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Author(s): Henri-Simon Bloch

Source: *Journal of Political Economy*, Jun., 1940, Vol. 48, No. 3 (Jun., 1940), pp. 428-433

Published by: The University of Chicago Press

Stable URL: <https://www.jstor.org/stable/1825598>

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CARL MENGER: THE FOUNDER OF THE AUSTRIAN SCHOOL¹

HENRI-SIMON BLOCH
University of Chicago

THE hundredth anniversary of Carl Menger's birth (February 28, 1940) may serve as an opportunity to pay one more tribute to the father of a school whose representatives today teach mostly in the United States and Great Britain.

I. MENGER AS A THEORIST

Undoubtedly, Menger must be counted among the great figures in the history of economic thought. He was a founder in the true sense of the word. Before him there were no Austrian economists of fame. As F. A. von Hayek² pointed out, in Austria economics was then taught as part of a law curriculum by teachers who were imported from Germany. Menger himself received his training in law, and this might account for his lack of formal knowledge in mathematical analysis and for his rigorous, almost pedantic, discussion of terminology. He did, however, insist on the necessity of exactitude in economic theory, and his remarks on methodology reveal his liking for the mathematical approach.³ But being untrained in mathematical technique, he used the language of the pure logician who as carefully as the mathematician analyzes the relationships between variables, even though he does not make use of equations and diagrams.

The greatest contribution of Menger was the formulation of the marginal-utility theory of value simultaneously with and independently of Jevons and three years before Walras, who, it is generally acknowledged, also found it on his own.

When Menger wrote his first book, the *Grundsätze der Volkswirtschaftslehre*,⁴ he knew neither the works of Cournot nor those of the

¹ The author is indebted to Jacob L. Mosak and Harold M. Somers for helpful suggestions during the preparation of this paper.

² F. A. von Hayek, Introduction to *The Collected Works of Carl Menger* (London, 1934), I, x.

³ It must be noted that Menger never dealt explicitly with the mathematical approach (cf. H. S. Bloch, "Discussion d'une nouvelle méthodologie économique," *Revue internationale de sociologie*, XLVI [1938], 198).

⁴ Vienna, 1871.

younger Walras, and, though he was well read in the German literature, the writings of both Gossen and von Thünen were unknown to him. Although H. H. Gossen had discussed the subjective concept of value almost three decades before the *Grundsätze* was published, Menger built on entirely new ground.

It has been said that the Austrian school is the psychological variety and the school of Lausanne the mathematical variety of the neoclassical tendency. In fact, there is no essential contradiction between these points of view but chiefly a difference in language. Menger himself did not penetrate deeply into psychology, and his successors in Austria also remained on the borderline of this subject. Americans, like Irving Fisher, Fetter, and Davenport, have gone much further into this field. As Professor Gaëtan Pirou⁵ has explained, the Austrians only took some elementary notions from introspection and constructed a theory on this basis by deriving a number of elegant and subtle deductions.

Menger always used a "middle-term"⁶ in order to express the intensity and the economic importance of a need. Since it is impossible to find a measurable unit which would apply both to needs and to available goods and make them comparable, a third variable had to be found which would express the relative magnitude of human needs in relation to available stocks. This third variable had to satisfy three criteria: (1) It had to vary in the same direction as the need of an individual or a group for a given period of time. (2) It had to be measurable. (3) The unit of measure had to be comparable with the unit to be used in measuring the stock of goods available. This "middle-term," in German "Bedarf," in Italian "fabbesogno," has no exact equivalent in English or French. Menger defined it as "the quantity of goods necessary for an economic individual for the complete satisfaction quantitatively as well as qualitatively of all his needs during a given period of time."⁷

⁵ Cf. Gaëtan Pirou, Preface to H. S. Bloch, *La théorie des besoins de Carl Menger* (Paris, 1937).

⁶ Bloch, *op. cit.*, pp. 82 ff.

⁷ Carl Menger, *Grundsätze* (2d ed.), p. 32. The definition given in the first edition (p. 34) is somewhat more involved. It reads as follows: "Wir nennen . . . den Bedarf eines Menschen jene Quantität von Gütern, die erforderlich ist, um seine Bedürfnisse innerhalb jenes Zeitraumes, auf welchen sich seine Vorsorge erstreckt, zu befriedigen." In a footnote on page 34 of the first edition, Menger writes: "Das Wort 'Bedarf' hat in unserer Sprache eine doppelte Bedeutung. Einerseits bezeichnet man damit die zur vollständigen Befriedigung der Bedürfnisse einer Person erforderlichen, andererseits jene Güterquantitäten, welche eine Person voraussichtlich consumiren wird."

