

Carl Menger and His Legacy in Economics

edited by Bruce Caldwell

(Durham, NC: Duke University Press, 1990, 407 pp.)

Reviewed by **Peter Boettke**

In April 1989 a conference was held at Duke University to commemorate the acquisition of Carl Menger's papers by Duke. In fact, over the past several years Duke has worked to acquire the papers of several outstanding figures in the history of economics, a strategy which solidifies that institution's position as perhaps the leading center for research in the history of economic thought. The volume that emerged from the Duke conference represents the third volume of collected papers devoted to a critical assessment of Menger's work available to English language readers that has appeared in the last 20 years. John Hicks and Wilhelm Weber edited a volume, *Carl Menger and the Austrian School of Economics* (1973), which developed out of a 1971 conference to celebrate the 100th anniversary of the publication of Menger's *Grundsätze*. Richard Wagner also collected a series of assessments of Menger in a special issue of the *Atlantic Economic Journal* (September 1978).

Menger scholarship has definitely been on the increase. The social science index, for example, shows that in the period between 1966 and 1970 Menger received only 14 cites, whereas during that same period William Stanley Jevons received 45, Leon Walras 62 and Alfred Marshall 316. However, while Menger does not overcome his marginal revolutionary contemporaries in the post-1970 era, attention to his work steadily rises. In the period between 1971-1975 Menger received 59 cites, 38 between 1976-1980, 70 between 1981-1985, and 122 between 1986-1990. Between January and August 1991, the *Social Science Citation Index* recorded 60 cites (no doubt in large part because of the Caldwell edited volume), whereas Marshall recorded 83, Jevons 20 and Walras 19.

Research in the History of Economic Thought and Methodology,
Volume 13, pages 285-293.

Copyright © 1995 by JAI Press Inc.

All rights of reproduction in any form reserved.

ISBN: 1-55938-095-0

An assessment of Menger could take one of at least four tracks. It could proceed in the first instance as an examination of the ideas that influenced Menger and his intellectual development as well as his own contributions to economic science and social science methodology. Second, it could proceed as an examination of the development of Austrian economics in the first two decades of this century and its subsequent spread to the English speaking world in the interwar period. A third method of assessment could be a critical appraisal and reconstruction of Menger's methodological writings in light of modern developments in the philosophy of science. And, finally, a critical appraisal and reconstruction of Menger's economics in light of modern developments in economics and the Austrian tradition could prove very fruitful. *Carl Menger and His Legacy in Economics* does touch all four topics, and offers the reader a wealth of information on Menger.

Unfortunately, I did not come away convinced of the merit of several of the articles. History of thought, for history of thought's sake is interesting, but it does not get us very far toward understanding the meaning of an author. The more interesting questions, at least for me, are those which attempt to appraise and reconstruct an earlier author—to ask what the author's message *means* to us today. The majority of the articles collected in this book simply do not address that question. They, on the contrary, contain much information, some bold conjectures, and generally some rather odd interpretations of Menger. The one point sorely missing from the volume is a really thorough treatment of the meaning of subjectivism that permeates Menger's work, and what that entails for our construction of modern economics along Mengerian lines.

The chapter by Jeremy Shearmur does address the question of subjectivism, but mainly from the point of view of pointing out the inherent weaknesses of *radical subjectivism*. Shearmur argues that radical subjectivism implies an economic nihilism toward welfare propositions that he perceives as undesirable. Shearmur believes that a return to Menger's concern with human nature, grounded in biological notions and a willingness to make "common sense" interpersonal utility comparisons would provide a better foundation for modern Austrian economics than the radical subjectivism of Ludwig Mises, F. A. Hayek, Ludwig Lachmann, and G. L. S. Shackle.

