

# Menger vs. Smith? Carl Menger's Reading of Adam Smith

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## Abstract

Based on some of Carl Menger's publications, his estate and archives, this article examines how the Austrian School relates to the thought of Adam Smith. Was Menger an heir of Smith, as Gustav Schmoller, leader of the German Historical School and Menger's arch-enemy, insinuated? Was there indeed a positive filiation, traceable in allusions to classical liberal views that the new marginalist Austrian economics would employ? And, generalizing from this: Are Austrians heirs to the British classical school? Some later members of the Austrian school, to begin with Friedrich Hayek, would indeed claim to be heirs to both Smith and Menger. Can one trace some genuinely Austrian ideas back to classical economics? Or are they incompatible? And to which extent did Menger oppose Smith? One result of the inquiry undertaken in this article is that while both should be labelled "liberals," this qualifier does not apply to them in the same manner.

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## 1. Introduction

In the history of economic thought, is it merely possible to acknowledge consecutive times through various schools? Technically, yes, that is all one can do. However, historians of thought usually seek to recognize ideational genealogies. One reason is that connections through time shed more light on various thoughts, not only as they relate to many trends, but as conceptual links evolving through time. Like human beings, ideas are born at some point of time – and sometimes they enter into a long slumber. Like the most famous individuals' birthdays, which we celebrate, ideas have come to the world on some (hopefully sunny) day we can remember.<sup>1</sup>

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<sup>1</sup> As this article expands on the presentation given in June 2023 at the NOUS conference in Edinburgh, Scotland, on the occasion of the 300<sup>th</sup> anniversary of Smith's birth, I thank colleagues and referees for their corrections and suggestions. The "we" that is used here refers to all of us then present at the event.

In tracing such ideational genealogies, one finds that the individual stands at the conceptual center of gravity of all so-called “liberal economics,” *i. e.* free-markets and free-trade economic thought. And all the more, in the case of the Austrian school tradition, both at the ontological and methodological levels. This contrasts with classical economics, which began with Adam Smith in the era of the Scottish Enlightenment. At this time, the division of society into several classes was hardly questioned. Nevertheless, both Smith and Carl Menger, the founder of the Austrian school, are usually labelled as liberals. This raises the question what it is exactly that they share and what it is that separates them. In the following pages, I focus on divergences between Menger’s and Smith’s views, in order to illuminate the spots where Austrian economics differs from classical economics more generally. Both will be discussed as part of the political tradition of liberalism.<sup>2</sup> To that effect, I will also reassess how Menger’s arch-enemy, Gustav Schmoller, was indeed responsible for including Menger in the camp of liberal thinkers following Adam Smith.

The major divergence between the British classics and the Austrian marginalists of the 1870s lies in their respective take on the nature of value (labor-value for the classics, marginal utility for the Austrians). Politically, however, Austrians took stands that bring readers back to the earlier times of classical liberalism. For example, Friedrich Hayek (1960), brought up academically in Vienna, would later portray himself as an “old Whig,” harking back to the era of Smith. Hayek had quite naturally endorsed Menger’s heritage, and apparently integrated both traditions nicely. But is this a clear sign that Smith’s and Menger’s views are compatible? If the contents of economic theories are fundamentally different, how is it that the political views of those who developed them do not diverge as well? The obvious answer is that the fact that different sets of principles may produce some identical conclusions in practical political terms, as much downstream as possible from theoretical basic tenets, does not provide a proper final measure towards views first taken from diverging currents of thought. A result of this study should be a better understanding of how theorizing and political conclusions in liberal thought relate.

## **2. Adam Smith as an Ambivalent Role-Model for the Austrians: Is a School of Thought the Expression of Some Collective Intention?**

In a “school of thought”, there may exist a plurality of views. When those vary openly, one may however say that a school of thought is therefore *not* expressing any “collective intention” *per se*. Many differences often remain implicit within a school, some positions are suspended, so to speak, while the debate shifts toward other issues of contention. Not all matters can ever be (nor necessarily have to be) set in line by each and every author within a school. This is quite natural, and it is sometimes even necessary to convince the public and create a distance to competing schools. What remains indispensable is the compatibility of some debated point with the core of the theory. Yet it may be presented in a new manner, or it may be left implicit.

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<sup>2</sup> In doing so, I will draw on research conducted at Menger’s archives at Hitotsubashi University and at Duke University.

Alternatively, some author may refrain from emphasizing some specific doctrinal subarea or may favor another, depending on the current state of the debate, and the existence of opposite intellectual forces. For instance, from the fact that Austrians are generally hostile to general equilibrium theories *à la* Léon Walras, it does *not* follow that Ludwig von Mises or Hayek rebuked using the idea of equilibrium altogether. They did not. Menger, however, did reject Walras' approach, as their correspondence demonstrates.<sup>3</sup> Another example is the difference between Hayek and Mises regarding uncertainty and risk. In Hayek's view, the inclination of economic agents towards uncertainty or risk is related to their being partly unconscious of the limits and/or consequences of their own actions. Cognitive limits as well as consequences of actions are beyond anyone's full reach – and that is true for each and every piece of genuine knowledge. In this difference, the issue of the extent of human understanding is at stake.

