



*P*inciples of  
Economics

*C*arl Menger

Introduction by F.A. Hayek  
Foreword by Peter G. Klein

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# PRINCIPLES OF ECONOMICS

Carl Menger

FOREWORD BY PETER G. KLEIN

INTRODUCTION BY F.A. HAYEK

TRANSLATED BY

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## CONTENTS

FOREWORD BY PETER G. KLEIN .....	7
INTRODUCTION BY F.A. HAYEK .....	11
TRANSLATOR'S PREFACE .....	37
AUTHOR'S PREFACE .....	45
I. THE GENERAL THEORY OF THE GOOD .....	51
1. The Nature of Goods .....	51
2. The Causal Connections between Goods .....	55
3. The Laws Governing Goods-Character .....	58
A. The Goods-Character of Goods of Higher Order is Dependent on Command of Corresponding Complementary Goods .....	58
B. The Goods-Character of Goods of Higher Order is Derived from that of the Corresponding Goods of Lower Order .....	63
4. Time and Error .....	67
5. The Causes of Progress in Human Welfare .....	71
6. Property .....	74
II. ECONOMY AND ECONOMIC GOODS .....	77
1. Human Requirements .....	80
A. Requirements for Goods of First Order (Consumption Goods) .....	80
B. Requirements for Goods of Higher Order (Means of Production) .....	84
C. The Time Limits within Which Human Needs are Felt .....	87
2. The Available Quantities .....	89
3. The Origin of Human Economy and Economic Goods .....	94
A. Economic Goods .....	94
B. Non-Economic Goods .....	98
C. The Relationship between Economic and Non-Economic Goods .....	101
D. The Laws Governing the Economic Character of Goods .....	106
4. Wealth .....	109

III. THE THEORY OF VALUE .....	114
1. The Nature and Origin of Value .....	114
2. The Original Measure of Value .....	121
A. Differences in the Magnitude of Importance of Different Satisfactions (Subjective Factor) .....	122
B. The Dependence of Separate Satisfactions on Particular Goods (Objective Factor) .....	128
C. The Influence of Differences in the Quality of Goods on Their Value .....	141
D. The Subjective Character of the Measure of Value. Labor and Value. Error .....	145
3. The Laws Governing the Value of Goods of Higher Order .....	149
A. The Principle Determining the Value of Goods of Higher Order .....	149
B. The Productivity of Capital .....	152
C. The Value of Complementary Quantities of Goods of Higher Order .....	157
D. The Value of Individual Goods of Higher Order .....	162
E. The Value of the Services of Land, Capital, and Labor in Particular .....	165
IV. THE THEORY OF EXCHANGE .....	175
1. The Foundations of Economic Exchange .....	175
2. The Limits of Economic Exchange .....	181
V. THE THEORY OF PRICE .....	191
1. Price Formation in an Isolated Exchange .....	194
2. Price Formation under Monopoly .....	197
A. Price Formation and the Distribution of Goods When There is Competition Between Several Persons for a Single Indivisible Monopolized Good .....	199
B. Price Formation and the Distribution of Goods When There is Competition for Several Units of a Monopolized Good .....	203
C. The Influence of the Price Fixed by a Monopolist on the Quantity of a Monopolized Good that Can be Sold and on the Distribution of the Good Among the Competitors For It .....	207
D. The Principles of Monopoly Trading (The Policy of a Monopolist) .....	211
3. Price Formation and the Distribution of Goods under Bilateral Competition .....	216
A. The Origin of Competition .....	216
B. The Effect of the Quantities of a Commodity Supplied by Competitors on Price Formation;	

