannot give a purchasing power guarantee, as they cannot find assets with a fixed purchasing power. Furthermore, there is little historic evidence for people's willingness to use other currencies than that of their own countries, whilst indexed bonds have never been much of a success either (Friedman 1984). All the same, Hayek's ideas touch upon a very topical issue, namely the question to what extent different currencies can exist alongside each other in a monetary union, a question which is obviously pertinent to the European Monetary System. A conference on this subject was explicitly said to have been inspired by Hayek's ideas (Salin, ed., 1984 p. 1). Even economists who have never been much enamoured by Hayek's ideas might concur that he latterly has brought up some relevant questions.

Haberler

It is difficult to discern specific Austrian traits in Gottfried Haberler's (born 1900) contributions to international economics. There is one exception: Haberler introduced the idea of opportunity costs and
with it the concave-to-the-origin production-possibility curve in international economics in his reformulation of the doctrine of comparative costs (cf. Haberler 1970a p. 133, Bhagwati and Chipman 1980 p. 314–'5, Baldwin 1982). The concept of opportunity costs stems from Austrian value theory. That value theory, however, cannot be seen as exclusively Austrian, because it has been adopted by almost the whole profession, except the Cambridge, U.K.,-based Anglo-Italians and some die-hard Marxists. In a sense, we are nearly all Austrians.

Haberler's approach is that of static general equilibrium, with pure competition and perfect markets, where information problems are absent (cf. Haberler 1961 p. 13). In his original contribution to international trade theory, he explicitly strove to incorporate international trade in Walrasian and Paretian general equilibrium theory (Haberler 1970a p. 132). For true Austrians, pure competition with perfect markets is a situation never to be reached, because of the constant change brought about by entrepreneurial activity. It has, however, been noted already that Hayek himself did not completely break loose of the static general-equilibrium model before 1937. Haberler does not turn a blind eye to the limitations of static neo-classical theory. He acknowledges that Walrasian equilibrium may be gradually approached, but that it will never be fully reached (Haberler 1975 p. 14, nt. 3). The problem is one of the modelling of ideas rather than the ideas themselves. He sees a need for the analysis of the impact of international trade on consumer tastes, factor supply and conditions of production (Haberler 1961, pp. 57–'8). He made a distinction between the short-term production possibility curve, which is sharply kinked because of adjustment difficulties, and the long-term one, which has a much more flat shape (Haberler 1970a pp. 143–'5; the present convention rather is to draw the long-term curve only and to have movements from one equilibrium point on the curve to another one taking place not along the curve, but by way of a path below the curve, which indicates underutilisation of resources). He is, moreover, keenly aware of the dangers of aggregation, even if his analysis runs in terms of price levels and aggregate demand: community indifference curves are, in his eyes, suspicious because with a movement along the production-possibility curve factor prices and the distribution of income change (Haberler 1970a p. 145, 1968 p. 215).

Typically Austrian is Hayek's explanation of the Great Depression in the early nineteenthirties in terms of maladjustments in the 'vertical' structure of production, i.e. the distribution of capital between capital goods industries and consumption goods industries. Unlike Friedman and other monetarists, Hayek emphasises the distortions in relative prices that occur during inflation. Haberler doesn't hold much of this theory. In characteristically down-to-earth fashion he points
to the fast transition to a peace economy after the First and Second World Wars that took place notwithstanding the large reshuffling of real resources that was needed. Besides, the Great Depression occurred after a decade that was not, apart from Central Europe, plagued by inflation. However, Hayek argued that with productivity increasing, prices should have fallen and stable prices were in reality inflationary. Haberler finds it hard to believe that stable prices in the nineteenth twenties could have caused large real maladjustments that would not have come about with falling prices (cf. Haberler 1976 pp. 24-25). Hayek's view that crises have to run their course didn't appeal to him either. He notes that whenever monetary deflation was stopped, the alleged real structural maladjustments disappeared very fast (Haberler 1976 pp. 32-33). In Haberler's view, monetary mismanagement, leading to a sharp fall in the money supply and a collapse of the banking system in the United States, was the main culprit, while a lack of international policy coordination only made matters worse. As a depression, set in motion by deflation, may become self-reinforcing, deficit spending may be necessary for a reasonably quick recovery (Haberler 1976 p. 41). This emphasis on effective demand can already be found in Haberler's famous League of Nations study Prosperity and Depression, the first edition of which was published in 1937 and was written before Haberler could have taken account of Keynes's General Theory (vide Haberler 1963 p. vi). In his description of the international transmission of cyclical movements aggregate expenditure is the fundamental factor, with relative price levels coming in only when capacity utilisation becomes high (Haberler 1976 Ch. 12, in particular p. 411).