Likewise, when tracing a genealogy of so-called “Austrian” concepts, one may see that Murray Rothbard (1995) did not always favorably refer to Smith, even if the latter was pivotal for his outlook. Rothbard (1970) criticized Smith's views directly and offered alternatives – *e. g.*, on taxation generally (*ibid.*, 102–3), on the convenience and certainty of taxation (*ibid.*, 107), and on proportionality (*ibid.*, 114). More generally, he was critical of the idea that historians of economic thought should focus on the “great man,” as practiced by the mainstream history of economic thought. Other “Austrian” authors provide plenty of other *pro aut contra* examples dealing positively or negatively with Smith. If at all, Smith was an ambiguous role model in the eyes of many members of the Austrian school.

This diversity in the relationship of the Austrian school to Smith is all the more relevant as the school is one-of-a-kind: marginalist reasoning emerged more or less at the same time through Menger in Austria, Walras in Switzerland, and Stanley Jevons in the United Kingdom. It was a “simultaneous discovery” (Merton 1963). Notwithstanding this simultaneity, the trio diverged in their attitudes to the notion of equilibrium. Walras and Jevons put forth equilibrium, Menger discarded focusing on it, and the Austrians generally were prime critics of mainstream general and partial equilibrium. Insofar, ambivalence is somehow constitutive of the “Austrian” school.

The Austrians had to fight their way against various schools of economic thought at each major turn in the school's development. Menger fought against Gustav Schmoller and the German Historical School in the 1880–1890s, but also against the post-Smith classics as well as against his own contemporaries who favored marginalist equilibrium. In his footsteps, Hayek fought against Keynes and his followers who advocated interventionism. By then, Mises had already fought the “calculation debate” against Oskar Lange when the first large-scale attempts at socialist planning began in the 1920s. Half a century later, in the United States, Rothbard fought the so-called “liberals”, *i. e.*, the progressives and revolutionaries of the 1960s and 1970s. There

<sup>3</sup> The Walras-Menger correspondence started on July 2, 1883. Walras proposed Menger to join forces with him in a common fight against classical thought. Menger agreed to fight the classics, but insisted it would benefit neither Walras nor him to pretend that they agreed when they did not: “*ce ne sont pas nos intérêts à vous comme à moi d'être en accord*” (Jaffé 1967, 771). Other letters (especially one dated January 27, 1887: *ibid.*, 176) show that the argument went on. See also Jaffé 1976.

were enough fights to make the “Austrian” school a very heterodox church. This heterodoxy never implied collective or institutional schemes as alternatives to “mainstream” economics. The Austrians have always been aware how mistaken it is to use collective notions in the social sciences.<sup>4</sup> And until this day, they keep reminding economists that the primacy of methodological individualism goes with accounting for the subjectivity of the individual.

If subjectivity means, with Hayek (1945), that the economic problem really consists in an optimal use of knowledge in society and that the decentralization of knowledge is constitutive for a market economy, the question arises what methodological individualism could sensibly mean. This is one of the issues tackled by the Austrians from Menger onwards: to which extent is an economics of time and ignorance possible and useful?<sup>5</sup> There is no impossibility there, but a need for clarifying the importance of methodological individualism as constitutive of the field of social sciences. This debate shaped the discipline for more than a century (Bulle and di Iorio 2023). A pure form of methodological individualism is today found in the Austrian approach alone, in contrast to “mainstream” economics and other brands of heterodox economics. It demonstrates that, despite the heterogeneity within the school, its core principles and values can still serve as a benchmark to characterize and identify it most aptly (Caldwell 1984).

For the purposes of the present paper, it suffices to *dehomogenize* the Austrians from other sorts of heterodox thinkers as well as from other liberal free-traders. And this includes the classical brand of free market economics that originated in Smith’s works.

### 3. Labelling Menger a Smithian was a Schmollerian Tactic

A dehomogenization of the Austrians from Smith specifically is all the more important as the inclusion of Menger in the camp of liberal thinkers following Smith was merely the result of Schmollerian tactics. It was Schmoller who denounced the Menger School as “Smithian” when he fought the “dispute on method” (*Methodenstreit*) with Menger in the 1880s.<sup>6</sup>

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<sup>4</sup> They were not alone in this, but were joined early on by Max Weber ([1920] 2012).

<sup>5</sup> See O’Driscoll and Rizzo 1985 and 2015 for one of the seminal works in modern Austrian economics.

<sup>6</sup> The *Methodenstreit* (for which there is a huge literature in German and in English) started with Schmoller’s book review titled “Die Schriften von K[arl, sic] Menger und W[ilhelm] Dilthey zur Methodologie der Staats- und Sozialwissenschaften” in the *Jahrbuch für Gesetzgebung, Verwaltung und Volkswirtschaft im deutschen Reiche*, 7/3, 1883, 239–60. It was repaginated 974–994 in the annual volume and republished as “Zur Methodologie der Staats- und Sozialwissenschaften” (Schmoller [1883] 1888). See Campagnolo 2010. The text was translated by the NOUS network, see <https://econjwatch.org/File+download/1157/MengerSept2020.pdf?mimetype=pdf> and: <https://elibrary.duncker-humblot.com/issue/7238/the-jahrbuch-the-first-150-years>.