the Effect of Given Prices Set by Them on Sales; and in Both Cases the Effect on the Distribution of the Commodity Among the Competing Buyers .....	218
C. The Effect of Competition in the Supply of a Good on the Quantity Sold and on the Price at which it is Offered (the Policies of Competitors) .....	220
VI. USE VALUE AND EXCHANGE VALUE .....	226
A. The Nature of Use Value and Exchange Value .....	226
B. The Relationship Between the Use Value and the Exchange Value of Goods .....	228
C. Changes in the Economic Center of Gravity of the Value of Goods .....	231
VII. THE THEORY OF THE COMMODITY .....	236
1. The Concept of the Commodity in its Popular and Scientific Meanings .....	236
2. The Marketability of Commodities .....	241
A. The Outer Limits of the Marketability of Commodities .....	241
B. The Different Degrees of Marketability of Commodities .....	248
C. The Facility with which Commodities Circulate .....	254
VIII. THE THEORY OF MONEY .....	257
1. The Nature and Origin of Money .....	257
2. The Kinds of Money Appropriate to Particular Peoples and to Particular Historical Periods .....	262
3. Money as a "Measure of Price" and as the Most Economic Form for Storing Exchangeable Wealth. ....	272
4. Coinage .....	280
APPENDICES .....	286
A. Goods and "Relationships" .....	286
B. Wealth .....	288
C. The Nature of Value .....	292
D. The Measure of Value .....	295
E. The Concept of Capital .....	303
F. Equivalence in Exchange .....	305
G. Use Value and Exchange Value .....	306
H. The Commodity Concept .....	308
I. Designations for Money .....	312
J. History of Theories of the Origin of Money .....	315
INDEX .....	321



“There never lived at the same time,” wrote Ludwig von Mises, “more than a score of men whose work contributed anything essential to economics.”<sup>1</sup> One of those men was Carl Menger (1840–1921), professor of political economy at the University of Vienna and founder of the Austrian School of economics. Menger’s pathbreaking *Grundsätze der Volkswirtschaftslehre* (Principles of economics), published in 1871, not only introduced the concept of marginal analysis, it presented a radically new approach to economic analysis, an approach that still forms the core of the Austrian theory of value and price.

Unlike his contemporaries William Stanley Jevons and Léon Walras, who independently developed their own concepts of marginal utility during the 1870s, Menger favored an approach that was deductive, teleological, and, in a primary sense, *humanistic*. While Menger shared his contemporaries’ preference for abstract reasoning, he was primarily interested in explaining the real-world actions of real people, not in creating artificial, stylized representations of reality. Economics, for Menger, is the study of purposeful human choice, the relationship between means and ends. “All things are subject to the law of cause and effect,” he begins his treatise. “This great principle knows no exception.”<sup>2</sup> Jevons and Walras rejected cause and effect in favor of simultaneous determination, the technique of modeling complex relations as systems of simultaneous equations in which no variable “causes” another. Theirs has become the standard approach in contemporary economics, accepted by nearly all economists but the followers of Carl Menger.

Menger sought to explain prices as the outcome of the purposeful, voluntary interactions of buyers and sellers, each guided by their own subjective evaluations of the usefulness of various goods and services (what we now call *marginal utility*, a term later coined by Friedrich von Wieser). Trade is thus the result of people’s deliberate attempts to improve their well-being, not an innate

1. Ludwig von Mises, *Human Action: A Treatise on Economics*, Scholar’s Edition (Auburn, Ala.: Mises Institute, 1998), p. 869.
2. This volume, p. 51.



“propensity to truck, barter, and exchange,” as suggested by Adam Smith.<sup>3</sup> The exact quantities of goods exchanged—their prices, in other words—are determined by the values individuals attach to marginal units of these goods. With a single buyer and seller, goods are exchanged as long as participants can agree on an exchange ratio that leaves each better off than he was before. In a market with many buyers and sellers, the price reflects the valuations of the buyer least willing to buy and the seller least willing to sell, what Böhm-Bawerk would call the “marginal pairs.” Regardless of the exact structure of the market, then, voluntary exchange takes place until the gains from trade are momentarily exhausted. Menger’s highly general explanation of price formation continues to form the core of Austrian microeconomics.

