Was Carl Menger a Neoclassical Economist?

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Abstract
The title of this paper was chosen both for pedagogic and for rhetorical reasons. On the face of it, the title makes little sense. For “everyone knows” that the three great neoclassical economists were Jevons, Menger and Walras. Their joint contribution was the development of marginal analysis. Walras specifically emphasized general equilibrium analysis. Marshall synthesized the new econooid.cs, or neoclassical economics, with the insights of Ricardian orthodoxy, and developed a new orthodox that reigned in the Anglo-Saxon world until the thirties, when Hicks and Alien reintroduced Walrasian and Paretian ideas.

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"Was Carl Menger a Neoclassical Economist?"

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Introduction

The title of this paper was chosen both for pedagogic and for rhetorical reasons. On the face of it, the title makes little sense. For "everyone knows" that the three great neoclassical economists were Jevons, Menger and Walras. Their joint contribution was the development of marginal analysis. Walras specifically emphasized general equilibrium analysis. Marshall synthesized the new economics, or neoclassical economics, with the insights of Ricardian orthodoxy, and developed a new orthodoxy that reigned in the Anglo-Saxon world until the thirties, when Hicks and Allen reintroduced Walrasian and Paretian ideas. The Lausanne School's approach made it a more convenient framework in which to formalize economic theory, and to emphasize the general interconnectedness of all economic events. Meanwhile, the distinctively Austrian contribution was to apply the marginal analysis and subjective value theory to capital theory. While professional historians of thought are generally more circumspect about the homogeneity of Jevons, Menger and Walras, nonspecialists in the history of economics treat their work as homogeneous without scruples. In this framework that sees a unified contribution -- a new orthodoxy -- my question indeed makes no sense.

The purpose of this paper is to challenge the prevailing view of the recent history of economics, and, specifically, to consider Menger's distinctive contribution. It is necessary to do the former, in order to establish that Menger did have a distinctive contribution to make! In developing what I see as Menger's distinctive contribution, I will consider some recent interpretations. Finally, I will consider the importance and relevance of Menger's ideas for contemporary economics.
The problem with viewing the three great neoclassical economists, and their followers, as having independently developed an essentially homogeneous theory—a new orthodoxy—has been put but by Professor Leijonhufvud:

The conceptual differences between the great 'neoclassical' system-builders remain of considerable interest and significance to us here and now. Their 'common denominator,' on the other hand, has with time become uninteresting and an obstacle to clear thought. The common denominator goes under the label of the 'Marginalist Revolution'—portrayed as the simultaneous discovery of the first derivative of practically everthing (followed, after decades of hard 'neoclassical' work, in due course by the discovery of the second derivative of absolutely everything). This is a conception of the work of the 'neoclassical' giants that irreparably trivializes their contributions in the eyes of a calculus-trained student generation.4

Ricardo clearly had the concept of the margin. If neoclassical economics' only claim to fame is borrowing the calculus, and generalizing the concept of the margin, then it is very much the sterile enterprise that its severest critics have claimed it to be. For as neoclassical marginalism developed, many of the concerns of classical political economy became of diminished importance. I am thinking of classical political economy's attention to economic development and capital accumulation, not to mention Smith's emphasis on the division of labor.5 The wonders of marginalism are great indeed. But its intellectual dominance has not been an unmixed blessing. For marginalism, or modern neoclassical economics is an obstacle to thinking about problems of change over time, such as economic growth; and, in general, it handles discontinuities not well at all. All of this was the forte of classical political economy. Moreover, as Leijonhufvud quite correctly notes, the view of neoclassical economics as applied marginalism trivializes the contributions of its early developers.
I am in effect arguing that economists are prisoners of their own perception. They genuinely believe that neoclassical economics is nothing but the general application of marginal principles. They consequently view the early neoclassical economists as having first proposed this view of economics. Contemporary economists will probably not reassess their views of their neoclassical forefathers until they reconsider their view of economics today. But their view of their ancestors reinforces their proclivity to rampant marginalism. We have a clear case here of the inextricable link between contemporary economic problems and the history of economics.

My task has been made immensely easier due to a recent article by Professor William Jaffé. Jaffé has dealt admirably with our general problem: the definition of the neoclassical revolution. Jaffé at first parallels Leijonhufvud:

The question I propose to raise here is not whether there ever was a 'Marginal Revolution' in the proper sense of the term, but whether the use of any single appellation to designate the three 'revolutionary' innovations of the 1870's obscures precisely those differences between them which the passage of time has revealed more important than anything they might have had in common.

While doing so does not do justice to Jaffé's treatment, I will juxtapose some of his observations about the distinctive contributions of Jevons, Menger and Walras. Of Walras, Jaffé notes: "It cannot be emphasized enough that what Léon Walras was after was the completion of his competitive market model, and not the elaboration of a theory of subjective valuation in consumption." Walras showed "an inattention to consumption" because, in Jaffé's words: "His pure theory was a catallactic theory of the determination of prices under a hypothetical regime of perfectly free competition; and it was strictly in that context that Walras invoked marginal utility." As Jaffé then notes" what a far cry this was from the central concerns of Jevons or Menger."
The differences are apparent: "In Jevons, per contra, there is no analysis of the operations of the market mechanism by which his 'consequent ratio of exchange' is arrived at." And further: "Not only was Jevons' approach entirely different from that of Walras, but his point of departure also. Jevons started out from Bentham's felicific calculus..."13

While I will consider various recent views of Menger in detail, Jaffé's included, symmetry dictates that at least note one distinctive feature of Menger's theory noted by Jaffé: Menger believed research should be directed toward "underlying elementary causes of economic phenomena in all their manifold complexity." In this, Menger was an essentialist.14 And, in Jaffé's words: "For the performance of this task what is required is not the mathematical method, but a method of process analysis tracing the complex phenomena of the social economy to the underlying atomistic forces at work. He called it the 'analytic-compositive method'."15

Robert Eagly completed his recent book, The Structure of Classical Economic Theory, with a brilliant chapter on the connection between classical political economy and Walras' system of general equilibrium analysis. He saw Walras' system as both the capstone of classical analysis, and the cornerstone of a new orthodoxy.17 Using Jaffé's insights, one can amend Eagly by observing that Walras' catallactics perfected the classical theory of markets. On the other hand, Walras' theory replaced the causal, sequential analysis of classical political economy with the concept of mutual determination of all quantities. The perfection of the classical system became its replacement as a new research program developed.