Haberler does not appear to adhere to a specifically Austrian style of economic analysis, though some common elements can be found. He has, however, introduced the originally Austrian notion of opportunity costs into mainstream international economics. His outlook on society is not unlike Hayek's. Indeed, he is a member of the Mont Pélèrin Society which was founded by Hayek and which defends laissez-faire capitalism. He takes issue with Scitovsky, who argued that the price system needs some supplement for coordinating investment decisions, because prices do not reflect future situations. This, according to Haberler, rests upon a misunderstanding of the role of the entrepreneur, who, e.g. when introducing a new product, certainly is not guided by present prices alone because they do not yet exist for his product. Competitive equilibrium theory cannot guide the entrepreneur to profitable new ventures, nor can it guide managers in centrally planned economies (Haberler 1970b pp. 16-17). These Austrian insights form, however, not part and parcel of his formal analysis. He can for all practical purposes be seen as a typical mainstream economist, whose views may be characterised as moderate monetarist. Like Friedman, he advocated a
floating exchange rate system long before it was politically feasible (Haberler 1954 pp.37-38). He does not underestimate the benefits of a fixed-rate system, but given that inflation rates differ among countries and given downward wage and price rigidity, only flexible exchange rates enable a country to insulate itself from inflationary pressures from abroad or to undergo inflation without impairing its foreign trade (Haberler 1980a p. 46). Because of downward wage-inflexibility, a system of fixed exchange rates has an inflationary bias (Haberler 1975 p. 19). Best let market supply and demand determine the rate of exchange. As for official intervention, Haberler doubts if the monetary authorities are less likely to make mistakes than private market participants (Haberler 1980b p. 34). Unlike Friedman, he thinks that trade unions can cause cost-push inflation, though not without monetary accomodation, while Friedman tends to view trade union power as a monopoly that may push up the price level but not the rate of price increases (Haberler 1969). His moderate monetarism also finds expression in his support for Friedman's advocacy of a money-supply growth rule (Haberler 1979, 1980 b). But, as indicated above, he is not dogmatic about stabilisation policies by the government, which he deems necessary once a severe depression has developed. His rejection of the claims of hard-line rational expectations proponents fits in with his non-dogmatic, common-sense approach (cf. Haberler 1980b). Haberler's monetarism seems to be moderate in the sense of The Netherlands Bank, as formulated by its former President dr Jelle Zijlstra: both Haberler and Zijlstra argue that for a successful fight against inflation monetary restraint must be supplemented by fiscal policy and some kind of income policies or wage restraint (Haberler 1975 p. 14, Zijlstra 1985 p. 253).

Haberler's mainstream ideas do not result from a lack of originality. On the contrary, in the field of international economics the mainstream has to a large extent been shaped by him. He was one of those immigrants into the United States of whom Craver and Leijonhufvud note that "The immigrants who were to become most productive and recognized for their contributions in later years were those who adapted well to the United States and did not remain outsiders very long, but became basically American economists relatively quickly" (Craver and Leijonhufvud 1987 pp. 175-'6). And an outsider he certainly was not: he served as President of the American Economic Association and of the National Bureau of Economic Research. Perhaps his outlook has always been uncommonly cosmopolitan. Craver and Leijonhufvud (1987 p. 175) argue that at European centers such as Vienna before the war economists were more influenced by local philosophers, historians or sociologists than by fellow economist abroad. This is by no means valid in the case of Haberler, who visited the United States in 1927 as a Rockefeller fellow


The reaction to 

had been to publish an article in the Economic Journal in 1943 in which he had already put forward the idea that the devaluation of the pound was a political move, not a response to the economic situation. But he had not been alone in this. In 1942, John Maynard Keynes had already written an article on the same subject, and in 1943 he had put forward the idea of a 