Menger’s approach has been labeled “causal-realistic,” partly to emphasize its differences with the mainstream, neoclassical approach. Besides its focus on causal relations, Menger’s analysis is realistic in the sense that he sought not to develop formal models of hypothetical economic relationships, but to explain the actual prices paid every day in real markets. The classical economists had explained that prices are the result of supply and demand, but they lacked a satisfactory theory of valuation to explain buyers’ willingness to pay for goods and services. Rejecting value subjectivism, the classical economists tended to treat demand as relatively unimportant and concentrated on hypothetical “long-run” conditions, in which “objective” characteristics of goods—most importantly, their costs of production—would determine their prices. The classical economists also tended to group factors of production into broad categories—land, labor, and capital—leaving them unable to explain the prices of discrete, heterogeneous units of these factors. Menger realized that the actual prices paid for goods and services reflect not some objective, “intrinsic” characteristics, but rather the uses to which discrete units of goods and services can be put, as perceived, subjectively, by individual buyers and sellers.

The *Principles* was written as an introductory volume in a proposed multivolume work. Unfortunately, those later volumes were never written. Menger did not explicitly develop the concept of opportunity cost, he did not extend his analysis to explain the prices of the factors of production, and he did not develop a theory of monetary calculation. Those advances would come later from his students and disciples Eugen von Böhm-Bawerk, Friedrich von Wieser, J.B. Clark, Philip Wicksteed, Frank A. Fetter, Herbert

3. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* [1776], R.H. Campbell, A.S. Skinner, and W.B. Todd, eds. (Indianapolis: LibertyClassics, 1981), book 1, p. 24.

J. Davenport, Ludwig von Mises, and F.A. Hayek. Many of the most important ideas are implicit in Menger's analysis, however. For example, his distinction among goods of lower and higher "orders," referring to their place in the temporal sequence of production, forms the heart of Austrian capital theory, one of its most distinctive and important elements. Indeed, Menger emphasizes the passage of time throughout his analysis, an emphasis that has not yet made its way into mainstream economic theorizing.

While most contemporary economics treatises are turgid and dull, Menger's book is remarkably easy to read, even today. His prose is lucid, his analysis is logical and systematic, his examples clear and informative. The *Principles* remains an excellent introduction to economic reasoning and, for the specialist, the classic statement of the core principles of the Austrian School.

As Hayek writes in his Introduction below, the significance of the Austrian School is "entirely due to the foundations laid by this one man."<sup>4</sup> However, while Menger is universally recognized as the Austrian School's founder, his causal-realistic approach to price formation is not always appreciated, even among contemporary Austrian economists. Karen Vaughn, for example, characterizes Menger's price theory as essentially neoclassical, arguing that his distinctive Austrian contribution is "his many references to problems of knowledge and ignorance, his discussions of the emergence and function of institutions, the importance of articulating processes of adjustment, and his many references to the progress of mankind."<sup>5</sup> These issues, which attracted considerable attention during the "Austrian revival" of the 1970s, appear in Menger's 1883 book *Untersuchungen über die Methode der Socialwissenschaften und der politischen Oekonomie insbesondere* (Investigations into the method of the social sciences with special reference to economics).<sup>6</sup> They are largely absent from the *Principles*, however. The book that established the Austrian School focuses on the essence of value, exchange, and price, not disequilibrium, tacit knowledge, or radical subjectivism.

Another remarkable feature of Menger's contribution is that it appeared in German, while the approach then dominant in the German-speaking world

4. F.A. Hayek, "Introduction" to Carl Menger, *Principles of Economics* (1976; Auburn, Ala.: Ludwig von Mises Institute), p. 12; and this volume.

5. Karen I. Vaughn, *Austrian Economics in America: The Migration of a Tradition* (Cambridge: Cambridge University Press, 1994), pp. 18–19.