### 3.1 Schmoller vs. Menger

Schmoller indicted Menger from the start. He aimed at all followers of Smith, naming for instance Thomas Buckle (whom Menger himself often quoted in his works) when saying:

For those who think that political economy is a more or less complete science, like for instance the English epigones of A. Smith, it is quite naturally a purely deductive science. In his smugness, [Thomas] Buckle stated that "political economy is as essentially a deductive science as geometry is": it is quite surprising that people who acknowledge that our science is still in its beginnings could express themselves in such a manner (Schmoller [1893] 1904, 62, my translation).

For Schmoller, this applied to Menger as well. How fierce and heated the polemical debate became between Schmoller and Menger is clear through the writings on both sides.<sup>7</sup> There was a good deal of bad faith in the fight, especially on Schmoller's side. Among all arguments put forward by Schmoller, what stands out is the idea that pure deductive reasoning is what makes Menger an epigone of Smith (mirroring his English followers). Menger indeed found that deduction was needed to break away from the overly inductive methodology of German historicists. In this debate, he possibly introduced the notion of *abduction* besides deduction and induction (Milford 1989). However, this was not enough to regard Menger's perspective as typically Smithian. And, what is worse, it is quite unclear whether Smith's work can correctly be qualified as deductive. What seems to have been going on is simply that Schmoller aimed at making Menger closer to Britons than to Germans, while Menger indeed favored the deductive approach because he put theory first; something that the Historical School had abandoned, even if they would not recognize it. Schmoller just meant to bring disrepute to his opponent. He was not interested in a real ideational genealogy.

Schmoller was extraordinarily influential in German academia. Almost all nominations to chairs in economics at German-language universities required his approval. Almost all German economics professors were members of the *Verein für Socialpolitik* (the "Association for social policy") that Schmoller had co-founded in Eisenach in 1872 and whose director he was from 1890–1917. Every display of independence was seen as an unwelcome challenge to the power exercised by Schmoller.<sup>8</sup> The German Historical School was hostile to liberalism, yet modernist and relativistic with regard to theory and history. In contrast, Menger's political environment in the Habsburg Empire was hostile to liberalism, but favorable to a pure theoretical approach. Portraying Menger as an heir to British masters (Smith, David Ricardo, John Stuart

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<sup>7</sup> This needs to be understood based on the cultural and national tensions between Berlin and Vienna more generally. Actually, Southern Germans had just had quite a hard time choosing between two loyalties, and Schmoller, who was a Swabian, had turned first to support the Prussian side. This situation, specific to German-speaking countries, had consequences on the battlefield first (where the Prussian army defeated the Austrians at Königgrätz in 1866) and in many sectors, including the sciences, later on.

<sup>8</sup> Menger was safe as an *Ordinarius* at Vienna University. He had received support from Lorenz von Stein for this position. Furthermore, Menger had tutored Crown Prince Rudolf: under risk from the court, but safe as a university professor.

Mill) and the Manchester School was a means of fighting for the *Verein* and Prussia, bringing disrepute to anybody attempting to favor theory.

### 3.2 Erich Streissler's Revisionist View

One consequence of the dispute on method was that Menger was severed from the German Historical School. As a corollary, German-speaking academics were prevented from becoming "Austrian" in the notional sense. Schmoller defended his own benefits. Menger never sought to be cut off. He had dedicated his 1871 *Principles of Economics* to Wilhelm Roscher, the founder of the "Older German Historical School." He explicitly mentioned the school "with respectful esteem" in the foreword that ends with the following homage to German scholarship: "Let this work be regarded, therefore, as a friendly greeting from a collaborator in Austria, and as a faint echo of the scientific suggestions so abundantly lavished on us Austrians by Germany through the many outstanding scholars she has sent us and through her excellent publications" (Menger [1871] 1951/1976, 49).

One century later, however, at the chair of economics that Menger once occupied at Vienna University, Erich Streissler aimed to change the view of Menger as an innovator. He categorized him as a "German economist," a late-coming epigone of the *Nationalökonomie* that flourished in Germany between 1825 and 1875 (Streissler 1990). Restoring earlier attempts at building a theory based on marginal utility, he downplayed the innovation that marginalism had had, especially the role that Menger had played in it (Streissler 1972). The case of Hermann Heinrich Gossen is well-known (Campagnolo 2010, chap. 8; Tubaro 2009; Kurz 2016), and the work of Hans von Mangoldt also reemerged (Mangoldt 1868, a book which Menger owned and had read). Just as paradoxically as Schmoller attempting to make Menger a follower of Smith, Streissler insisted on making the Viennese Menger a follower of the German Berlin-led school.

It is true that Menger had his roots in German economics. He was no *Kathedersozialist* like most members of the German Historical School, even less a pamphleteer like Karl Marx, but an academic who knew all views very well and intended to remain within the academic sphere, however arch-dominated by his opponents. Menger made much use of the work by Karl Heinrich Rau, a moderate classical school free-trader whose textbook (Rau 1863) was widely used for an introduction into economics at German universities. In the more advanced classes, German professors usually discarded the book and explained that theory had to be followed by historical studies. But Menger used the volume as almost a template for his own *Principles*. By criticizing it, he built his own perspective (Kauder 1959). That much has to be granted to Streissler. But it makes Menger all the more *Austrian*, since he was neither following the German minority of liberal professors nor Schmoller's herd of *Kathedersozialisten*. If anything, Streissler's revisionist attempt proved Schmoller's bad faith in calling Menger an heir to Smith.