But one can now speculate in what manner Jevons' system can be viewed as capstone and cornerstone. Jevons took Bentham's calculus of pain and pleasure, and applied it to the theory of optimization. In doing so, he "bestowed concentrated effort on an attempt to reduce utilitarian speculations to an
exact science which would be useful as a foundation for the theory of value in exchange. But in doing so, Jevons replaced the classical theory of value.

What remains to be shown is Menger's place in the evolution of economic thought. To so place Menger is my chief desideratum, and the problem to which I now turn.

Menger Reconsidered

Recent Interpretations

Several recent interpretations have already emphasized the uniqueness of Menger's contribution. While Jaffé's paper dealt with a more general problem, it raised a number of the issues that need to be addressed in a reappraisal of Menger. Inter alia, they include the question of whether to view the economic system in a general equilibrium framework, so that the technique of mutual determination of variables is most appropriate, or whether to think in cause and effect terms, so that process analysis is appropriate. In two comparatively recent papers, Professor Streissler, the current holder of Menger's chair in Vienna, has offered a radical reinterpretation of Menger's work. In the more recent essay, Streissler examines Menger's monetary theory. Here the ground is more familiar to historians of thought, and Streissler's interpretation is less controversial. Streissler succinctly states his interpretation of Menger's approach to monetary theory as follows:

Evidently, Menger tried to create a brand of monetary theory under uncertainty, basically a disequilibrium theory of money. How does this fit in with the idea of Menger as the originator of one of the three marginalist schools, as one of the three schools of microeconomic equilibrium theory based on maximizing behavior? It does not fit in, because this idea, which stems mainly from an eclectic perusal of the works of his successors, is wrong in
itself. It is a well-known fact that Menger did not believe in the idea of equilibrium, that he held with Aristotle that no such state as equilibrium exists in human lives. He did not believe in equilibrium as an adequate description of the conditions ruling in any aggregate of human relationships. Instead, he pictured society as in constant flex, subject to changes which could not even be described as moving equilibria. And he did not believe that even the economic individual easily achieved full equilibrium. 22

Menger developed his theory of money as part of his general theory of commodity holding (i.e., his analysis of stock-demand). Integral to this analysis is an emphasis on the demand for liquidity in commodities, and on commodities as buffer stocks. Thus, Streissler observes that "[Menger] does not envisage money as something whose value is precisely planned but much rather as a buffer stock against the non-fulfillment of plans." 23

This picture of Menger's monetary theory is consistent with that recently presented by Hicks. Moreover, it is the one part of Menger's economics that has received some attention from economic theorists, mainly because of the general dissatisfaction with contemporary monetary theory. Streissler goes on, however, to connect Menger's theory to his theory of market evolution, in which Menger pictures this evolution as one from isolated exchange ("monopoly...in the widest sense") 24 to competition, with the later a rare occurrence in its pure form. 25 Menger's vision of markets is perhaps near the opposite end on a spectrum from Jevons': price dispersion is ubiquitous. A highly liquid commodity is required to take advantage of price dispersion, or in order to make a "bargain," as Streissler puts it. 26

Yet one has questions even about Streissler's interpretation of Menger's monetary economics. First, Streissler adapts a procedure that is fraught with danger. He attempts to picture Menger as modern by emphasizing the similarities with twentieth century monetary thought. There is always the danger that the historian will fit earlier thinkers into a Procrustean bed.
There is some of this in Streissler's analysis. Thus, he argues that: "It is largely forgotten nowadays that in questions of monetary theory Menger anticipated most of J. M. Keynes' ideas. Or, to be more precise, he had moved in the same direction as Keynes, long before Keynes, but much more decisively and radically." He then restates Menger's analysis in the Keynesian terminology of precautionary and speculative balances. Next, Menger's analysis is fitted into Hicks' "Flex-Price and Fix-Price" model. But what is even more objectionable, Streissler uses Menger to support the Streissler theory, and especially to attack the neo-quantity theorists (à la Friedman) on the question of a stable demand for money, by beating them over the head with Menger's ideas, as presented by Streissler. In doing so, I believe Streissler has gone beyond arguing similarities between Menger and modern thinkers (especially Keynes) to forcing Menger into a framework that was not really his own. This is especially ironic, since Streissler's objections to interpretations of Menger "as the originator of one of the three marginalist schools...of microeconomic equilibrium theory based on maximizing behavior" parallels my objections to what Streissler has done.