6. Carl Menger, *Investigations into the Method of the Social Sciences, with Special Reference to Economics*, Louis Schneider, ed., Francis J. Nock, trans. (New York: New York University Press, 1985).

was that of the “younger” German Historical School, which eschewed theoretical analysis altogether in favor of inductive, ideologically driven, historical case studies. The most accomplished theoretical economists, the British classicals such as J.S. Mill, were largely unknown to German-speaking writers. As Hayek notes below,

In England the progress of economic theory only stagnated. In Germany a second generation of historical economists grew up who had not only never become really acquainted with the one well-developed system of theory that existed, but had also learnt to regard theoretical speculations of any sort as useless if not positively harmful.<sup>7</sup>

Menger’s approach—haughtily dismissed by the leader of the German Historical School, Gustav Schmoller, as merely “Austrian,” the origin of that label—led to a renaissance of theoretical economics in Europe and, later, in the United States.

In short, the core concepts of contemporary Austrian economics—human action, means and ends, subjective value, marginal analysis, methodological individualism, the time structure of production, and so on—along with the Austrian theory of value and price, which forms the heart of Austrian analysis, all flow from Menger’s pathbreaking work. As Joseph Salerno has written, “Austrian economics always was and will forever remain *Mengerian* economics.”<sup>8</sup>

Peter G. Klein  
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7. Hayek, “Introduction,” p. 13; and this volume.

8. Joseph T. Salerno, “Carl Menger: The Founder of the Austrian School,” in Randall G. Holcombe, ed., *Fifteen Great Austrian Economists* (Auburn, Ala.: Ludwig von Mises Institute, 1999), p. 71.

# CARL MENGER<sup>1</sup>

By F.A. Hayek

**T**he history of economics is full of tales of forgotten forerunners, men whose work had no effect and was only rediscovered after their main ideas had been made popular by others, of remarkable coincidences of simultaneous discoveries, and of the peculiar fate of individual books. But there must be few instances, in economics or any other branch of knowledge, where the works of an author who revolutionised the body of an already well-developed science and who has been generally recognised to have done so, have remained so little

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<sup>1</sup>This biographical study was written as an Introduction to the Reprint of Menger's *Grundsätze der Volkswirtschaftslehre* which constitutes the first of a series of four Reprints embodying Menger's chief published contributions to Economic Science and which were published by the London School of Economics as Numbers 17 to 20 of its *Series of Reprints of Scarce Works in Economics and Political Science*.

known as those of Carl Menger. It is difficult to think of a parallel case where a work such as the *Grundsätze* has exercised a lasting and persistent influence but has yet, as a result of purely accidental circumstances, had so extremely restricted a circulation.

There can be no doubt among competent historians that if, during the last sixty years, the Austrian School has occupied an almost unique position in the development of economic science, this is entirely due to the foundations laid by this one man. The reputation of the School in the outside world and the development of its system at important points were due to the efforts of his brilliant followers, Eugen von Böhm-Bawerk and Friedrich von Wieser. But it is not unduly to detract from the merits of these writers to say that its fundamental ideas belong fully and wholly to Carl Menger. If he had not found these principles he might have remained comparatively unknown, might even have shared the fate of the many brilliant men who anticipated him and were forgotten, and almost certainly would for a long time have remained little known outside the countries of the German tongue. But what is common to the members of the Austrian School, what constitutes their peculiarity and provided the foundations for their later contributions is their acceptance of the teaching of Carl Menger.

The independent and practically simultaneous discovery of the principle of marginal utility by William Stanley Jevons, Carl Menger, and Léon Walras is too well known to require retelling. The year 1871, in which both Jevons' *Theory of Political Economy* and Menger's *Grundsätze* appeared, is now generally and with justice regarded as the beginning of the modern period in the development of economics. Jevons had outlined his fundamental ideas nine years earlier in a lecture (published in 1866) which, however, attracted little attention, and Walras began to publish his contribution only in 1874, but the complete independence of the work of the three founders is quite certain. And indeed, although their central positions, the point in their system to which they and their contemporaries naturally attached the greatest importance, are the same, their work is so clearly distinct in general character and background that the most interesting problem is really how so different routes should have led to such similar results.