Menger and Jevons were the first explicitly to utilize the time dimension in connection with the study of economic quantities necessary for the satisfaction of wants. Menger also was the first to use these quantities as a basic element in economic theory. Though he stated in his Preface⁸ that his main aim was a uniform theory of prices which would explain all price phenomena and in particular also interest, wages, and rent by one leading idea, he finished by building his theoretical analysis rather on the disparity between "Bedarf," on the one hand, and available stocks, on the other hand, than on an analysis of prices. The latter was pushed back into a secondary place. Instead of becoming the groundwork it became the superstructure. It is recognized that Menger did not have a theory of the mechanism of price fixation which could compare with that of Walras or Marshall. He limited himself to underlying problems, such as the study of the subjective valuations of individuals in relation to the ratio of exchange. This relationship was examined by him from various points of view, in the case of an isolated exchange between two individuals, in the case of monopoly, and in the case of free competition.

The refinement of the theory was left to his pupils and followers, among whom Wieser and Böhm-Bawerk were outstanding. The basic contribution of Menger himself was the emphasis on variable elements such as "wants" and "needs" as opposed to the classical approach which centered around more stable factors such as cost of production and labor.

Menger's theoretical analysis was based on the implicit assumption of a static economy, and the use of this method provided a further contribution to economic theory in contrast with the "classical" approach. While Menger did fundamental work on the problem of allocation of resources and on the theory of imputation,⁹ the formal theories were worked out by his followers. The same is true for the theory of profit, for which his utility-theory, combined with his classification of goods into those of "higher order" and those of "lower order," formed the groundwork, while others, like Mataja, Gross, Mithoff, Kleinwächter, Koerner, etc., elaborated it.¹⁰

Carl Menger believed he was contradicting Adam Smith in stating that an original accumulation of goods was historically the primary

⁸ Cf. Hayek, *op. cit.*, p. xl, and Menger, *op. cit.* (1st ed.), pp. xlvi and 143.

⁹ See George J. Stigler, "The Economics of Carl Menger," *Journal of Political Economy*, XLV (1937), 242-47; see also Henry Delpech, *Essai sur la théorie autrichienne de l'imputation* (Paris, 1934).

¹⁰ Cf. Frank H. Knight, *Risk, Uncertainty and Profit* (Boston, 1921), pp. 28 ff.

condition for human progress, primary even to the division of labor. In fact, Menger made a mistake in accusing Smith of considering only the division of labor or of considering it even as the primary factor in point of time.¹¹ Adam Smith wrote: "As the accumulation of stock must, in the nature of things, be previous to the division of labour, so labour can be more and more subdivided in proportion only as stock is previously more and more accumulated."¹²

This passage and also the passage concerning the weaver who must have "a stock sufficient to maintain him."¹³ must have escaped Menger's attention so that he thought it necessary to give the famous example of an Australian tribe which practiced division of labor to the highest extent. Such a tribe, he maintained, could never make real progress unless its members proceeded to hoard their harvest and lived for a certain time on reserves, during which time they developed their productive techniques.

In spite of the fact that Menger's criticism of Smith¹⁴ was based on a misunderstanding, it contributed the groundwork for the theory of roundabout production which was later on elaborated by Böhm-Bawerk.

II. MENGER AS A METHODOLOGIST

While his *Grundsätze der Volkswirtschaft* contains Menger's principal contributions to economics, his *Untersuchungen über die Methode der Socialwissenschaften und der politischen Oekonomie insbesondere*¹⁵ contains his contribution to the development of social sciences in general.¹⁶ He taught at the period when the *Volkswirtschaftliche Kongress* was

¹¹ See Menger, *op. cit.* (1st ed.), pp. 26-29. This paragraph was not reproduced in the second edition by Karl Menger, Jr., this omission being due to a wish of the author himself, as his son indicated in a personal conversation.

¹² *The Wealth of Nations*, Book II, Introd.

¹³ *Ibid.*

¹⁴ Menger, *op. cit.* (1st ed.), p. 27 [after having quoted passages from Smith]: "I believe, however, that in his chapter on division of labor, this excellent scholar [Smith] . . . brought only to light one single cause of the progressing wealth of men and that others, which are not less important, escaped his attention" (translated from the German).

Gaëtan Pirou believes he finds here "une différence d'orientation, de conception" between the Austrian and the classical school (cf. his *L'utilité marginale de C. Menger à J.-B. Clark* [2d ed.; Paris, 1938], p. 24).

¹⁵ Leipzig, 1883.