What is especially objectionable about Streissler's procedure is his tendency to make broad statements of interpretation with insufficient references to the text. This tendency is even more marked in Streissler's more general interpretative essay on Menger, which was presented at the 1971 Bellagio meetings on the Marginal Revolution. It is to this other essay that I now turn. In this paper, Streissler asks essentially the question that I am asking: "To What Extent Was the Austrian School Marginalist?" He reduces this to the question of Menger's marginalism by arguing that "Menger... had the status, the institutional position to enforce at least initial concurrence with his opinions and thus become the pivot on whom the school turned." He then observes that "the further his pupils escaped [Menger], the more
marginalist they become, precisely because they escaped him, precisely because they assimilated other traditions. While Streissler's procedure here strikes me as question-begging, if he really wants to address the question of the marginalism of the Austrian School, my interest is in Menger, too. So I will go to his substantive argument about Menger's economic ideas, particularly those in the *Grundsätze*. Streissler's thesis is stated as follows:

Menger's book is a conscious complement to Adam Smith's *Wealth of Nations* and for this reason it is not static, but concerned with economic progress. It is intended to elucidate the change in the range and in the quality of goods. It is an investigation of the restraints of economic action, or rather the change of the restraints through a change in the choice variables (and not primarily an investigation of the objective function in economics), to such an extent that Menger thought it necessary to stress this aspect as the sole object of economic theorizing. And it is, above all, basically an information theory, economic theory under uncertainty and not under certainty. Because of these aspects the Austrians always stressed, and stressed rightly, I think, that they were the school of subjective value, a school apart.

Streissler classifies his remarks three pages later by observing that "...Menger's *Grundsätze* was an attempt to sketch a theory of economic development." Streissler sees Menger's "central thesis" as stated early in the first chapter of the *Grundsätze*:

It is not so much the division of labor, that is to say, a feature of the productive process, that increases welfare, but the constant widening of the range of goods and the improvement of their quality, i.e., changes in the productive output. Even the division of labor itself is a consequence of the increase in the range of commodities, which makes it all the more 'necessary and economic.' This is Mengerian 'technical progress,' the change of commodities (and, in a narrower sense, also of wants), product innovation, to be contrasted with Marxian 'technical progress' (that full development of classical ideas), the process innovation of an emittable product. It is thus in the true tradition of Menger that Schumpeter's treatment of technical progress is so much more inclusive than Marxian or modern neoclassical treatment. Notice, furthermore, that Menger usually speaks of the 'quality and quantity' of goods and discusses quality in extenso in two long paragraphs. Even this first statement thus shows that Mengerian goods are three-dimensional: they have quantity, quality, and variety as separate dimensions of dynamic change.
It is difficult to know what to make of these series of truly remarkable statements by Streissler. For I don't find Menger even talking about the subject that Streissler claims Menger is addressing in this section. Still less do I see the basis for Streissler's assertion that the "whole programmatic exposition leads" to this section. It is true that Menger talks about "the widening of the range of goods," but in terms of increasing the output of capital goods ("goods of third, fourth, and higher orders"). He is criticizing Adam Smith for placing too much emphasis on the division of labor, and he does so by showing how the accumulation of capital is ultimately connected with this process. Only at one point, and this apparently in passing, does Menger allude to changes in the quality or type of consumption output produced. The rest of the section is concerned with the effects of capital accumulation, a process which it is odd to call "product innovation." Since Streissler rightly emphasizes Menger's concern with time and capital, it is certainly odd that he apparently misread this section.

More generally, we have no reason to accept an argument about what Menger "really" wanted to do. He unquestionably talked about economic development, as both my citations and Streissler's attest. But noting how often an author addresses a subject does not go to prove that this was the only or chief area of that author's interest, especially if one fails to note how frequently the author is not addressing the subject in question. It is quite true that: "Again and again Menger stresses the time dimension of goods and the amount of uncertainty this entails." Likewise, I agree with Streissler that: "The stress on informational content is one of the respects in which Menger was very modern." And so on. But Menger, like his fellow neoclassical economists, did address the value problem, and did so in the static framework that is almost inevitable in dealing with this subject. I might add that the
chapter in which he did so, "The Theory of Value," is the longest one in the book. The emphasis on the subject does not provide sufficient grounds to homogenize the neoclassicals, as in the standard interpretation that Jaffé, Leijonhufvud and others have rejected. But rejecting this interpretation is surely not a sufficient reason to move an element of the book to center stage. In countering an erroneous interpretation, one does a disservice in presenting an essentially bizarre interpretation.

Steissler's interpretation of Menger's goal in the Grundsätze is bizarre because, if we are to take Streissler literally, he is arguing that Menger pursued the very goal there that he decried twelve years later in his attack on the German Historical School! Menger noted there that "there is not a phenomenon of the real world which does not offer us the spectacle of constant change." But, unlike Streissler, Menger himself distinguished carefully between this proposition, and the one that economics could be conceived of as the theory of economic development:

Now the so-called 'development' of things constitutes in fact only a small portion of their changes in time, for we usually understand by 'development' only those changes which result from the characteristic nature of things, and in the case of which, accordingly, a particular individuality remains preserved in spite of change in time. We therefore do not speak of 'developments' of those things which exhibit no characteristic individuality. Nor do we do so in those cases where a thing, of whatever type it be, undergoes a change merely through external or chance circumstances.

It was Menger's very belief in the constantly changing character of the world that led him to question the feasibility of a genuine theory of economic development. While Streissler notes "Menger's constant stress on problems of information," he fails to note how inimical is Menger's approach to a theory of economic development. Menger had even harsher words for this conception of economics: "Thus the conception of theoretical economics, or even of political
economy, as a science of the 'parallelisms of economic history,' of the 'laws of development in economy,' and other such things, is a one-sided monstrosity." As for the question of whether Menger's Grundsätze "is a conscious complement to Adam Smith's Wealth of Nations," one must consider Menger's harsh judgment of those who attempt to establish "laws of development." Of this, Menger observed, that:

What an unhistorical idea it is to compare the economic history of all nations and times—not to state, for instance, the particularity of individual developments, but their often extremely imperfect parallelisms. What an 'unhistorical' notion, especially, to abstract from the particularity and the inner connection of concrete economic developments and institution in order to determine external parallelisms of development.