Haberler was one of the most successful economists of the post-war period. His work on the theory of international trade was a major contribution to the field, and his book on the theory of international trade, "The Theory of International Trade," was published in 1948 and remains a classic in the field. He was also a leading figure in the development of the theory of economic growth, and his work on this subject has had a lasting impact on economic thought.
of the foreign trade multiplier by Machlup, together with that by Lloyd Metzler, has become part of standard Keynesian international macroeconomics. Nevertheless, his attitude vis-a-vis macroeconomics has generally been cautious. Macroeconomics is useful to Machlup's mind, but the underlying microeconomic relationships must not be lost sight of. In his critique of S.S. Alexander's 'absorption approach' to devaluation, he has shown that below the surface of aggregate relationships between spending and income changing relative prices and price elasticities are at work (Machlup 1955b). Elsewhere, he argues that neither microeconomics nor macroeconomics are expendable, but that one should be careful not to be led astray by macroeconomics. Macroeconomics deals with aggregates and collectives, which may lead specialists in macroeconomics to over-emphasise the role of government and to attach not enough weight to free individual choice (Machlup 1967 p. 143). In line with this cautious attitude to macroeconomics, he agrees with Hayek's rejection of direct causal relationships between aggregate magnitudes (Machlup 1977 p. 26).

Free individual choice is as important for Machlup as it is for Hayek and Haberler. Like Hayek and Friedman, he was a founding member of the Mont Pelerin Society, of which he was treasurer from 1954 to 1959, and he fully underscribed its attachment to the libertarian creed of freedom from coercive intervention (see the Notes from the Editor in Machlup (ed.) 1977, see also Machlup 1969b). In the field of international economics, Machlup's liberal leanings found expression in his staunch opposition against trade controls (Machlup 1976 p. 75). He also warned against fixing the rates of exchange, unless countries are willing to give up their autonomy in credit policy. Otherwise restrictions will be unavoidable (Machlup 1976 p. 66).

Machlup spent much thought on economic methodology. His starting point was the conventional Austrian one of aprioristic deductivism. Economic analysis begins, in his view, with the construction of ideal types, such as *homo economicus*. Only with the help of such constructs theoretical systems can be developed that are of use in explaining empirical phenomena. Such ideal types or abstract theoretical propositions cannot themselves be empirically proved or refuted, but they may be rejected if the conclusions of the theoretical system of which they are a part are refuted (see Machlup 1955a, 1960, 1969a). The abstract constructs are often employed in studying the effects of certain changes in conditions. These effects are brought about by individual decision makers. It is their subjective estimates of cost and revenue conditions what counts (Machlup 1946). This emphasis on subjective appraisals makes him argue that there is no 'need' for any particular volume of international reserves. International economists have given much thought to the problem of the optimal volume of international
reserves (cf. International Reserves 1970, Grubel 1971, Jager 1981). But it is vain to attempt to calculate some optimal volume. Machlup argued, starting from the subjective considerations of the central bankers, that one can only say that there is a need for an increasing volume of international reserves (Machlup 1966b). Like Hayek, he distrusted quantitative forecasting and thought that by and large only qualitative conclusions can be drawn from economic analysis (Machlup 1972). Also, his analysis is never overly mathematical. He preferred to give numerical examples rather than develop systems of equations or at least to give numerical examples in addition to his equations (cf. Machlup 1956, Machlup 1943), even if there are exceptions (cf. Ch. 19 on The Transfer Problem Revisited in Machlup 1966a).

Machlup was an economist of Austrian origin who merged into the mainstream while exhibiting still typical Austrian traits, more so than Haberler. It is telling in this respect that Machlup was the editor of a series of essays on Hayek (Machlup (ed.) 1976) en co-editor of another one (Streissler a.o. (eds), 1969), while Haberler only was a contributor to the last-named. Even if not belonging to an Austrian school in a narrow sense, Machlup followed an Austrian style of sorts, which at times found clear expression in his work on international monetary economics and, with his emphasis on microeconomic relationships, also bears to a certain degree on his other work in the international field.