To understand the intellectual background of the work of Carl Menger, a few words on the general position of economics at that time are required. Although the quarter of a century between about 1848, the date of J.S. Mill's *Principles*, and the emergence of the new school saw in many ways the greatest triumphs of the classical political economy in the applied fields, its foundations, particularly its theory

of value, had become more and more discredited. Perhaps the systematic exposition in J.S. Mill's *Principles* itself, in spite or because of his complacent satisfaction about the perfected state of the theory of value, together with his later retractions on other essential points of the doctrine, did as much as anything else to show the deficiencies of the classical system. In any case, critical attacks and attempts at reconstruction multiplied in most countries.

Nowhere, however, had the decline of the classical school of economists been more rapid and complete than in Germany. Under the onslaughts of the Historical School not only were the classical doctrines completely abandoned—they had never taken very firm root in that part of the world—but any attempt at theoretical analysis came to be regarded with deep distrust. This was partly due to methodological considerations. But even more it was due to an intense dislike of the practical conclusions of the classical English School—which stood in the way of the reforming zeal of the new group which prided itself on the name of the “ethical school.” In England the progress of economic theory only stagnated. In Germany a second generation of historical economists grew up who had not only never become really acquainted with the one well-developed system of theory that existed, but had also learnt to regard theoretical speculations of any sort as useless if not positively harmful.

The doctrines of the classical school were probably too much discredited to provide a possible basis of reconstruction for those who were still interested in problems of theory. But there were elements in the writings of the German economists of the first half of the century which contained the germs for a possible new development.<sup>1</sup> One of the reasons why the classical doctrines had never firmly established themselves in Germany was that German economists had always remained conscious of certain contradictions inherent in any cost or labour theory of value. Owing, perhaps, partly to the influence of Condillac and other French and Italian authors of the eighteenth century a tradition had been kept alive which refused to separate value entirely from utility. From the early years of the century into the 'fifties and 'sixties a succession of writers, of whom Hermann was probably the outstanding and most influential figure (the wholly successful Gossen remaining unnoticed), tried to combine the ideas of utility and scarcity into an explanation of value, often coming very

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<sup>1</sup>The same is largely true of France. Even in England there was a kind of unorthodox tradition, of which the same may be said, but it was completely obscured by the dominant classical school. It is, however, important here because the work of its outstanding representative, Longfield, had through the intermediary ship of Hearn no doubt some influence on Jevons.

near to the solution provided by Menger. It is to these speculations, which to the more practical minds of the contemporary English economists must have appeared useless excursions into philosophy, that Menger owed most. A glance through the extensive footnotes in his *Grundsätze*, or the author's index which has been added to the present edition, will show how extraordinarily wide a knowledge he possessed of these German authors and also of the French and Italian writers, and how small a role the writers of the classical English school plays in comparison.

But while Menger probably surpassed all his fellow-founders of the marginal utility doctrine in the width of his knowledge of the literature—and only from a passionate book collector inspired by the example of the encyclopaedic Roscher could one expect a similar knowledge at the early age the *Grundsätze* was written—there are curious gaps in the list of authors to whom he refers which go far to explain the difference of his approach from that of Jevons and Walras.<sup>1</sup> Particularly significant is his apparent ignorance, at the time when he wrote the *Grundsätze*, of the work of Cournot, to whom all the other founders of modern economics, Walras, Marshall, and very possibly Jevons<sup>2</sup>, seem to have been directly or indirectly indebted. Even more surprising, however, is the fact that at that time Menger does not seem to have known the work of von Thünen, which one would have expected him to find particularly congenial. While it can be said, therefore, that he worked in an atmosphere distinctly favourable to an analysis on utility lines, he had nothing so definite on which to build a modern theory of price as his fellows in the same field, all of whom came under the influence of Cournot, to which must be added, in the case of Walras, that of Dupuit<sup>3</sup> and, in the case of Marshall, that of von Thünen.