The only real way, then, to decide how much Menger agreed with Smith is to work with the facts at hand, consulting books and archives. It is time to go back to the sources, to see what Menger read and how he wrote about Smith.

## 4. Back to the Sources: How Did Menger Read and Write about Smith?

### 4.1 Smith in Menger's Book Collection

Menger owned one of the largest collections of books in the social sciences in his time. He kept them at his home in Vienna, using his apartment as the venue of his *Privatseminar*. There, the best among his students would gather and study under his supervision. It was common practice by professors at a time when education was not massive, but highly praised. After Menger's passing, almost the entire collection, containing more than 20,000 volumes, was bought by Japanese students who came from Berlin. The collection is still in Japan today (Campagnolo 2000; 2008; Ikeda *et al.* 2010). Together with a few books (now lost for research), the rest of Menger's archives (notebooks and personal items, mostly paraphernalia) was taken to the United States by Menger's son, Karl (1902–1985) in 1938, before the *Anschluss*. One can consult Menger's papers at Duke University today.

The collection that was sent to Japan in 1921 contains Smith's *An Inquiry into the Nature and Causes of the Wealth of Nations* (WN), 1776, in the Basil edition from 1801. This volume was recuperated by the library of the Economics Department of the University of Tokyo, while (most of) the rest of the collection is kept at Hitotsubashi University. It includes a German translation of WN by Max Stirner (Leipzig 1846, 4 vols.) and another translation (in two volumes). There is a larger collection of writings by Smith both in the original English and in German translation. From the marginalia, it is clear that Menger read part of the books. However, he had probably read neither all of them nor had he consulted all the volumes that he owned. Some books may have barely been considered at all. Menger carefully annotated the volumes he worked with. So, unfortunately, no obvious insights for the present article can be drawn from a look at Menger's library.

### 4.2 Menger on Smith's "Propensity to Barter and Exchange"

What about Menger's own works then? Menger indeed cites Smith in them, both in the published text and in the personal notes he added that he either kept for himself or intended to divulge in a later edition he, however, never provided.<sup>9</sup> Notes that Menger meant to provide his publisher with for a further revised edition of his *Principles of Economics* are in his annotated copies.<sup>10</sup> In the printed text of the published chapters, and in the printed notes as well, one often finds very long indications. Moreover, handwritten corrections (*Berichtigungen*) and additional text occupy much space. References appear mostly in printed footnotes. Authors are, less often, debated in main text paragraphs. Where Menger added handwritten notes, he filled every inch of space with references to philosophers and economists from Aristotle to his own contempo-

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<sup>9</sup> His son did in 1923; I will come back to this below.

<sup>10</sup> Menger worked on a revised edition for forty years without getting it out himself. While his son did in 1923, the notes in the 1871 volumes appear to be the last testimony of what his father himself had wished for, yet which he had left unfinished. Among several copies, the copy Menger had numbered "N° 3" bears the most significant annotations.

varies (including his German foes). It is in the printed text (where he more seldom discusses authors), at the opening of Chapter IV on “The Theory of Exchange,” that Menger openly criticizes Smith:

Whether the propensity of men to truck, barter and exchange<sup>11</sup> one thing for another be one of the original principles in human nature,<sup>12</sup> or whether it be the necessary consequences of the faculties of reason and speech,<sup>13</sup> or what other causes induce men to exchange goods, is a question Adam Smith left unanswered. The eminent thinker remarks only that it is certain that propensity to barter and exchange is common to all men and is found in no other species of animals (Menger [1871] 1951/1976, 175).

Menger considers it a mistake to view trading as an anthropological constant which needs no further explanation. Menger instead chooses to draw on Aristotle for human needs and, after accounting for marginalist reasoning, builds his own theory of exchange upon subjective utility-value (in Chapter III of the *Principles*). The value that each agent is subjectively ready to assign (and therefore the price the agent is ready to pay) for a good (or a service) depends on the last unit of the good that one, individually and always diversely, feels the need for and wishes to use in order to satisfy one’s needs. What one does not conceive of as a need has no value in one’s individual view. This simple device is so powerful that it makes any conceptual crutches superfluous. Triggered by marginalist reasoning (one more unit for a little more satisfaction until satiety), it clarifies the issue for which Smith needed an assumption.

One can thus see a pivotal moment for economics in the beginning of Menger’s chapter IV. This was a “re-boot” for economics. And German economics had long waited for a new track upon which to embark. When, half a century later, Hayek republished Menger’s *Principles*, he attributed it as a revolution in the field.<sup>14</sup> Schmoller had misled everybody when he wrongly accounted how Menger had read the Scotsman. As it turns out, there is at least a very strong tension between Smith and Menger.

## 5. Smith or Menger: Searching for the “Founder” of Economics

Smith is widely acknowledged as the “founder” of the science of political economy. However, this role may be debated. The French like to think that the Physiocrats were forerunners in the Enlightenment age. Otherwise, proponents of formalistic econom-

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<sup>11</sup> There is a handwritten note after the verb ‘*tauschen*’: “Kautz, I, 34, 2” [Menger referred to Julius Kautz, *Die Geschichtliche Entwicklung der National-Ökonomik und ihrer Literatur* (*The historical Development of political economy and related literature*), Vienna, 1860, 2 vol.

