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**The Other Austrians**  
**Alternative Theory and Practice in Interwar Austria**

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by

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## **I. Introduction**

The recent economic crisis and financial instability have resulted in a growing demand for alternative theories and policies. Some observers compare the crisis to the Great Depression of the 1930s and therefore discuss interwar ideas bearing on these questions such as those of “the Austrians”– be it as a remedy or as a warning, because controversy still rages as to whether the weak performance of Austria at that time could be traced back to the harmful impact of Ludwig Mises’ ideas or to non-observance of his policy advice. There has already been a lively treatment of Mises, his predecessors and his pupils in the literature, discussing their internal controversies and their struggles with the economic and political situation of Austria itself. But the authors concentrated and still concentrate on Austrian Economics with a capital “E”, that is, on members of the Austrian School. Hence, the other Austrian economic discourse of this time is neglected: that of those scholars outside the Austrian School but inside university, the three chair holders of political economy at the University of Vienna: Othmar Spann, Hans Mayer and Ferdinand Degenfeld-Schonburg.

This current lack of knowledge is unsatisfactory because, although the Other Austrians were and are of no international relevance, their opposition to ideas of high growth rates and an excessively individualistic economy, and their call for interventionism and economic ethics show some similarities to opposition movements we encounter today. In many respects, the current critiques of the economic and financial system, of the politics of neo-classical liberalism, even of “globalisation” and the resulting call for the state to tame the “egoistic” market have much in common with the thought of Spann, Mayer and Degenfeld-Schonburg. My presentation intends to call to mind the Other Austrians and give an insight into their stance on the economic crisis. Moreover, I will discuss another Austrian economic idea of this time, the so-called “Miracle of Wörgl”, an Austrian village where Silvio Gesell’s theory of depreciative or free money was set into practice in 1932.

## **II. The Three Chairs in Sketches**

In the early 1920s, the three chairs in political economy at the University of Vienna had become vacant and were not given to The Austrians but to the Other Austrians: Othmar Spann, Hans Mayer and Ferdinand Degenfeld-Schonburg – as Hagemann (2010, 180) correctly states, “professors, none of whom is remembered today for having made important

contributions to economics.” But the message of these appointments was clear: Austrian Economics was no longer welcome. This meant that the individualistic tradition at the University of Vienna had been broken. Because scholars as Joseph Schumpeter and Ludwig Mises, Eugen Böhm-Bawerk’s pupils, had been passed over when the appointments were made. It was a mixture of anti-Semitism and ideological and scientific reservations as the reason for university appointments policy at this time, as well as the fact that in the First Republic economic liberalism had lost its socio-political relevance.

**Othmar Spann**, born on October 1<sup>st</sup> 1878 near Vienna.

Othmar Spann’s appointment in Vienna functioned as a counterweight to the left-leaning intelligentsia, and he immediately attracted large numbers of German-nationalist students because his writings were imbued with pan-German nationalism and romantic idealism. Spann had been appointed as professor for political economy but what he taught was social philosophy.

He transcended the boundaries of the University of Vienna to become one of the leading social theorists of his time. Moreover, he had been in touch with NS organisations since the 1920s, was seen as the intellectual leader of the national socialists at the University of Vienna and was also an (illegal) member of the NSDAP, and yet his views did not totally coincide with those of the Nazis. He was barred from teaching in March 1938. In 1939 he went into forced retirement; after 1945 he struggled in vain to be reinstated at the University of Vienna. Spann was sent on leave and then he was retired on full pay. He died on July 8, 1950.

**Hans Mayer** was born on February 7, 1879 in Vienna. He attended Eugen Böhm-Bawerk’s celebrated seminar and also became Friedrich Wieser’s assistant. In April 1923 Wieser selected Mayer as his successor, particularly as Mayer’s publications such as *Eine neue Grundlegung der theoretischen Nationalökonomie* [New Foundations of Economic Theory, 1911] were seen as significant contributions to the Austrian School. In his work Hans Mayer stressed the psychological roots of economic theory. As a critical response to modern theories of price and value he developed the so-called “causal-genetic approach”. But, as Mayer never elaborated a theory of his own, his ideas had no significant impact.

Hans Mayer was unable to fulfil the high hopes that Wieser had had of him. His students report that he left articles unfinished and lectures unpublished, and had very poor nerves. This may well be attributable to the relentless power struggle with his opponent, Othmar Spann.

Hans Mayer had always been adept at adjusting to political change and was one of the few full professors at the faculty who taught uninterruptedly under all systems (from 1924 to 1950). Mayer retired in 1950 but continued teaching as honorary professor until 1954. He died on October 28, 1955.