But, Shearmur's concerns arise from a failure to recognize the limits of economics. Economics per se may be best understood as dealing with what men think and believe, and not the objective properties of things. If that limits the confidence with which economists can say something about the equilibrium properties or welfare consequences of policies, then so what? Shackle's argument in *Epistemics and Economics* that economics is fundamentally about thoughts, and that "as far as men are concerned, being consists of continual and endless fresh knowing" about sums up the subjectivist perspective even if it implies certain indeterminacies in our thought (1972, p. 156). Lachmann

argued in his last book, *The Market as an Economic Process*, following Shackle that the market is best understood as the “meaningful utterances of the human mind” (1986, p. 165). The implication of these statements by Shackle and Lachmann are wide ranging—influencing not only the questions economists should ask, but also defining how we should attempt to find appropriate answers. What economists give up in terms of their ability to make statements about “best” or “better” social arrangements, they may gain in terms of a richer understanding of the phenomena they are studying—like market exchange or interest. It is a trade-off that economic science should be willing to make.

This does not mean that economists have nothing to say about alternative social arrangements. As an economist, I cannot tell you which property rights system is “right” or “wrong,” but I can say something about the effect different property rights arrangements can have on the pattern of economic activity. Property rights create expectations, and expectations guide actions.

Subjectivist economics provides the analyst with general insights concerning the effects which alternative institutional environments can have on human behavior. While these insights do not provide the information necessary for designing mechanisms of social control, they do provide information that the analyst can employ in discussing social arrangements that cultivate economic progress.

The goal of the subjectivist economist is, first and foremost, to understand human action in terms of the purposes and plans of individuals, and, secondly, trace out the unintended consequences of those actions. Recognizing the problem of economic calculation, for example, emerged out of a subjectivist understanding of the exchange ratios that are formed on the market.¹ By translating the subjective trade-offs of some into effective knowledge for others, the price system provides a social means for separating out from the numerous array of technologically feasible projects those which were economically feasible. The individual trading activity of economic actors produces a relative price structure, which, while not of anyone’s intention, was the composite result of their actions, and serves as a social backdrop upon which economic decisions are based.

Interference or abolition of this social system of learning, a learning process which Mises argued was anchored deep in the human mind, would distort or destroy the signals which guide human actions in allocating scarce resources.² This is not to argue that the process of economic calculation in a private property order is a perfect mechanism for allocating scarce resources, but rather, as Mises argued, that it provide all that practical life demands.³ Despite its imperfections, the relative price structure existing in the market gets the job done through a process of error detection and entrepreneurial discovery.

Don Lavoie’s contribution to the volume addresses this issue of interpretation of market signals and how economic actors come to understand one another and the market signals that guide them to act in

concert with one another. Lavoie, drawing from developments in philosophical hermeneutics, rejects the “copy” theory of communication which perceives human communication as analogous to fax transmissions or machine communication between computers. Instead, Lavoie argues, all human communication requires interpretation and mediation. If, as Hayek has argued, the main function of the market is one of communicating information to economic actors, then Lavoie’s suggestive essay points us in a direction of research that is invaluable in gaining a better understanding of the communicative properties of the price system.

Karen Vaughn’s essay, which I think is the most interesting in the collection, also highlights the importance of the communicative properties of the market system, and specifically, the importance that the issue of economic calculation has had for steering the direction of modern subjectivist economics. Vaughn’s essay is a contribution to contemporary intellectual history as she details the resurgence of the Austrian school in the 1970s. But, in her historical account she also examines some of the nagging questions that the modern Austrian school is still grappling with concerning the nature of market processes, the meaning of equilibrium, and the central concern among Austrians in explicating how the competitive market process communicates dispersed knowledge.

The point here, contra Shearmur, is that *only* by pursuing a radical subjectivist research agenda can the economist arrive at a proper understanding of the dynamic, non-equilibrium nature of the competitive market economy, and, as such, highlight the problems that intervention in this process will confront. If that does not yield the determinate conclusions that, say, Walrasian economics does, then so much the better because the goal is conceptual understanding of the economy and economic institutions and not determinate solutions.⁴ In addition, the subjectivist project is somewhat less ambitious than what Shearmur expects of economics. Economics per se cannot make statements about everything—there is an intellectual division of labor.