It is an interesting speculation to think what direction the development of Menger's thought would have taken if he had been acquainted with these founders of mathematical analysis. It is a curious

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<sup>1</sup>It is hardly surprising that he did not know his immediate German predecessor H.H. Gossen, but neither did Jevons or Walras when they first published their ideas. The first book which did justice at all to Gossen's work, F.A. Lange's *Arbeiterfrage* (2nd ed.), appeared in 1870 when Menger's *Grundsätze* was probably already being set up in print.

<sup>2</sup>Dr. Hicks tells me that he has some reason to believe that Lardner's diagrammatic exposition of the theory of monopoly, by which Jevons according to his own testimony was mainly influenced, derives from Cournot. On this point see Dr. Hicks's article on Léon Walras which is to appear in one of the next issues of *Econometrica*.

<sup>3</sup>Menger did, however, know the work of Léon Walras's father, A.A. Walras, whom he quotes on p. 54 of the *Grundsätze*.

fact that, so far as I am aware, he has nowhere commented on the value of mathematics as a tool of economic analysis. There is no reason to assume that he lacked either the technical equipment or the inclination. On the contrary, his interest in the natural sciences is beyond doubt, and a strong bias in favour of their methods is evident throughout his work. And the fact that his brothers, particularly Anton, are known to have been intensely interested in mathematics, and that his son Karl became a noted mathematician, may probably be taken as evidence of a definite mathematical strain in the family. But although he knew later not only the work of Jevons and Walras, but also that of his compatriots Auspitz and Lieben, he does not even refer to the mathematical method in any of his writings on methodology.<sup>1</sup> Must we conclude that he felt rather sceptical about its usefulness?

Among the influences to which Menger must have been subject during the formative period of his thought there is a complete absence of influence of Austrian economists, for the simple reason that, in the earlier part of the nineteenth century in Austria, there were practically no native economists. At the universities where Menger studied, political economy was taught as part of the law curriculum, mostly by economists imported from Germany. And though Menger, like all the later Austrian economists, proceeded to the degree of Doctor of Law, there is no reason to believe that he was really stimulated by his teachers in economics. This, however, leads us to his personal history.

Born on February 28, 1840, in Neu-Sandec, Galicia, the territory of the present Poland, the son of a lawyer, he came from an old family of Austrian craftsmen, musicians, civil servants and army officers, who had, only a generation before, moved from the German parts of Bohemia to the Eastern provinces. His mother's father,<sup>2</sup> a Bohemian merchant who had made a fortune during the Napoleonic wars,

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<sup>1</sup>The only exception to this statement, a review of R. Auspitz and R. Lieben, *Untersuchungen über die Theorie des Preises*, in a daily newspaper (the *Wiener Zeitung* of July 8th, 1889), can hardly be called an exception, as he expressly says that he does not want to comment there on the value of mathematical exposition of economic doctrines. The general tone of the review as well as his objection to the fact that the authors in his opinion "use the mathematical method not only as a means of exposition but as a means of research" confirms the general impression that he did not consider it as particularly useful.

<sup>2</sup>Anton Menger, the father of Carl, was the son of another Anton Menger, who came from an old German family that had in 1623 emigrated to Eger in Bohemia, and of Anna *née* Müller. His wife, Caroline, was the daughter of Josef Gerzabek, merchant in Hohenmaut, and of Therese, *née* Kalas, whose ancestors can be traced in the register of baptism of Hohenmaut back into the 17th and 18th centuries respectively.



bought a large estate in Western Galicia where Carl Menger spent a great part of his boyhood, and before 1848 still saw the conditions of semi-servitude of the peasants which, in this part of Austria had persisted longer than in any part of Europe outside Russia. With his two brothers, Anton, later the well-known writer on law and socialism, author of the *Right to the Whole Produce of Labour*, and Carl's colleague at the faculty of law of the University of Vienna, and Max, in his days a well-known Austrian parliamentarian and writer on social problems, he went to the Universities of Vienna (1859–60) and Prague (1860–3). After taking his doctor's degree at the University of Cracow he devoted himself first to journalism, writing for papers in Lemberg and later in Vienna, on economic questions. After a few years he entered the Civil Service in the press department of the Austrian "Ministerratspräsidium," an office which had always retained a very special position in the Austrian Civil Service and attracted many men of great talent.