**Ferdinand Degenfeld-Schonburg** was born in Vienna on March 1, 1882.

He was especially interested in the relationship between the Social Question and political economy. In 1914 he took a doctorate in philosophy at the University of Berlin. As a result of his training in Germany, Degenfeld-Schonburg had got to know of recent developments in the Historical School of economics, attending lectures by Max Sering as well as Gustav Schmoller, Werner Sombart and Adolph Wagner.

Ferdinand Degenfeld-Schonburg was appointed full professor at the University of Vienna in October 1927. Economic development and social organisation were the focus of his research; and his scientific approach was influenced by the fact that he was a practising Catholic.

As a late representative of the Historical School of economics Degenfeld-Schonburg did not succeed in making a lasting impression. He was retired by the Nazis in 1938 according to the Decree Regulating the Re-organisation of the Civil Service. In 1945 he was re-instated and in 1950, after Hans Mayer retired, he became head of the Department of Economics. Degenfeld-Schonburg died in Vienna on March 11, 1952.

### **III. The Outsiders**

Although the liberal strand of Austrian economics reached new heights in the interwar period, it only played a very marginal role within the confines of the University of Vienna. Even in the 1920s anti-liberal and anti-Semitic developments within the university anticipated expulsions like those which were to take place only a little later in the world outside. The Austrian School had done groundbreaking research, but in the First Republic liberalism was curbed. The ministry of education's appointments policy was conservative-Catholic to explicitly anti-Marxist and, ultimately, anti-Semitic, which prevented any further development of the Austrian School within the university. In addition, the ministry was against both socialism and the social sciences because of the close links between them. Consequently, Ludwig Mises, for example, was prevented from becoming a full professor and had to transfer his research work from the university to the "extramural exile" (Ehs 2010) of private seminars and research associations.

In March 1933, the Austrian parliament was dissolved and the country was gradually transformed into a clerical fascist state. The Christian-Social politician Chancellor Engelbert Dollfuß, who had frequently attended Othmar Spann's lectures during his student days, governed by means of emergency decrees and martial law. With the constitution of May 1934, Dollfuß created an authoritarian corporate state, relying on the support of the Catholic Church and the *Heimwehr* (a paramilitary force). By this time most Austro-liberals had quit Austria and the work of those who remained was often censored, which is why this branch of the Austrian School and its ideas disappeared from the country.

#### **IV. The Other Austrians and the Economic Crisis**

Austria had been among the countries hit hardest by the Great Depression. According to the Austro-liberals, the reasons for an economic crisis of such proportions were to be found in the errors of policy committed under the influence of the Social Democrats, errors that had violated the general conditions for economic liberalism. The logic of a capitalist market economy and the social legislation enacted immediately after the war were perceived to be incompatible. According to Ludwig Mises, the economy would function smoothly, following in-built mechanisms, provided that there was total freedom, whereas intervention would inevitably lead to a crisis. In Austria the free play of market forces had been disrupted by interventionist measures such as the regulation of wages and prices, and the increase in state spending on welfare measures. The crisis could only be overcome by true liberalism and not by a new round of interventions.

But this is not the place to give an account of the Austro-liberals' view of the Great Depression and the causes of crises as this has already been exhaustively studied. Consequently, I will only revisit the positions of the non-liberal strands represented by Spann, Mayer and Degenfeld-Schonburg.

##### **The Universalist-Romantic Strand: Othmar Spann**

Spann's stance on the economic crises can only be understood by exploring his sociological paradigm, which represents a radical break with the Austrian tradition of political economy. He was deeply rooted in the German Romantic School of Adam Müller, Franz von Baader and Friedrich List and developed universalism as an answer to political questions.

Othmar Spann, being a fierce opponent of Marxism, developed an organic theory of the relationship of the individual to the community, understanding society as an organic entity.

For him, the human being as such does not exist, for he is always a member of a family, class, state or culture. In his book *Social Theory* [1914] Spann presented his understanding of the ideal state, and therefore the ideal economy. Being opposed to democratic liberalism, he sketched a community in which everyone has an “appropriate” place. His model was the rural and medieval world, a metaphysical fiction of social order rooted in Christianity, idealising the medieval corporations. Carty (1995, 93) correctly speaks of a “deeply reactionary response to the radical individualization of modern industrial society which Spann hoped to sweep back with his call to integrative cultural nationalism”.

In contrast to all classical theories, which regard human beings as individuals who take economic actions, Spann held that individual economic action was meaningless.