The subjectivist economist need not be a moral or cultural relativist once the bounds of economics are crossed. In fact, Shearmur’s conclusion seems to suggest that only an interdisciplinary approach to welfare economics can solve the problems he raised. In this, I think he is right. But, then why all the fuss about subjectivist economics? The contribution of economics to the issue lies precisely in the realm of providing a subjectivist understanding of economic activity, and nothing more. Ethics, history, psychology, and so forth, alongside economics, all have their role to play in formulating a social theory. And, in the end, it is a comprehensive social theory that will change the world in the direction that Shearmur desires, not economics per se.

Roger Garrison’s chapter on the development of Austrian capital theory demonstrates the point that by pursuing the radical subjectivist agenda, errors

in economic reasoning are eliminated. Bohm-Bawerk's greatest error was precisely that he did not safeguard the subjectivist domain from the unwarranted intrusion of objectivistic concepts. As a result, Bohm-Bawerk was vulnerable to the criticisms of J. B. Clark and later Frank Knight, and provided the foundation for Knut Wicksell's reformulation of Austrian capital theory along formalistic lines. Garrison, who is not only a very clear expositor of the history of capital theory, but also a significant figure in the reconstruction of modern Austrian capital theory, argues that Menger's reservations about Bohm-Bawerk's capital theory were warranted and that by pursuing the radical subjectivist, non-formalistic mode of analysis Menger suggested, economics will develop a better understanding of the capital using economy.

Many essays in this volume attempt to address Menger's philosophical system. One of Eric Streissler's papers, for example, addresses Menger's belief system in terms of public policy—as does the paper by Israel Kirzner. Streissler derives his interpretation of Menger's policy position from Menger's lectures to the Crown Prince Rudolf. As an undergraduate, I had heard about the Rudolf lectures from Hans Sennholz—he placed great weight on these lectures and the Crown Prince's suicide as evidence of Menger's classical liberal perspective and his prescience with regard to the decline of liberalism in Europe. Menger's pessimism about the plight of liberalism was invoked by Sennholz to explain Menger's inactivity in the late stage of his career. Streissler's paper seems to corroborate Sennholz's tale. Kirzner's paper, on the other hand, deals more directly with the substantive content of Menger's work and its implication for public policy. Kirzner argues that Menger's approach, when consistently pursued, generates a policy position which may be much more radical in its adherence to *laissez-faire* than even Menger was aware.

The other paper by Streissler analyzes the state of German economic thinking prior to Menger. It is a very informative essay, demonstrating that German economics had already developed along lines that anticipated Menger's innovations. Paul Silverman's paper pursues a similar theme. He argues that the usual interpretation of Menger as an Aristotelan, associated with the work of Emil Kauder, does not possess the evidence usually assumed. Menger was indeed a Aristotelan, but not directly. Rather, Silverman argues that Menger inherited his Aristotelan framework indirectly through the Cameralist writers. Silverman's thesis is interesting, but it unfortunately diverts our attention from Menger's philosophical connection to continental philosophers.

Austrian economics is best understood as the peculiar by-product of classical economics (perhaps in the form of the older German historical school) combined with the continental philosophies of interpretation and understanding. Max Alter's paper, for example, does have the strength of placing Menger firmly within the *verstehende* tradition, but his fundamental misunderstanding of that philosophical tradition and Menger's system of thought render his provocative chapter highly suspect—as Lawrence White's

rebuttal demonstrates. Only the chapter by Barry Smith actually seems to capture Menger's spirit, even if Smith fails to do justice to Mises's philosophical project and its direct connection to the philosophical project that influenced Menger via Franz Brentano, i.e., phenomenology.

The radical subjectivist position follows from a concern with gleaning meaning. The essentialism of Menger, the a priorism of Mises, and so forth, have the same goal—to obtain a fundamental understanding of the meaning of social phenomenon.⁵ The teleological perspective that is adopted follows from the fact that it is only at the level of the individual that we can attribute meaning to actions. The Austrian perspective *never* denied collective entities; rather, the whole point was to try to understand the being and becoming of such entities.⁶

The Mengerian system of thought can be divided into methodological propositions and modes of analysis. The methodological propositions amount to: methodological individualism, methodological subjectivism, and concern with processes as opposed to end states. In terms of the mode of analysis we can talk of: exact theory, which has the goal of generating universal laws; applied theory, in which the universal laws are still in operation but yield different results depending on the alternative institutional arrangements assumed; and economic history and public policy, where interpretations are detail specific and unique.