For Menger, those who see in economics solely a theory of development conflate theory and history. They fail to note the fundamental division of knowledge in economics that Menger emphasized.

...In the field of economy we encounter individual and general knowledge, and correspondingly sciences of the individual aspect of phenomena and sciences of the general aspect. To the former belong history and statistics of the economy, to the later theoretical economics; for the first two have the task of investigating the individual economic phenomena, even if from different points of view. The latter have the task of investigating the empirical forms and laws (the general nature and general connection) of economic phenomena.

To seek a theory of development is to seek what history, not theory, provides. To seek a theory of development is to make the opposite error of the historicists, who sought to theorize by doing history. For Menger, the two endeavors must be kept distinct. The Wealth of Nations has been pictured, correctly I believe, as, inter alia, presenting a theory of economic development, indeed, even a general theory of laws of development or history (especially in Book III). In this sense, Menger's Principles is not a complement but a virtual attack on the Wealth of Nations.
By now the reader may be impatient for the author's own interpretation. But the apparent detour through recent interpretations—a roundabout process—serves two very important functions. First, it establishes that scholars are beginning to accept the heterogeneity of the work of the three original "marginalists." This acceptance opens the way for a reconsideration of Menger's work. The Austrians, and Menger in particular, can no longer be treated as having been absorbed in the twentieth century orthodoxy. They have, in fact, some claim to being the longest lived independent school of economics, Marxism being more properly thought of as a metaphysical system, or general theory of society. Second, this section serves partly to relate certain recent reinterpretations that, in the author's opinion, do not do justice to Menger, and which perhaps go too far toward separating him from his contemporaries. And, of course, in arguing what Menger was not up to, I have at least moved closer to a positive interpretation.

In his methodological work, Menger presented his views on what constitutes the research program in economics. In the absence of convincing evidence to the contrary, one should assume that he held his own work on economics to the standards that he proposed for others'. "Political economy," Menger wrote, "(in its meaning which comprises theoretical economics, economic policy, and the science of finance) is a theoretical-practical science." A general treatise on economics would be expected to deal with all these areas of economics. Though it is apparently sometimes forgotten by historians of thought when they are making invidious comparisons among Menger, Jevons and Walras, the Principles as we have it is only the first of a projected three additional volumes. The first volume, which we have in finished form, treats in its chapters the following topics:
1. The General Theory of the Good;
2. Economy and Economic Goods;
3. The Theory of Value;
4. The Theory of Exchange;
5. The Theory of Price;
6. Use Value and Exchange Value;
7. The Theory of the Commodity;
8. The Theory of Money.

There are also ten Appendices.

We are told that the second part was to deal with "'interest, wages, rent, income, credit and paper money'"; the third part, the theory of production and commerce, and economic reform in the fourth part. Menger very much appeared ready to follow the strictures that he laid down in Problems. He wished to author a general treatise on political economy. In doing so, Menger would be building on classical political economy in at least two significant respects. His treatise would evidently follow the general contents of the treatise on political economy by classical political economists. And his treatise would build on their work. But at least in his subjective theory of value, Menger's work would be the cornerstone of a new theoretical edifice. Thus, in the first part, the only published part, he attended carefully to the theory of value, the theory of exchange and the theory of price.

We can now appreciate both the similarity and the differences between Menger and his contemporary "marginalists." One thing above all that was shared by Jevons, Menger and Walras was a commitment to microeconomic reasoning, over the macroeconomic thing of classical, particularly Ricardian political economy. One sees this in J. S. Mill's treatment of the topics in his Principles of Political Economy. Book I, "Production" is carried out in aggregative terms, as is Book II, "Distribution." Book III, "Exchange," presents Ricardian value theory, which, in the long run, is generally dependent costs of production, and thus on the laws of production developed in Book I. Book IV is on the "Influence of the Progress of Society on Production and Distribution," while Book V is "On the

The works of Jevons, Menger and Walras each represent a radical break with the macro tradition in economic theory.

From each of the three original neoclassical economists, we have a comprehensive theory of market exchange built up from the theory of individual behavior, and individual valuation. This approach is made explicit in Jevons when he asserted that "human wants are the ultimate subject matter of economics." Jevons correctly noted that this conception ran directly counter to the conception of Ricardian, classical political economy; indeed, Jevons quoted J. S. Mill in opposition to this very idea. Menger is even more associated with the consistent application of methodological individualism. As Hayek noted of Menger's methodological treatise, Untersuchungen Über die Methode der Socialwissenschaften und der Politischen Ökonomie insbesondere (translated as Problems of Economics and Sociology):

- Of the central contentions of the book one may be singled out for further comment; his emphasis on the necessity of a strictly individualistic or, as he generally says, atomistic method of analysis... what with the classical economists had remained something of a mixture between an ethical postulate and a methodological tool, was developed by him systematically in the latter direction.