According to him, the methods of the Austro-liberals would have catastrophic repercussions for humankind. For Spann, the crisis was an opportunity for change, and for the realisation of his socio-political programme. Spann offered blueprints for the reorganisation of state, society and economy on the basis of corporations –as a remedy for the economic crisis: “A corporate economy will not only solve the social problem, but also offers a way out of the world economic crisis! It is mistaken to assume that a return to free trade will defuse the crisis. On the contrary, such a course of action would aggravate the situation and would end in chaos” (Spann 1933, 360).

And so Othmar Spann argued in favour of a system of economic alliances, of syndicates and cartels, for a European economic system based on corporations that would transcend individualism. For, “individualism leads to liberalism; liberalism leads to capitalism; capitalism leads to Marxism; Marxism leads to Bolshevism ... the alternative is universalism” (Spann 1930, 36). Spann’s proposed remedies for the deficiencies in the economy and in society were universalism and corporate statism, and he saw these endorsed in the encyclical *Quadragesimo anno*, to which he referred repeatedly.

### **The Historical-Ethical Strand: Ferdinand Degenfeld-Schonburg**

Ferdinand Degenfeld-Schonburg can be counted as a member of the younger German Historical School of Schmoller and Brentano. The German Historical School was closely linked to the national(isation) history of Germany and won the approval of the political establishment. Degenfeld-Schonburg added his Christian belief to this tradition and thereby created a very distinct form of the Historical School. He was a moralist and therefore could not endorse the “atheism” of the liberal economists as regards social justice. For him, first and foremost, the remedy for the economic crisis lay in a moral economy, in improved morality,

in a better society. He was not so much concerned with exact scientific methods as with the social impact of his ideas. He made no pretence of being an objective scholar: in his work facts and values mix, and studies are combined with sketches of policies for social and moral reform.

In his essay *Sozialpolitische Forderungen der Enzyklika rerum novarum und ihre Erfüllung* (1931) he declares that a combination of individual liberty and collective planning in the sense of state intervention would be the only right way forward. Even in a lecture held on the eve of the promulgation of the new Austrian constitution of 1934 he explained, “that state intervention is necessary, that it should be planned, but that it should leave as much room for freedom as possible, nonetheless” (Degenfeld-Schonburg 1934, 86) and thus rejected state socialism. He regarded the state as a “good gardener”, whose job it was to create the right conditions for the economy to grow and flourish although he did refer to the principle of subsidiarity, citing the encyclical as he did so.

A particular concern of Degenfeld-Schonburg was the morality of the state, which ought to care for those put at risk by the economy, “In particular it falls to the state to look after the workers; in the course of the last hundred years ensuring the welfare of the workers has shown itself to be one of the most important tasks of the state” (Degenfeld-Schonburg 1934, 88). In this connection he repeatedly put forward the idea of a regular income for the unemployed because, although Catholic morality included a duty to work, there was a moral obligation, too, to care for children, the old, the sick and other people who were unable to do so. Degenfeld-Schonburg stressed that providing an income for the unemployed was not simply an act of charity, on the contrary, citizens had a right to receive support from the state. And in his lectures he always discussed his call for the de-proletarianisation of the workers by creating property for them.

In addition to workers’ welfare and a planned economy, Ferdinand Degenfeld-Schonburg saw a further remedy for the crisis in the re-creation of a Central European economic area with Austria at its heart, for “only in this wider context can the creation of a proper relationship between state and economy prove its worth” (Degenfeld-Schonburg 1934, 89).

Ferdinand Degenfeld-Schonburg’s predilection for corporate statism derived from his idealised picture of medieval culture, which, in combination with Christian-Germanic culture, he held to have brought forth outstanding intellectual achievements. His cultural and social elitism meant that he rejected a socialist model of social organisation and besides, solely for economic reasons, he thought such a model was not sustainable in the long term. In addition, with his argument that derived from the medieval ideal of culture Degenfeld-Schonburg

attacked the capitalist economic approach, which turned intellectual activity into a good of value, “The spirit of profit is invading the intellectual sphere” (Degenfeld-Schonburg 1931b, 28). He condemned the commercialisation of science and culture in the free-market economy.

### **The Dead-End Strand: Hans Mayer**

Hans Mayer’s views on the economic crisis were the most difficult to research as, on the one hand, he published very little during that time because of his debilitating power struggle with Othmar Spann and, on the other, because he criticised contemporary work on the trade cycle and crises, while not coming up with any fully worked out theory of his own. Mayer wrote nothing specifically on the economic crisis, which is why in the following I will only briefly sketch his position within or as opposed to the Austrian School of economics.

