

**Economic History Association**

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Author(s): Peter J. Boettke

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satisfaction, Olney goes on to consider the importance of consumer credit and advertising as causes or consequences of the revolution.

Relying on secondary sources, she demonstrates the substantial increases in consumer credit after 1919. Along the way the reader is given details about the terms on which credit was extended. Olney argues that the original intention of the providers of increased credit was to finance dealer inventories, not consumer purchases. If true, this is certainly an interesting fact in the history of innovations. It is not clear, however, how this purported origin of consumer finance should change our view of consumer behavior in the 1920s and 1930s. In any case, Olney believes that credit substantially widened the effective market for durables; and she argues that this explains some of the shifts she claims to have detected in the determination of demand. However, she also presents data indicating that the proportion of new cars sold on credit was flat or declining from 1919 to 1939 (pp. 96–97).

The chapter on advertising includes the results of an intensive examination of advertisements in *The Ladies Home Journal* from 1901 through 1941. Olney has counted the number and size of advertisements in her sample and categorized them into her thirteen durable goods categories, as well as by whether or not they mention price and credit availability. She finds that after World War I movements with respect to categories of goods advertised and with respect to emphasis on price or credit were all contrary to actual market changes. However, she confirms a large upward shift in the total volume of advertising coincident with the increase in purchases of durables.

This book delivers something that most of us honor more in our sermons than our practices. Well over half of its pages were devoted to tabulations of all the data Olney has calculated and assembled, to complete results of statistical regressions and tests, and to extensive discussions of method. At the same time Olney tries valiantly to make her work available to noneconomists as well as those with more technical training. The result may satisfy neither. Lay readers are unlikely to absorb as many concepts as Olney tries to teach. Economists will find statements that seem cavalier or simply wrong and are likely to be impatient with lengthy introductions of familiar concepts.

Further students of the 1920s and 1930s, of demand for consumer durable goods, and of the roles of credit and advertising in consumption will all find the original data, analysis and arguments in this book to be valuable.

ROBERT ZEVIN, *U.S. Trust Company of Boston*

#### ECONOMIC THOUGHT

*Carl Menger and the Origins of Austrian Economics.* By Max Alter. Boulder: Westview Press, 1990. Pp. viii, 256. \$69.00.

The German philosopher Hans-Georg Gadamer has argued that confusion is learning. Upon reflection this proposition is not simply a philosophical example of Orwellian double-speak, but contains great truth. Learning can be a very uncomfortable experience, as when our nice, neat images of the world are challenged. In fact, significant scholarship claims to do just that: challenge our preconceptions of the world and make us reexamine our previously held beliefs. Profound scholarship changes those images.

Max Alter attempts to offer the reader a bold account of Carl Menger that challenges *all* previous interpretations of the thinker. The audaciousness of his account is a strength of his project. Unfortunately, this work does not live up to its promise. Despite the appearance of prodigious scholarship (e.g., each of the main essays that comprise the book contain over 200 endnotes), Alter produces little more than a series of assertions grounded in fundamental misunderstandings concerning Menger's philosoph-

ical background, methodology and technical economics. For the historian of economic thought there is much to chew on in this book; but in terms of Alter's stated purpose of arriving at a better understanding of Menger, the project is an absolute failure.

Alter presents his thesis in three essays: one on the philosophical background to Menger, another on Menger's methodology and the third on Menger's value theory. He contends that Menger's philosophical background is in the German Romantic-Historical tradition (p. 40). Ironically, this is taken to mean that Menger was closest in philosophical spirit to the older historical school of economics. It is argued, for example, that Menger's theory of organic institutions and his theory of development are strictly Historicist in spirit (pp. 49, 109). Only Menger's methodological individualism is imported from Rationalism. Menger's unique blend of Romanticism and Rationalism is never given an adequate hearing by Alter.

These themes are pursued further in the essay on methodology where Menger's opposition to the German Historical School of economics is explained as a result of a personality dispute that developed after the poor reception of his *Principles* following its publication in 1871. Alter argues that Menger experienced a change of heart, not change of mind, toward the German Historical School (pp. 83–84, 88, 132), and that Menger's methodological writings contain only a negative assessment of historicism, not a positive philosophy of science (p. 116). Finally, Alter argues that Menger's economic theory project in *Principles* is fundamentally flawed because of a "transformation problem." Menger's theory of price, he argues, does not successfully transform subjective values into determinant prices. Thus, Alter argues, in order to rescue Menger's project one has to either reject subjective value theory or the methodological propositions concerning exact theory.