Schumpeter

We cover Schumpeter after Hayek, Machlup and Haberler, though he was of an earlier generation: he was born in 1883 and was taught by Von Böhm-Bawerk and Menger. This is because Schumpeter stood further apart from the Austrian style of theorising. No methodology could in his eyes claim the right to be the only correct one. Walras was as much his loadstar as was Von Wieser, though his search for the essential as opposed to the surface of monetary phenomena seems to owe more to Karl Menger than to Walras (cf editors introduction in Schumpeter 1970). His views on the development of society derived partly from Marx; he intended to integrate elements from both the Austrian marginalist approach and Austro-Marxism, otherwise worlds apart (März 1983 p. 53, 70, 100). Schneider (1951 p. 55) points to the influence of J.B. Clark and Irving Fisher on Schumpeter’s thought. In Haberler’s view however, Schumpeter always adhered to one of the main tenets of the Austrian creed, methodological individualism (Haberler 1951 p. 42). He did not share the doubts expressed by Mises and Haberler (Hayek is curiously omitted) as to the concept of a general price level, though he acknowledged the
problems it throws up. On the other hand, his focus on entrepreneurial activity is as Austrian as could possibly be. Not much is found in Schumpeter of the typical Austrian's distrust of econometrics; indeed, Schumpeter, though no econometrician himself, was one of the founders of the Econometric Society and its president from 1937 to 1941.

In Schumpeter's works not much is found on international economics. Paul Samuelson once wrote that "Schumpeter was a universalist in economics. Mention a field in the subject of political economy, and you will find his name already established there". Significantly, in the list that followed international economics is conspicuous by its absence (Samuelson 1981 p. 1). His massive *Business Cycles* contains only a few pages on that subject. Commodity trade is hardly mentioned at all. Emphasis is on capital movements and especially on the ways central banks may cope with those. What to do, e.g., if there are massive capital exports and a monetary contraction is not desirable, given the situation of the domestic economy. Schumpeter did not share Hayek's fears that the central bank's discount policy may cause faulty price relationships (Schumpeter 1961 pp. 685 ff).

**Conclusion**

In the field of the real side of international economics, Austrian contributions are virtually absent, unless one wants to label those of Haberler and Machlup as Austrian. One might wonder what could have been specifically Austrian contributions. Examples that come to mind are, firstly, exploration of the activity of entrepreneurs, e.g. some variant of the product-cycle theory, and, secondly, the analysis of uncertainty, again in the form of ever-changing market conditions as entrepreneurs discern and create new opportunities which prevent a Walrasian equilibrium being found. Austrians have left the initiative in these fields to others (though not much has so far been done on the second subject, except for attempts to quantify the impact of exchange rate variability on trade flows, cf. *Exchange Rate Volatility and World Trade* 1984, Cushman 1986, Willett 1986). Austrian interest has always been more focused on monetary problems. As Barry (1981) observes, Austrians have distinguished themselves by integrating technical aspects of monetary theory into a broad social and economic philosophy. In the international sphere this finds expression in Hayek's recent proposals for competition in the money supply. Those who are not willing to take Hayek's ideas, or might one say dreams, seriously, should still admit that he has given impetus to the study of the very serious problems of a monetary union. Even if one might be inclined with Pen (1962) to consider Austrians such as Mises and Hayek a bunch of morose
socialist-haters who invariably follow the wrong theoretical track, such a verdict would do great injustice to Machlup and Haberler, if we count them among the Austrians. Their work on international monetary economics fits in more with the mainstream. In conclusion it may be said that Haberler and Machlup have made extremely valuable contributions to international economics, with Machlup in particular showing elements of an Austrian style, and that Hayek's contribution was valuable as well in that it was at least provocative and, at the end of his career, stimulated a most useful discussion.
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<tr>
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<th>Author/Co-author(s)</th>
<th>Title</th>
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<td>H.P. Smit</td>
<td>Demand and Supply of Natural Rubber, Part I</td>
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<td>1981-3</td>
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<td>The political Economy of the Republic of Korea: A proposal for a model framework of an open economy in the ESCAP-region, with emphasis on the role of the State</td>
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