Hans Mayer had his roots in the tradition of Friedrich Wieser, who had brought about a shift from strict economic theory as in Carl Menger’s work to more comprehensive social studies. According to Mayer, human action is oriented towards satisfying needs. He understands economics as an empirical science, which can be applied to certain psychological incentives to act and which takes differently empirically determined types of entrepreneur as its starting point.

Mayer was unable to contribute anything to the attempts to explain the economic crisis of the 1930s apart from his criticism of purely statistical trade cycle research, which provided clues but not a solution to the problem. Among his colleagues he looked in vain for a complete and general theory of the trade cycle. Yet he himself did not elaborate further on his psychological theory of crises. What is more, Hans Mayer rejected theories that start out from the satisficing individual, which are standard nowadays, and also repudiated the notion of general equilibrium, which meant that his ideas actually lagged behind those of Menger.

## **V. Conclusion**

Whereas the Austro-liberals blamed political violation of the general conditions for economic liberalism as responsible for the crisis in the economy and for its depth, and argued for the end of interventionism and true liberalism, the Other Austrians thought that it was precisely excessive liberalism and the lack of intervention, especially regarding social policy, and the lack of moral values, that was the problem. Although Othmar Spann, Hans Mayer and Ferdinand Degenfeld-Schonburg worked alongside and/or against each other rather than with one another, which resulted in the emergence of three different strands of non-liberal political

economy at the university, they do show certain similarities in their critiques of economic liberalism. For the Other Austrians man, not the invisible hand, was the master of the economy. They did not accept the self-regulating nature of the marketplace because they distrusted the “natural” equilibrium mechanisms in the economy and believed in the necessity of state intervention. Small enterprises and family-run businesses were favoured.

Most similarities are to be found between Othmar Spann and Ferdinand Degenfeld-Schonburg as they both referred to the encyclical *Quadragesimo anno* when elaborating their opinions on political economy and on the economic crisis. They were critical of the capitalist competitive ethic and therefore viewed Christian moral values as the most important goal of economic policy. Both fleshed out their arguments on subsidiarity, social policy and interventionism by visualising the corporatist state. Their stances on economics and their opposition to (excessive) economic growth were confirmed by the Great Depression. In line with the encyclical, they wrote about fair wages and social reform (also seen as moral reform), and last but not least about the necessity of rejecting socialism. Abandoning liberal rationalist ideas, they showed no traces of Mengerian economics.

Hans Mayer cannot be counted among the adherents of the encyclical and the organisation of society and economy along corporatist lines. But he belonged to another non-liberal strand, as can be seen above all from his outspoken epistemological critique of equilibrium price theory. For Mayer, the law of equal marginal utility was impossible in the real world of the psyche. Similar to Spann, and yet in a quite different way, Mayer chose a holistic approach, which offered an answer to the social problems of the interwar period. If Spann “clearly spoke to the material and social difficulties of Vienna of the twenties, so too did Mayer [...] speak to the psychological uncertainty of the time” (Leonard 2007, 247) – a time when democracy was interpreted as synonymous with degeneration and drift.

With these non-liberal strands the University of Vienna became a hotbed of anti-economics – and anti-Semitism. In accordance with Coleman’s (2002, 2003) differentiation, Othmar Spann and Ferdinand Degenfeld-Schonburg can be called “right-wing anti-economists”, and Spann maybe even an “irrationalist anti-economist”. They were both followers of Werner Sombart, the leading corporatist anti-economist of the 1930s, and regarded the market as destructive of a desirable social order, deploring the lost sense of community – lost as a result of liberal individualism. Spann, and even more so Degenfeld-Schonburg, were moralists who rejected “godless” liberalism. Both are also reported to have been outspoken anti-Semites, equating Judaism and capitalism with rationalism and regarding them as the deadly foes of mysticism, unity and spiritual Germanism. For his part, Hans Mayer was far too deeply embroiled in his

inner-faculty struggles with Spann to respond to these tendencies by developing his own theory or even steering the Austrian School in a new direction.

The Other Austrians are hardly remembered in the literature on the history of economic thought. Perhaps this is because they did not sketch out a grand theory or master plan for economics (Mayer, Degenfeld-Schonburg) or because their proposals are said to have prepared the ground for fascism (Spann). But: Whereas those three are not mentioned today, some other interwar ideas and experiments like Silvio Gesell's theory of depreciative money are resurfacing these days.