<sup>12</sup> There is a handwritten note before a printed footnote: “Aristoteles *Politeia* I, 6”. The first and prime nature source of exchange consists in that men have more of one thing, and less of another that they feel the need for.

<sup>13</sup> Smith, A. [1776] 1801. *Wealth of Nations*, vol. I, p. 20. Quote of Smith (and translation of the whole quote by J. Dingwall and B. Hoselitz: Menger [1871] 1951/1976, 175).

<sup>14</sup> Hayek provided in English *only* his own introduction to the *Gesammelte Werke*, but no translation of the original texts, neither the *Principles* nor the *Untersuchungen* of 1883. The first English version of the *Principles* is the one translated by Digwall and Hoselitz (see previous footnote). For the first (and incomplete) version of the *Investigations upon the Method* in English, one would have to wait until 1963 (Menger [1883] 1963/1985).



ics tend to favor Walras with his general equilibrium model, which is another choice within which the French may relish.

Nonetheless, the view usually taken for granted regarding Smith and the English tradition dominates the mainstream of the discipline: everything began with Smith, and the classics were followed by “neoclassics” (a denomination that also deserves debate) who had integrated the marginalist revolution via Alfred Marshall's synthesis. Later, post-1945, US-based university economics followed 19th-century British hegemony of the field which John Maynard Keynes had helped to revive by putting “macroeconomics” center stage in the 1930s. But where, in all this, did Menger stand, and where to place the “Austrians”?

### 5.1 Menger and the “Thousand Vicissitudes” that “Exchange Is Heir to”

Probably not many would have Menger as a candidate for the position of the real founder of economics. When it comes to defining economics as a proper science, not merely some “political economy” in the sense of the classics, the idea, however, does make sense. That Menger aimed at a foundational contribution may be corroborated by the fact that he wished to change the title of his 1871 work from the trivial phrasing of *Principles of Economics (Grundsätze der Volkswirtschaftslehre)* into *Pure theoretical economics (reine theoretische Wirtschaftslehre)*. This is evidenced in the annotated copy of his book kept at Hitotsubashi Library. When Menger's son edited the second version of the *Principles* in 1923, however, he did not follow his father's intention although it was clearly indicated on the title page. Anyhow, Menger's wish is a serious indication that he saw himself as fundamentally changing the methodological and theoretical options of economics of his time. And that same impulse contributed to establishing the “Austrian school”: Menger's correspondence shows that he purposefully established his school in Vienna so as to counterbalance the “Berlin” German Historical School.<sup>15</sup> Menger reset the field as a new science with a new methodology. Whether one judges that this was a success or not, this makes him more a rival than a mere epigone of Smith, at least in the long run of the history of economic thought.

Interestingly, Menger set forth a point taken from the *Cours d'économie politique* by Pellegrino Rossi as the aim of economics, adding “*sehr richtig*” (very correct) next to the following words: “If you could only follow the thousand vicissitudes of the market, all the contracting parties, and if you could strictly analyze their circumstances, if

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<sup>15</sup> Menger wrote for a report to the Ministry: “As specially regards my activity as a teacher at the University of Vienna, my lessons in political economy [*Nationalökonomie*] and the science of finance [*Finanzwissenschaft*] have been among the most frequented ones by students in the whole Faculty of Law [to which the economics curriculum belonged: note of the translator] – an audience of more than 400 in the last Spring semester. In connection with my seminar of economics and finance [*Seminar für Nationalökonomie und Finanzwissenschaft*], which has been active for two decades, those lessons have obtained success beyond the usual measure for teachers. *This holds in particular as regards founding an Austrian school of economics [Dies gilt insbesondere von der Begründung der oesterreichischen Schule der Nationalökonomie]*”. The letter Menger wrote in March 19, 1903 to the Kultusministerium in charge of the Universities was clear enough (*Wiener Staatsarchiv* and *Stadt- und Landesbibliothek in Wien*. My translation).

you could weigh, so to speak, their proper needs, then you would have found the solution to our problem.” ([1852] 1865, 53).

Menger quoted Rossi in French.<sup>16</sup> He pointed to the flexible moves defining agents’ behavior in economics, and the role of the ability to make flexible moves on the part of economic observers. Incidentally, today, this might well be where multi-agent computer simulation leads us with the tools of artificial intelligence. Whatever the technique, the anthropological characterization at stake is to recognize the economic agent; this view implies to identify what is of prime interest. How to recognize *who* is an economic agent (and who is not), *what* an agent does (when maximizing return on payment/investment, for instance), *which* action to undertake (and the nature of entrepreneurship as its consequence), this is what matters most in “doing” economics.