The Mengerian criticism of historicism amounted to an argument that all facts were theory laden. Historical interpretation is based on a theoretical framework, made up of components from the realms of exact and applied theory. It is through this framework that historical facts are distilled. History simply cannot be done without the aid of theory. The question is not theory or no theory, but rather, articulated theory subject to peer criticism or non-stated theory. Those who try to reason without theory simply tend to reason with implicit and perhaps bad theory. Menger was trying to justify theoretical investigation in an intellectual culture of German-language economics that tended to denigrate theory. *Causal* explanations that sought to get at the essence of social phenomenon, however, required a well-articulated theoretical edifice to aid the researcher.

Exact theory, for example, is confined to examining *reflectively* the basic principles that guide human behavior. The fact that individuals have goals and strive to obtain these goals possesses implications. Logical principles such as diminishing marginal utility, the notion of opportunity cost, and economizing behavior all follow from examining the logic of action. These interpretive principles do not need to be tested. Rather, the very limited set of principles that constitute the realm of exact theory are derived from our *intersubjective* experience of being human.

We have access to information as social scientists because we are what we study. Because we dwell within the world we are hoping to understand, we

are actually in a better position with regard to the status of our knowledge than the natural sciences.⁷ Whereas the natural sciences begin with an arbitrary starting point, the social sciences begin with knowledge of the shared human experience. This is not private introspection, but the intersubjective experience of the life-world that phenomenologists like Edmund Husserl have discussed at length. Mises, for example, was influenced by Husserl both directly and indirectly through Alfred Schutz. In fact, Schutz's *Phenomenology of the Social World* (1932) provides a key that unlocks many of the philosophical and language mysteries of the Austrian project that have produced many misinterpretations throughout the years, and, unfortunately, in the volume presently under discussion. There is not a single reference to Schutz in the entire volume, yet many of the authors offer interpretations of the development of Menger's philosophy by the subsequent generation of Austrian thinkers.

Schutz attempts in *The Phenomenology* to resolve some of the remaining issues from the *methodenstreit* for social theory by way of reconstructing Max Weber's interpretive sociology with the aid of the philosophical writings of Husserl and Henri Bergson.⁸ Schutz was influenced in this direction by Mises. It is important to remember that Mises considered his development of praxeology as the further development of Weber's project. Much of the peculiar language of the Austrians and the direction of research they pursued disappear if these philosophical roots are understood. For example, in Machlup's paper on verification in economics, contrary to usual interpretations, he is actually worlds apart from Milton Friedman's "as ifism." By invoking the criterion of "understandability" to judge basic propositions, Machlup alludes to his phenomenological roots, and adopts a philosophical perspective which is alien to the Friedmanite position, yet this is bypassed by most readers (1955, p. 17).

In terms of understanding the thrust of Menger's philosophical message, his general connection to the concerns of the *verstehende* tradition, and specifically, his direct connection to the emergence of phenomenological psychology with Brentano, are essential, as Barry Smith has argued in several papers in recent years.⁹ The implications of this general philosophical approach to studying the social world are vast, and probably received their fullest statement by Hayek in *The Counter-Revolution* (1952).

In Philip Mirowski's book, *More Heat than Light* he puts forth the idea that the rejection by the economics profession of Hayek in the late 1940s and early 1950s, after a decade of being one of the dominant figures in the profession, had as much to do with his alien philosophical approach as it did with his anti-socialist, anti-Keynesian policy conclusions (1989, 412, fn. 1). I tend to think Mirowski is right. Unless the philosophical tradition is understood, the project that emerged from Menger's writings and continues to be developed will not be appreciated. Unfortunately, it is precisely this philosophical spirit which the authors of a majority of the papers in this volume do not understand.