The common element that was decisively shared by Jevons, Menger and Walras was a commitment to methodological individualism and microeconomic reasoning. They were chary of dealing with those questions inherited from classical economics that seemed inherently macroeconomic. And when they did deal with those questions, they generally attempted to do so within a microeconomic and methodologically individualistic framework. Nowhere can this be seen more readily than in Menger's work. It is not merely that he provided microeconomic foundations for monetary theory. He developed a microeconomic theory of money. There is no feature of his monetary theory that resembles the macroeconomic
features of modern monetary theory. He was concerned with the role of money in decision-making, a role that he saw to be significant, indeed. For he saw all decisions as involving uncertainty. And money was a means, evolved in the market, with which to lessen the costs of uncertain decision-making. For Menger, money is liquidity. And liquidity diminishes the costs associated with uncertainty. Even "macroeconomic" applications are pursued with strictly microeconomic and disaggregated analysis. 64

Moreover, while we find a distinct similarity in the broad approach of the three great founders of modern marginal utility and neoclassical economic theory, there were distinct and probably irreconcilable differences among them. I will return to some of these in the next section. But be it noted here that two factors thus made it inevitable that modern economics can be called "neoclassical" in only a tortured sense. Once a research program, on which there is only general agreement as to approach, is implemented the differences that separate schools are bound to become more important. To pretend there is homogeneity where there is not only insures that problems will not be addressed, because they will not be perceived as problems. "We all agree, surely" becomes the accepted intellectual position. 65

The common element in the Marginal Revolution was a microeconomic revolution against the Ricardian macroeconomic approach to economic questions. The differences in what was essentially a tripartite revolution were significant. As Mark Blaug has noted, the Marginal Revolution took three distinctive forms: "the marginal utility revolution in England and America, the subjectivist revolution in Austria, and the general equilibrium revolution in Switzerland and Italy." 66 And as I have argued above, the general similarity among the revolutions gave some basis initially for speaking of "the Marginal Revolution." Yet the very differences alone could have been expected to make it less fruitful
over time to speak of "marginalism" or "neoclassical economics" as a consistent approach, unless, in reality—as is true—one school's views become dominant. All this is true, but I now wish to focus on another factor that makes it dubious to call Menger a "neoclassical economist." Particularly in Anglo-Saxon economics, neoclassical economics developed as a horrible brew, in which marginal utility theory was merged with Ricardian political economics. Alfred Marshall is largely responsible for this. He was quite open about saving what he could of classical theory. But in so doing, Marshall became largely responsible for the division between microeconomics and macroeconomics, a division that I do not see either Menger or Jevons recognizing.

Further, Sir John Hicks succeeded in formalizing this division. Being largely responsible for bringing Paretian and Walrasian modes of analysis to the attention of the profession, Sir John at the same time developed the foundations of "neoclassical" macrotheory. To avoid doctrinal disputes we will call this macrotheory "Hicksian," though clearly many still see it as Keynesian. Yet in so doing, he fundamentally altered the course of neoclassical economics. Neoclassical economics today draws its microeconomics largely from Walras, but it is not Walrasian. It is not because it is (an inconsistent, I believe) mixture of a genuine neoclassical (or Walrasian) approach, and the approach of Ricardian political economy. Whatever the commonality in the work of Menger, Walras and Jevons—and I do think there was some—no one can legitimately argue that Menger in particular would find current economic thinking congenial. It would simply look too much like the macroeconomic thinking that he consciously rejected in his work.

Viewed as a general microeconomic revolution, the Marginal Revolution was never completed. As the result of Marshall's retreat, and Hicks' synthesis, large areas of economics were effectively ceded to an older way of thinking.
While economists generally accept this division as somehow natural, I do not believe an examination of the relevant history of economic thought would support this belief. In any case, the acceptance of a macro realm of thinking in economics surely goes against the original neoclassical spirit, the spirit that counts for whatever homogeneity exists in the work of the three figures with whom I have been concerned. I suppose, then, that I am arguing that it is modern economists who are not "neoclassical." But if one accepts the soleistic usage of "neoclassical," then Carl Menger most assuredly was not a neoclassical economist.

The Mengerian Contribution

I have argued that that which bound the early neoclassical or marginalist economists together was a commitment to methodological individualism and a concern for microeconomic as opposed to macroeconomic theory. The specifically Mengerian, and, indeed, Austrian contribution to economic theory is its methodological subjectivism. Writers have frequently noted that Menger, in particular, was concerned with disequilibrium economics, rather than the pure theory of equilibrium states that so occupied Jevons, and, to an even greater extent, Walras. But the connection between Menger's subjectivism and his emphasis on change and the economic process—a constant state of disequilibrium—is not generally made. Yet one will inevitably be led to reject analysis of equilibrium states as the central concern of economic theory once one adopts methodological subjectivism. For subjectivism leads one to analyze all economic events in terms of the perceptions of human actors. A thing is a good because individuals believe it to be a good. Decisions are made because of individuals' beliefs about the relevant state of the world, not because of the actual or objective state of the world as seen by an ideal observor, such as the economist qua modeler. In a very real sense, the data of the economic
system are subjective. If one believes, as did Menger, that "there is not a
phenomenon of the real world which does not offer us the spectacle of constant change," then it would be absurd ever to deal with perfect knowledge constructs. The assumption of perfect knowledge is a profoundly anti-subjectivist assumption. This fact alone explains why Austrian economists have steadfastly refused to "fall into line" with the modern neoclassical school, and have obstinately considered themselves a school apart. Moreover, since perfect knowledge, as Hayek demonstrated, is the defining characteristic of equilibrium, an economics in which uncertainty is central is inherently an economics of disequilibrium, of the market process and of change.