Pointing at some global approach for science to follow does not in itself provide any definition of economics. It may help, however, to list tasks to accomplish: The act of defining comes with self-contained limits to rationality. A proper definition implies accurate limits to the assumed rationality of agents – a problem that the economic mainstream has struggled with for a long time or solved unsatisfactorily. Listing characteristics for economic knowledge was another key approach. While the mainstream ended up going along with full rationality models of perfect knowledge, which equals omniscience and sets agents into “perfect” (and utterly unreal) worlds, Menger, in his days, was a much more realistic thinker. He repeatedly recalled the words by Jean-Baptiste Say: “Facts are masters to us all.”<sup>17</sup>

One could also put Menger on the side of a more equally universal nature of individuals: While Smith opened his WN with the famous example of the pin factory, composed of men working collectively, and made labor the basis of his view on value, therefore causing to classify people either as workers, or capitalists or landlords, the starting point for Menger, in his *Principles of Economics*, was a universal individual. Such individuals are endowed with abilities and seek to satisfy their needs. Human beings are private individuals. Their satisfaction differs for each and every one. All do eat and drink, all require shelter and satisfaction of basic needs, but seldom the same things at the same time and at the same price. Individuals need diverse things at different places and moments, and prices vary all the time. Everyone sleeps yet in widely differing locations. Freedom of choice is key. It depends on constraints: budgetary, technological, environmental, and so on. The knowledge each and every agent has, the drive to produce better and cheaper, and the time to do so, all of this comes from a subjective feeling that such agents may have.

There are still more differences between Menger and Smith, as I shall exemplify with one last example on capital theory. Smith’s distinction between “natural goods”

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<sup>16</sup> “*Si vous pouviez suivre à travers les mille vicissitudes du marché, les parties contractantes, en analyser rigoureusement la position, en peser pour ainsi dire les besoins, vous auriez la solution vraie du problème*”: Menger’s copy of the 1871 *Principles*, handwritten note facing p. 108. My translation. Rossi had succeeded Say as the Chair of Political Economy at the *Collège de France*. Menger annotated his textbook.

<sup>17</sup> In the original French: “*Les faits sont nos maîtres à tous*”, a quote Menger wrote often in his notes. The original quote is to be found notably in (Say 1833, 114), a copy of which Menger owned in his library kept in Japan.

vs. “produced goods,” as the source of all revenue in productive hands (see, *e. g.*, WN II.iii), was a step towards a theory of value based on the cost of production. For Menger, however, the necessary distinction between goods does not refer to their origin, but to the ranked orders of use/consumption, from the “first order,” directly consumed by agents, towards “higher” orders of resources being further remote from final use, indefinitely to the most basic resources (land, water and so on).<sup>18</sup> Also, Smith used his definition of capital to describe the economy as a whole functioning as one agent, “social” or rather “national capital” so to speak (see, *e. g.*, WN II.iii.32), while private agents own private capital. Conversely, for Menger, the “wealth of nations” seen as a collective was a concept irrelevant as far as economic analysis of the behavior of individual agents is concerned. Menger thus created methodological individualism, while Smith was far away from that view.<sup>19</sup>

## 5.2 On Methodological Individualism and Labor

Methodological individualism is a key issue differentiating Menger from the classics and Smith. For Menger, the individual is *any* economic agent, once the economic nature of this agent has been recognized to depend on effective economic action. Smith and the classics held on to categories whose socio-economic characteristics were essential: proprietors are land rent-seekers (landlords), capital investors are industrialists, and laborers/workers, endowed with *Arbeitskraft* (working power), proletarians (the word, taken from ancient times, made progress in modern times).

The classics made labor key. In Menger's 1871 *Principles* as well as the 1883 *Investigations*, the focus is on “economic achievement” (*Leistung* and *Arbeitsleistung*). The latter potentially goes through labor, but labor is just another input in the process of obtaining goods. It is not a key to determine value and prices. Whatever inputs may be included in a given good (or service, or baskets thereof), only the individuals actually decide to consume or not, producing them for their own consumption or intermediate production and barter, sale, trade, and so on. Each and every individual makes a choice at every moment of their effective action by using the device of subjective utility, *i. e.*, a simple calculus determining whether to get one more unit of labor or one more unit of leisure time, whether to enjoy one more unit of good A over a first one of good B, and so on. Decision theory comes from there and economists later discussed the matter at length.<sup>20</sup>

The notion of labor is the path that led the neo-Hegelian Karl Marx to posit class consciousness as an essential feature of the (anti-)capitalistic mind. It is true that Smith, in WN, argued against coalitions of merchants since the latter tend to act contrary to the general interest of the nation, seeing their own interest as identical or whole-encompassing (*e. g.*, WN I.xi.p.10). But the collective entities, the classes

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<sup>18</sup> The passage mentioned above from Smith is also what Menger quoted (in Chapter I, § 5 of his *Principles of Economics*) from WN, vol. I, chapter 1 of the 1801 edition by W. N. Basil that he owned (Smith [1776] 1801, vol. 1, 6).

<sup>19</sup> This label would only emerge later.

<sup>20</sup> Decision theory has one of its sources here, as do many theories like agency, information, complexity, *etc.*

that prevail in his work, stand at odds with the notion of individual rationality. The economic agent in Smith (and his epigones) does not fit the requirement of individual neutrality which Menger and the subsequent Austrians advocated. Collective notions may be useful for other purposes, but Menger aimed for pure economics. In Menger's theory, in order to understand how the economy works, one simply needs to show how individual agents interact following their material needs for goods and services. There is need neither for a labor theory of value nor *Arbeitskraft*.