Any one, let alone all three, of these claims would strike most students of Menger as contrary to the usual interpretation and thus interesting to investigate. The problem is that Alter's style of presentation makes investigating his claims difficult. First, his general tone is one of academic pompousness. Alter writes with an intellectual superiority that wears thin rather quickly: he labels alternative accounts of Menger found in the literature as "perversion," "absurd," and "mere polemics." In particular, the modern Austrian school, represented in the US and UK, simply does not understand Menger because they do not read him in the original German.

Only the original German work, Alter maintains, contains the key to unlock his interpretation (p. 2). As a result the book is filled with German terms and passages from German works that remain untranslated. For the bilingual reader this presumably would present no difficulty, but it is nevertheless an awkward method. To be fair, Alter does provide the reader with note references to where the passage appears in the English translations. But, his argument is that the English translations are flawed so it would have been helpful for him to show where the translations miss the point.

Moreover, one of Alter's key sources for his alternative interpretation of Menger is highly dubious. He cites the work of Reginald Hansen on the interpretation of Menger as Historicist, yet we are told that in the chapter on Menger in Hansen's proposed doctoral thesis there are very few footnotes to substantiate his claims, and that the writing is intentionally obtuse. In addition, we are then told that Hansen's thesis was never submitted for approval (pp. 11, 19, n. 26). All this amounts to a mysterious insulation from criticism for Alter's interpretation. The English reader cannot understand Menger because he does not read the original German, and even if the reader could read German one of the key sources of the alternative interpretation is not available.

Not only is this a mysterious approach to intellectual history, but the substantive claims that Alter makes concerning Menger's work on the basis of this interpretation are simply untenable. While he makes an important point by placing Menger in the *verstehende* tradition, Alter confuses the claims of this philosophical tradition.

The whole issue of the role of introspection or “knowledge from within” is confused in Alter’s discussion. Yet without understanding *that* aspect of Menger’s thought, and the goal of gleaning meaning in human action, Menger’s project is lost. This affects his discussion of methodological individuals, utility theory and price theory. For Menger, methodological individualism does not imply atomism, or amount to a proposition about isolated and abstract individuals. Rather, the individual is the unit of analysis because it is only at the level of the individual that meaning can be assigned to actions. And it certainly does not imply the denial of collective entities. In fact, contrary to Alter, Menger’s story of the origin of money demonstrates that the whole is greater than the sum of its part. No one intended to create money by engaging in indirect exchange, yet the composite outcome of their individual economizing activity is the establishment of a generally accepted medium of exchange. Money is the result of human action, but not of human design—it becomes a social entity greater than the individual activity from which it sprang.

Neither is Menger’s theory mechanistic—in fact, Menger rejects mechanical metaphors in economics for philosophical principles. Menger’s price theory, for example, did not seek to provide a theory of price *determination* as can be found in Walrasian economics. Menger’s theory was one of price *formation*, and as such the indeterminacy of his theory is distinctly *not* a shortcoming. So, Alter’s claim that Menger suffers a transformation problem is false. Moreover, Menger’s subjectivism of utility was not non-operational. The concept of marginal utility, for example, was not the first derivative of some concept of total utility, but rather implied an ordinal ranking of utility. Alter seems to discard the entire tradition of ordinal marginal utility, as it existed *before* Hicks, and as it was developed by economic scholars from Menger to Franz Culhel and Ludwig von Mises.

As a result, I cannot recommend this book to readers who hope to gain a better understanding of Carl Menger and the origins of the Austrian school. Alter simply has produced a book in which the substantive intellectual claims are of little or no worth.

PETER J. BOETTKE, *New York University*

*Profit and Enterprise: The Political Economy of Profit.* By David Parker and Richard Stead. New York: St. Martin’s Press, 1991. Pp. xiii, 201.

David Parker and Richard Stead detect a curious lacuna in past and contemporary economic theory: though capitalism is very much about profit, and mainstream economic theory very much about profit maximization, there seems to be little serious reflection upon the nature of profit in economics. Worse, perhaps, what thinking there is in this regard rarely seems well connected to the practice of enterprise, the business of seeking out opportunities for profit. *Profit and Enterprise* seeks to address this situation. Written at a level accessible to upper division undergraduates (and including recommendations for reading and comprehensive references), but meant to be of interest to professional economists as well, the book takes the liberalization and privatization trends of the eighties in the West and now the East as a sign that interest can now be focused upon the question of the origins of profit. Arguing from a modern Austrian point of view, the authors re-evaluate the history of economic thought, comment upon the methodological difficulty of competing research paradigms in economics, and briefly discuss the embodiment of these different paradigms in contemporary economic policy.

Their five chapter review of the history of economic doctrines constitutes the basic contribution of the book. Chapter Two on Mercantilism and the French Physiocrats traces the emergence of rudimentary thinking about the market at the end of the eighteenth century after a centuries-long reliance on customary economic relationships.