Nowhere else can this be seen better than in Menger's own treatment of a good. Menger states that:

If a thing is to become a good, or in other words, if it is to acquire goods-character, all four of the following prerequisites must be simultaneously present:
1. A human need.
2. Such properties as render the thing capable of being brought into a causal connection with the satisfaction of this need.
3. Human knowledge of this causal connection.
4. Command of the thing sufficient to direct it to the satisfaction of the need. This leads Menger to treat, inter alia, the "special situation" in which: "attributes, and therefore capacities, are erroneously ascribed to things that do not really possess them or...when nonexistent human needs are mistakenly assumed to exist." In the first class, Menger lists such things as cosmetics, diving rods and love potions. In the second class, he lists such things as medicines for nonexistent diseases and pagan idols. And he states that "such things, therefore, as derive their goods-character merely from properties they are imagined to possess or from needs merely imagined by men may appropriately be called imaginary goods."
Menger consistently followed a methodology of subjectivism. For instance, in speaking of Menger's theory of money, to which we have already alluded, Hayek observed that "the main Austrian achievement in this field is the consistent application to the theory of money of the peculiar subjective or individualistic approach which, indeed underlies the marginal utility analysis, but which has a much wider and more universal significance." 76

Once again, one is often confronted with the spurious claim that the Austrians' special emphasis on subjectivism has been incorporated into modern neoclassical thinking. "After all, tastes are subjective." Or, "demand is the subjective element in price determination, while cost is the objective element." This opinion might be attributed to a modified variant of the "homogeneity hypothesis," i.e., the hypothesis that the works of Jevons, Menger and Walras are essentially homogeneous. This modified view sees each of the above as emphasizing a particular aspect of marginalism. Modern economics has judiciously weighed these various degrees of emphasis, and correctly apportioned the various factors, such as subjectivism. 77 This view, which most assuredly can be traced back to Marshall, is wrong headed from the point of view of the Austrians.

The view that subjectivism applies only to tastes, or the demand side of price determination, evidences a fundamental misunderstanding of that for which the Austrians were arguing. Let us consider the very case with which Marshall was dealing. I will quote Wieser, who in many ways does not strike me as a consistent methodological subjectivist, but who on opportunity costs was quite clear.

Between costs and utility there is no fundamental opposition. Costs are goods valued, in the individual case, according to their general utility. The opposition between costs and utility is only that between the utility of the individual case, and utility on the
whole. Whoever thinks of 'utility' without thinking of 'cost,' simply neglects, in the utility of one production, the utility of the others. And whoever produces, in the individual case, at least cost, produces, on the whole, with the highest utility, inasmuch as he thus saves all the opportunity of utility possible, and consequently in the long run utilizes all the opportunities to the utmost possible.

Thus when the law of costs obtains, utility remains the source of value. More than this, marginal utility remains the measure of value. Wieser is even clearer two pages later when he remarks that: "Possibly it is the greatest triumph of the theory of marginal utility that it fully explains the obscure conception of costs, with which every other theory had to reckon, and with which no theory could come to any reckoning." I doubt that very many modern theorists would so characterize marginal utility theory. This is undoubtedly because in so far as they are acquainted with the primary sources, economists have read the non-Austrians. In so far as they have read the Austrians, they have done so through rose-colored glasses.

Marshall is certainly guilty of the latter in his famous scissors analogy. In that analogy, he was critical of the Austrians for treating utility alone as the source of value, or explanation of price. This, Marshall thought, placed too much emphasis on the demand side. No one else has dealt with Marshall more effectively than Joseph Schumpeter:

They [the Austrians] stood in no need of being told about the two blades of Marshall's pair of scissors. What they aimed at showing was that both blades consist of the same material— that both demand and supply (no matter whether the case is one of exchanging existing commodities or of producing them) may be explained in terms of 'utility.' And, in a footnote that begins on the previous page, Schumpeter observed that:

...The marginal utility principle applies to the demand and supply sides of the value problem in any case, both in the long run and in the short run. Cost of production is not an independent principle taking charge in the long run. But the marginal utility
principle, acting upon the data of the situation, will in the long run (granting a number of assumptions) so operate as to equate exchange value to costs.81

Nor have modern neo-Walrasian, or neoclassical economists attained any firmer grasp of the Austrian point. This confusion appears, ironically, in an article by Professors Arrow and Starrett in the volume honoring Carl Menger on the centenary of the publication of the Grundsätze.82 For they apparently conceive the problem of adjudicating between the classical and marginalist theories of value as deciding between demand and cost theories of price. The tacit assumption of their article is that utility determines demand, while an independent principle determines cost. Thus, a cost of production theory is one in which "prices are determined solely by the technological conditions of production."83 Arrow and Starrett address the problem with the classical conception of costs. Yet, as Wieser pointed out, the "law of costs," or a cost theory of value is a utility theory of value. That which separates the Austrians and modern neoclassical economists on this issue, or in economics in general, could not be more forcefully put. It is a question of a consistent methodological subjectivism, versus a mixture of Ricardian and post-Ricardian ("classical and neoclassical") thinking.84

The differences between the Austrians and the modern neoclassicals do not end here, though we now get into contemporary theoretical issues on which Austrians are by no means agreed. But Professor Lachmann has recently argued that expectations are equally subjective, and should be treated as such. He sees such a procedure, most closely associated with G. L. S. Shackle, as being in the tradition of Menger, Mises and Hayek.85 On this procedure, Arrow, too, has recently commented:

A truncated theory of temporary equilibrium in which markets for future goods are replaced by some form of expectations, themselves functions of current prices and quantities, has indeed been
developed, though its empirical content is necessarily meager if the formation of expectations is left unanalyzed. But the true neoclassical spirit is being denied in such a model.  

Concluding Remarks

The point has, I think, been made. The Austrians have been and remain "a school apart," precisely because of their consistent stress on subjective value, and their consistent methodological subjectivism. Their views have only been partially assimilated into the current economic orthodoxy. This is precisely because modern economics has developed from only one of the original neoclassical schools, the Lausanne. Moreover, modern economics has absorbed a number of features of classical political economy, elements to which all the neoclassical schools were hostile. There is a real question of the extent to which modern economics is neoclassical or marginalist, in the sense that 19th century economists were. Least of all is modern economics Austrian, whether one approves of this, of course, is primarily dependent on one's attitude toward the approach of the Austrians since Menger, and of the substantive content of their theories. But more and more, contemporary economists are considering problems long the domain of Austrian economics, and on which Austrian economists have written a great deal: uncertainty, expectations, economic fluctuations and information theory. Yet modern economics, even as it has turned to these problems, has generally failed to appreciate many of the characteristic Austrian insights.  