## 6. Menger: a Thinker in the True Tradition of Liberal Economics?

Menger can be labelled the founder of Austrian economics, and his school the sole defender and true illustrator of subjective methodological individualism. If so-called "free-market" economics is based on individual agents as the basis of science, and if its proponents stress the signaling role of prices based upon the structure of private property, methodological individualism however does not necessarily categorize economists within the boundaries of any type of political advocacy. On the contrary, Menger was explicitly hostile to politics within the realm of science. In his view, scientific reasoning was impaired by the imbalance caused by political causes. This was true of the Schmollerians as well as of proponents of free-trade. Menger had nothing to do with such "advocates" – a word he used in utter disdain, as shown by a handwritten note: "Political economy is a totally neutral science, which neither Communists, nor Socialists of the Chair, nor advocates of free-trade, see clearly."<sup>21</sup> In Menger's eyes, and for the Austrians faithful to his attitude, methodology, ontology, and politics in a community or in society differ in nature.

### 6.1 Menger and (some) Liberal Strands

Is Menger a thinker in the true tradition of liberal economics? It is a difficult question if one commences from a starting point maintaining that Smith is said to have ignited a modern kind of liberalism.<sup>22</sup> Menger defended Smith against critics that were unfaithful to his works, but that does not make Menger a follower of Smith. On labor and the workforce, some clarification may be useful: Smith had *not* spoken *against* the cause of workers (or rather, labourers), who are useful and productive (WN Intro) and whose interests are strictly connected with the interests of the society (WN I.xi.p.8), contrary to those of merchants (as already mentioned above). Smith defended them in WN. Whenever there was the strong and the weak, he sided with the weak. And for this, Menger praises him at a moral level. He just adds that there should be no confusion

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<sup>21</sup> Our translation of: "*Dass pol[itische] Econ. eine ganz neutrale Wissenschaft ist, weder Kathedersoci[alistisch] noch Freihändler, noch communistisch*": on blank page before the "foreword" in Menger's copy of his *Principles*. A little further: "Communists, Socialists of the Chair, partisans of Free-trade, all advocates!" (*Kommunisten, Kathedersozialisten, Freihändler, alle Advokaten!*").

<sup>22</sup> This issue would call for a litany of references since it was raised as soon as Menger's *Principles of Economics* became known. Many of those references will be found in the debate organized within Part II of (Campagnolo 2008, 109–65), hence I refer the readers to the three essays there with their references.

with the erroneous idea of labor-value (1871, Chapter I, § 5), hence no need either to defend *any* cause as a scientist. Menger aimed for economists to side with science only, and to remain devoid of value judgments per se.

“Value-freedom” (*Wertfreiheit*), in terms of the meaning that Weber would give to the word, was then a bone of contention for another “dispute” among German academics. Against relativists who argued that any judgment is inevitably value-laden, Weber argued for “*Werturteilsfreiheit*”, that is to say for scientific judgments that would conscientiously be freed of value-judgements inasmuch as scientific practice in the social sciences should not incorporate values. This does not mean that one should be oblivious of the positioning, role and values that any observers carry with them, quite exactly the opposite: it is acknowledging the role and limits that values force upon any observer in order to rid the judgment on them to the greatest extent possible. For instance, anyone who defends some cause is, by definition, an advocate. A scientist would describe various advocates’ views, without siding with any of them, but showing conditions and perspectives that circumstances may explain. In that view, scientists are observers and may even participate in groups that they observe, but they differentiate themselves as well as between various observing perspectives. Partisan attitude consists in finding arguments in favor of a specific positioning only. Like Weber, Menger criticized “attitudes” by “advocates” of any positioning, when vituperating “Communists, Socialists of the Chair, partisans of Free-trade, all advocates!”<sup>23</sup> Menger thought that when academics entangle themselves in specific views, they somehow become journalists entrenched in their (possibly erroneous) views.

## 6.2 Menger and Kant: Menger's Pure Theoretical Economics

As already mentioned, Menger intended to re-title his theoretical 1871 work as *Pure Theoretical Economics* (*reine theoretische Wirtschaftslehre*). For the scientist, necessary truths are ... necessary, as Wittgenstein might have put it. For their sake, deduction comes first, rather than induction from collected facts. Also, economic policy, or rather social policy, was a secondary, applied task for Menger. Except for the sake of modernizing the economy of the Habsburg Empire, which badly needed it and for which Menger would side against all kinds of conservatives, Menger was no supporter of any political position. Subsequent Austrians displayed more one-sidedness, but the idea is supported by all authors in this tradition that, so long as the free will of individual agents is respected, politics may be what it is, and the economy may function.

By focusing on individual decision-making, they make individual freedom their basis. It is thus possible, following Menger, to put aside the question whether the necessary institutional preconditions exist in a given political environment. If they do not, Menger's framework provides a tool for analyzing efficiency losses. It would pertain

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<sup>23</sup> For this quote, see the above footnote 21. It is also noteworthy that between and politics the most well-known comparison is based on Weber's 1917 Munich lecture “Science as a Vocation” that clearly differentiates scientists and politicians (see also his 1919 lecture on “Politics as a Vocation”). They differ as much for Weber as advocates and economists for Menger. See (Weber [1917] 1946 and [1917] 2004).

to later disciples like Hayek to try to be activists. In this respect, Menger's pure economic theory is at least compatible with the normative thrust of classical liberalism. And this was all Austrian economics needed to establish closer links with a parallel orientation in political philosophy. This explains how with some of the same methodological devices and overall directions, some Austrians could endorse the Smithian tradition as well as the Mengerian – while others would be cautious and insistent on making proper distinctions. The circumstances would cause to favor one attitude or the other.