¹⁶ An analysis of Menger's chief arguments is given by Albion W. Small, *Origins of Sociology* (Chicago, 1924), chap. xiv, "Later Phases of the Conflict between the Historical and the Austrian Schools," pp. 204-35.

superseded by the *Verein für Sozialpolitik*, when German economists adhered to the historical method, and when history was considered not only as an illustration but also as an explanation of economic phenomena.¹⁷ Menger's first book, *Grundsätze*, was hardly read in Germany. The leading economists, so sure of themselves, failed to recognize the value of one of their greatest contemporaries. While he did not provoke their comments with the *Grundsätze*, Menger had the satisfaction of arousing their anger with his *Untersuchungen*. Professor Gustav Schmoller, at that time the recognized leader of the historical school, was so upset that he replied¹⁸ in language which in its acerbity was uncommon even in Germany, where academic polemicists frequently exposed their personal grudges and fought their prestige battles in the pages of the economic reviews.

Now the ire of the quiet and distinguished Viennese was aroused, and in the *Irrthümer des Historismus in der deutschen Nationaloekonomie*¹⁹ he out-thundered the pompous Prussian by the brilliance and fire of his style as well as by the force of his refutations. Schmoller retaliated by announcing in his journal that although Menger had sent him a copy of the *Errors of the Historical School*, he was unable to review it because he had returned it to the author. He reprinted the insulting letter which he had inclosed with the returned copy.²⁰ Essentially the pamphlet on the errors of the historical school did not make any new theoretical contribution. It chiefly reproduced the arguments which Menger had given in his *Untersuchungen*. But it also exposed Schmoller's method of attack, namely, to accuse Menger of manifesting attitudes which in fact were absolutely strange to him.²¹

¹⁷ Cf. H. S. Bloch, *La théorie des besoins de Carl Menger*, p. 11.

¹⁸ Cf. G. Schmoller, "Zur Methodologie der Staats- und Sozialwissenschaften," *Jahrbuch für Gesetzgebung, Verwaltung und Volkswirtschaft im deutschen Reich*, 1883, pp. 974-94. This article was reprinted in a revised and mitigated form in G. Schmoller, *Zur Literaturgeschichte der Staats- und Sozialwissenschaften* (Leipzig, 1888).

¹⁹ Leipzig, 1883.

²⁰ See G. Schmoller, *Jahrbuch*, 1884, p. 677, and notice particularly his conclusion: "Many enemies means much honor"; see also Hayek, *op. cit.*, p. xxii.

²¹ Menger showed in the "fourteenth letter" of the *Irrthümer* how Schmoller had accused him of lack of understanding of all historical research. He states: "Da haben Sie den Schmoller! den ganzen Schmoller! Dass ein Kritiker einem Autor von diesem selbst klar ausgesprochene Gedanken im Tone zürnender Ueberlegenheit entgegengesetzt—Lessing sagt irgendwo: 'den Autor mit seinem eigenen Fette betrüfelt'—ist eine Armseligkeit . . ." (p. 77). ("There you have Schmoller! The entire Schmoller! It is a poor thing for a critic to show a scornful superiority

While the historical school excelled in the production of detailed investigations of economic and social conditions, Menger expounded the case for formal theoretical economics employing deductive methods. He also explained the relationship between the "exact" tendency and the "realistic empirical" tendency in the social sciences. The representatives of the historical school attacked economic theory on the basis that it had nothing to do with serious factual research. They denied the existence of all economic laws and believed only in "regularities" which could be discovered by historical and statistical analysis and which they sometimes called "empirical laws." Even the word "theory" became a term of reproach in Germany, and words like "doctrine" were used instead.

Professor Schumpeter²² pointed out how both Menger and Schmoller—especially the latter—exaggerated the differences between their respective opinions. It must be noted that while Schmoller wholly denied the usefulness of theoretical thinking and only in later years admitted that such an approach was in the realm of possibility, Menger took a more generous view toward historical research. He always agreed that there was a need for historical investigation, but he insisted simultaneously on the need for deductive, theoretical reasoning. Menger, the proponent of deductive methods, recognized without reservation the need for inductive work, whereas Schmoller, the inductive thinker, held that deduction was necessary only for the construction of a perfect science. Schmoller added that such a science would be reached only when theoretical axioms would explain all concrete phenomena. Menger, knowing that such a stage was not yet reached, limited himself to the building-up of a theoretical system which would apply only to problems stated under carefully defined assumptions.

The monistic methodology of Schmoller was followed much more closely by his students than by him. His influence was more dangerous than his own beliefs. For several decades theory remained a stepchild in German universities while Menger's followers became famous in Austria, Italy, England, and the United States.

While Menger made a considerable contribution to economic theory, it is his contribution to methodology which entitles him to a rank among the greatest minds in the social sciences at large.

while doing nothing else but opposing an author with his own clearly stated arguments—as Lessing said somewhere, 'to besprinkle an author with his own grease.'")

²² Cf. Joseph Schumpeter, "Epochen der Dogmen- und Methodengeschichte," in *Grundriss der Sozialökonomik* (Tübingen, 1924), I, chap. ii, 108.