Independent discovery is an inefficient procedure. Economists can, therefore, gain from acquainting themselves with the work of their predecessors. Of course, one must be convinced that one's predecessors have something to say
on a given subject. For too long now the orthodox view of the Marginal Revolution has led economists to believe that they have nothing to learn from reading Menger, because his was simply an imperfect, early formulation of modern economics. Nothing could be further from the truth. I hope this paper has at least stimulated some to read or reread Menger, and to discover this for themselves.

2 Even where the Austrian School (here: Menger, Wieser and Böhm-Bawerk) was treated as initially developing a separate tradition, the ideas of that school are treated as having been absorbed into the larger neoclassical school. For example, see Robert B. Ekelund, Jr., and Robert F. Hebert, A History of Economic Theory and Method (New York: McGraw-Hill, 1975), pp. 273-303.

3 In addition, contemporary economists consistently perpetuate a solecism "Neoclassical" economics (or Samuelson's "grand neoclassical synthesis") is really "Neo-neoclassical," embodying as it does, modern reformulations of general equilibrium analysis conjoined with Hicks' formulation of Keynesian economics in one big brew. It may be argued that at least modern microeconomics is "neoclassical" in origins. But taken as a whole, modern economics is more Hicksian than anything else. Besides, one conclusion of this paper will be that the term "neoclassical," in any of its usages, should be abandoned.


4 Axel Leijonhufvud, "The Varieties of Price Theory: What Microfoundations for Macrotheory?" UCLA Discussion Paper Number 44 (Los Angeles: Mineo, 1974), p. 3. This (unfortunately) unpublished paper is seminal for the general question of the evolution of modern economic theory. Leijonhufvud adduces at least five varieties of price theory.

5 To be more specific, I would lament the discarding of the wages-fund doctrine. Particularly for short run problems, this is a very important, useful and essentially correct theory of wage rate determination. As Professor Stigler has recently noted, it is an eminently useful tool for analyzing the effects of an effective minimum wage, or an effective union. Jevons, of course, noted the essential consistency of the wages-fund doctrine with his theory. But his lead here, and on the general problem of capital, was not followed up, except by the Austrians (an observation that anticipates important arguments in the text). See W. Stanley Jevons, The Theory of Political Economy, ed. by R. D. Collison Black (Baltimore: Penguin Books, Pelican Classics, 1970), pp. 225-61, and especially, pp. 255-58.

6 It is certainly true that one can find rash statements to this effect by the early neoclassical economists, such as the following: "The problem of economics may, as it seems to me, be stated thus: Given, a certain population, with various needs and powers of production, in possession of certain lands and other sources of material: required, the mode of employing their labour which will maximize the utility of the produce." Jevons, p. 254.

7 If it need be said, I am by no means denying the crucial role that marginal analysis plays in value theory, nor am I overlooking the wide range of applications of the marginal principle. I am simply arguing that there is more to economics than discovering the appropriate derivatives, and more to the great neoclassical schools than the independent discovery of marginalism.

9 Jaffé, 511. Jaffé refers to a number of writers, such as Hicks, who felt "a little resentment at the habit of classifying them [Menger, Jevons and Walras] together..." Jaffé traces back the term "Marginal Revolution" to Schumpeter's *History of Economic Analysis* (1954). See Jaffé, 511-13.

10 Jaffé, 515.

11 Jaffé, 516.

12 Jaffé, 517.

13 Jaffé, 518. One of Jaffé's chief points about Walras concerns the latter's aversion to psychological theorizing. Jaffé, 515-16 and 518.


17 Eagly, pp. 126-38.


19 Cf. Jaffé, 517.


23 Ibid. Two sentences later, Steissler asserts that: "Cash balances are to a large extent planned to be unplanned," *Ibid.*, p. 168. This strikes me as more metaphorical than analytic.
Ibid.

I do not mean to imply that Menger had a concept of "price competition" in the modern sense of that term.

Ibid., p. 174

Ibid., p. 165.

Ibid., p. 166

Ibid., p. 168

Ibid., pp. 180-85.


Ibid., pp. 160-75. I only reread this paper after I had chosen my title. It was obvious at that point where the idea for my title came. But keeping the title serves a useful purpose, as I am very much concerned with same problem as Streissler.

Ibid., p. 162

Ibid., p. 163

Ibid., p. 161

Ibid., p. 164

Ibid., pp. 164-65. Footnote references omitted.

Ibid., p. 164.


"The further mankind progresses in this direction [toward capital accumulation], the more varied become the kinds of goods, the more varied consequently the occupations, and the more necessary and economic also the progressive division of labor." Ibid. Streissler quotes part of this sentence on p. 165 of his article.

Streissler, "To What Extent Was The Austrian School Marginalist?", p. 165.

See Ibid., pp. 167-70

Ibid., p. 167.

Ibid., p. 166.
The chapter covers pp. 114-74 of the Principles.


Ibid., p. 110.

Streissler, "To What Extent Was The Austrian School Marginalist?", pp. 165-66.

Menger, Problems, p. 121.

Ibid., p. 120n.

Ibid., p. 37. Footnote references omitted.


I do not wish to deny that in many respects, such as his emphasis on uncertainty, error, the role of property and law, and other areas, Menger's work was similar to Smith's. But I see Streissler as having picked an area where such similarity is debatable. For Menger's view on uncertainty and error, see the Principles, pp. 67-71; on property, the Principles, pp. 74-76.