In any case, Menger stood firm for pure theoretical economics. This is again made explicit when he explained: “Kant sees no pure reason at work in theoretical political economy.”<sup>24</sup> In Kant's works, it is practical reason that is at work regarding economics. Practical reason may be pure, but Menger follows the use that Kant himself made of the term in the title of his first Critique of 1781, the *Critique of Pure Reason* (*Kritik der reinen Vernunft*) – by which he meant pure theoretical reason. Indeed, when Kant himself wrote passages on money, intellectual property rights, and short essays on “what is money?” and “what is a book?,” these were inserted in the *Doctrine of Law* (*Rechtslehre*, Part I of the *Metaphysics of Morals*, *Metaphysik der Sitten*): They are not in the *Critique of Pure Reason*.<sup>25</sup> This lack of economics at the level of theoretical reason is a shortcoming in Menger's eyes, who considers it his duty to complete the task.

In this perspective, Menger sided neither with the Viennese anti-Kantians nor with the Austrian opposition to critical idealism in the tradition of Franz Brentano and his colleagues at Vienna.<sup>26</sup> Menger approved of the Kantian undertaking displayed in the *Critiques*, a major reform for the sciences, as was proven above. However, as we just saw, Menger resented that Kant had severed economics from pure reasoning, thus leaving economics aside that field from the realm of sciences based upon strict causal explanation. In Menger's eyes, Kant had gone astray and it meant that the Copernican Revolution still had to be accomplished: Smith had not achieved it either.<sup>27</sup> Menger probably saw that in Vienna he was himself “fit for the job.”

Whether a Smithian perspective tends to make economics side with or a part of the natural sciences can be debated. Smith himself had done so – and Hegel later com-

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<sup>24</sup> “*Er [Kant] sieht in der theor[etische] Nat[ional]ök[onomie] keine reine Vernunft*”: Überweg (1872, 172). Our translation. In the volume, pages 177 to 208 are unfortunately missing.

<sup>25</sup> The *Critique of Practical Reason* (*Kritik der praktischen Vernunft*) in fact deals with pure reason, like the *Critique of Pure Reason*, but this time Kant deals with pure reason in the realm of practical matters. That is to say that Kant indeed discussed pure practical reason, but located matters pertaining directly to economics elsewhere: in the *Doctrine of Right* (*Rechtslehre*). Whether this can be seen as implementing pure reason in economics remains unanswered. Could he have done otherwise? In any case, he did not, and a frustrated Menger remained unsatisfied, as his manuscript notes show.

<sup>26</sup> This claim is documented in Menger's handwritten notes and the basis for a further paper to be published in the French philosophy journal *Cahiers philosophiques* (upcoming 2024).

<sup>27</sup> There were good reasons for that situation however, which can be understood by the definition and role of practical reason in Kant's system. Practical reason deals with how agents act by power of will. This characterizes “practical philosophy” as such and made economics fall as it was then practiced.

pared economics with astronomy<sup>28</sup> –, but Kant did not. Menger thought the right track was first to restore strict causality. In a nutshell, in Menger's eyes, Kant had not finished his own so-called “Copernican Revolution” so long as economics would be missing. Therefore, Menger had to build exact economics himself. He saw to it by providing a pure theory, an achievement that had not been obtained with Smith, notably due to his erroneous labor-value theory. The matter was still at hand, and Menger simply stepped out to undertake it.<sup>29</sup>

## 7. Conclusion

Smith and Menger, one century apart, agreed on the primacy of individual decision-making and the benefits to expect from free trade. However, if such commonalities have impacted the evolution of the science of economics as a whole in so-called “liberal/free-market” thought, many divergences still have a larger impact. Both authors are justly labelled “liberal economists” who argued for free trade and free choice by agents as key to economic mechanisms, but it is Menger's marginal utility reasoning that establishes him as the founder of methodological individualism. In this, he is not a follower of Smith. Menger offered a distinctive theory and methodology in his 1871 *Principles* and 1883 *Investigations*, provided a new set of concepts, with a renewed anthropology of the economic agent (more explicit in his handwritten notes). Menger thus created a pivotal moment in the history of economic thought, somewhat akin to Kant's revolution in the natural sciences. Menger did that for economics, at the “great crossroads” of the turn of the 19th to the 20th century. He deserves our admiration even more than Smith, the first founder of political economy.

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<sup>28</sup> See Hegel, G.W.F. *Principles of the Philosophy of Law*, section on the “System of Needs” (*System der Bedürfnisse*) § 189, additional remark. In the German original: “*hat eine Ähnlichkeit mit dem Planetensystem, das immer dem Auge nur unregelmäßige Bewegungen zeigt, aber dessen Gesetze doch erkannt werden können*” (Hegel [1821] 1970, 347).

<sup>29</sup> See the list of my research in this area available in Campagnolo 2022.

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## Menger vs. Smith? Carl Menger's Reading of Adam Smith

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