See the Contents of the Principles, pp. 5-8.

See Menger's remarks in the Preface to the Principles, p. 46.

The reader will note we have finally fitted Menger, too, into Eagly's theoretical scheme, presented on pp. 4 - 5 of this paper.

We can thus see one important respect in which Menger's treatment of the theory of exchange differs markedly significantly from the modern, neo-Walrasian approach. Modern exchange theory makes exchange dependent on knowledge of, indeed the existence of market prices. The theory of price is conceptually and analytically prior to the theory of exchange. Menger builds his theory of price on his theory of exchange. For Menger, price formation develops from isolated exchange. On this point, I agree substantially with Professor Streissler. "Menger's Theories of Money," especially pp. 168-75; and idem., "To What Extent Was The Austrian School Marginalist?", pp. 170-75.

The scope of classical analysis was aggregative in character. Study of aggregate inputs and aggregate outputs was central to classical inquiry. All in all, then, it is well to keep in mind that classical economics is essentially macro economics." Eagly, p. 21
See Jevons, p. 102. Of course, Mill would only have opposed this idea if by the time he wrote on the subject (1844), there were already those who were anticipating the "modern" view. And, of course, there were, some of whom Jevons cites. The French economists tended to agree with Jevons' approach, as did the non- or anti- Ricardians, such as Lord Lauderdale. See Jevons, pp. 103-04.

Hayek, "Carl Menger," 406. It should be clear from what I have said, I am unconvinced that Ricardians adopted methodological individualism. In fact, from Adam Smith on, we tend to see a class analysis in classical political economy.

All of the elements of this discussion have been treated above. Once again, Streissler's discussion ("Menger's Theories of Money") is generally very good. Menger develops his monetary theory in the last chapter of the Principles, pp. 257-85. Also relevant here is Menger's famous article, "Geld," translated by Caroline A. Foley as "On the Origin of Money," The Economic Journal, II (1892): 238-55.

Menger may indeed, have been most consistent in his methodological individualism in his economic reasoning. But his reputation as a consistent methodological individualist undoubtedly stems from having written a justly famous work in which this position was so effectively propounded.

Thus, when a prominent economist with whom I was dining learned of my interest in the history of thought, he said: "The thing that we have to explain is why economists ever disagree." To my mind, it is perfectly fantastic to think that economists should agree. But I am confident that this other view is the more dominant. It reflects in fact an ignorance of the diversity among the works of Jevons, Menger and Walras, and their followers, that results from not reading them. If one feels that they all said the same thing, and that this is incorporated in today's textbooks, why read them? I treat this question in more detail in chapter one of my forthcoming book, Economics as a Coordination Problem: The Contributions of Friedrich A. Hayek (Kansas City: Sheed, Andrews & McMeel, 1977).

Mark Blaug, "Was There a Marginal Revolution?" in Black, Coats and Goodwin, p. 14.

Which would be the Lausanne School.

In what follows, I draw from chapter six of Economics as a Coordination Problem: The Contributions of Friedrich A. Hayek.

See footnote 3.

Cf. Jaffé, 519-20; also, Streissler, "To What Extent Was The Austrian School Marginalist?", pp. 172-73.

Streissler does make this connection in "To What Extent Was The Austrian School Marginalist?"
Footnote reference omitted. This passage also demonstrates that the contention that Menger was an epistemological subjectivist is fundamentally in error, and involves a confession between epistemological and methodological subjectivism. Menger certainly did not deny that there is an objective reality, or a reality independent of individuals' knowledge of it; and, being influenced by Aristotle, if not an Aristotelian, Menger certainly believed we can know that reality. But our knowledge of reality is imperfect at each moment, even as it is capable of being perfected. In passing, it might be noted that the omitted footnote reference to this passage was to Aristotle's *De Anima*. On Menger's Aristotelianism, see Emil Kauder, *A History of Marginal Utility Theory* (Princeton: Princeton University Press, 1965), pp. 83, and 95-100.

Hayek, "Carl Menger," 414. Menger even approaches his subjectivist methodology from a subjectivist viewpoint! In dealing with the contentions of the German Historical School as to the importance of the "historical point of view," Menger considers the objection that this question is not worth the attention that he has devoted to it. He observes that "it is obvious that things must not be judged exclusively according to their innate worth, but at the same time according to the significance which they have gained in the judgment of contemporaries. And what idea could have gained greater importance in this sense than that of a historical orientation of our science?" Menger, *Problems*, p. 100.

This, I take it, is Blaug's position in his essay, "Was There a Marginal Revolution?"


Wieser, p. 185.


Ibid., p. 922n. The reader not familiar with Marshall's argument can find the appropriate references in the section of Schumpeter in which this argument is treated, pp. 920-24.


Arrow and Starrett, p. 129.

The verbal problem stemming from the two usages of "neoclassical" is once again apparent. I here mean the original neoclassicals (e.g., Menger). I am not questioning the commitment to methodological individualism of Professors Arrow and Starrett. Modern theorists are generally methodologically
individualistic, at least in microeconomics. But this merely demonstrates that one can be a methodological individualist without being a methodological subjectivist (though not vice-versa, I should think).


87 Streissler, "To What Extent Was The Austrian School Marginalist?" p. 161.

88 A prime example of this is that recent work on information takes a significantly different approach from that taken by modern Austrians, writing in Menger's tradition. See Israel M. Kirzner, "Knowing about Knowledge: A Subjectivist View of the Role of Information," Paper delivered at the 1977 Public Choice Society meetings (New York: Photocopy, 1977).