Wieser reports that Menger once told him that it was one of his duties to write surveys of the state of the markets for an official newspaper, the *Wiener Zeitung*, and that it was in studying the market reports that he was struck by the glaring contrast between the traditional theories of price and the facts which experienced practical men considered as decisive for the determination of prices. Whether this was really the original cause which led Menger to the study of the determination of prices or whether, which seems more likely, it only gave a definite direction to studies which he had been pursuing since he had left the university, we do not know. There can be little doubt, however, that during the years intervening between the date when he left the university and the publication of the *Grundsätze* he must have worked intensely on these problems, delaying publication until his system was fully worked out in his mind.<sup>1</sup>

He is said to have once remarked that he wrote the *Grundsätze* in a state of morbid excitement. This can hardly mean that this book was the product of a sudden inspiration, planned and written in great haste. Few books can have been more carefully planned; rarely has the first exposition of an idea been more painstakingly developed and followed up in all its ramifications. The slender volume which appeared early in 1871 was intended as a first, introductory part of a comprehensive treatise. It dealt with the fundamental questions, on which he disagreed with accepted opinion, with the exhaustiveness necessary to satisfy the author that he was building on absolutely firm ground. The problems treated in this "First, General Part," as it is

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<sup>1</sup>The earliest manuscript notes on the theory of value which have been preserved date from the year 1867.

described on the title page, were the general conditions which led to economic activity, value exchange, price, and money. From manuscript notes communicated by his son more than fifty years later, in the introduction to the second edition, we know that the second part was to treat "interest, wages, rent, income, credit, and paper money," a third "applied" part the theory of production and commerce, while a fourth part was to discuss criticism of the present economic system and proposals for economic reform.

His main aim, as he says in the preface, was a uniform theory of price which would explain all price phenomena and in particular also interest, wages, and rent by one leading idea. But more than half of the volume is devoted to matters which only prepare the way for that main task—to the concept which gave the new school its special character, *i.e.* value in its subjective, personal sense. And even this is not reached before a thorough examination of the main concepts with which economic analysis has to work.

The influence of the earlier German writers with their predilection for somewhat pedantic classifications and long-winded definitions of concepts is here clearly noticeable. But in Menger's hands the time-honoured "fundamental concepts" of the traditional German textbook assume new life. Instead of a dry enumeration and definition they become the powerful instrument of an analysis in which every step seems to result with inevitable necessity from the preceding one. And though Menger's exposition still lacks many of the more impressive phrases and elegant formulations of the writings of Böhm-Bawerk and Wieser, it is in substance hardly inferior and in many respects definitely superior to these later works.

It is not the purpose of the present introduction to give a connected outline of Menger's argument. But there are certain less known, somewhat surprising, aspects of his treatment which deserve special mention. The careful initial investigation of the causal relationship between human needs and the means for their satisfaction, which within the first few pages leads him to the now celebrated distinction between goods of the first, second, third and higher orders, and the now equally familiar concept of complementarity between different goods, is typical of the particular attention which, the widespread impression to the contrary notwithstanding, the Austrian School has always given to the technical structure of production—an attention which finds its clearest systematic expression in the elaborate "vorwerttheoretischer Teil" which precedes the discussion of the theory of value in Wieser's late work, the *Theory of Social Economy*, 1914.

Even more remarkable is the prominent role which the element of time plays from the very beginning. There is a very general impres-

sion that the earlier representatives of modern economics were inclined to neglect this factor. In so far as the originators of the mathematical exposition of modern equilibrium theory are concerned, this impression is probably justified. Not so with Menger. To him economic activity is essentially planning for the future, and his discussion of the period, or rather different periods, to which human forethought extends as regards different wants has a definitely modern ring.

It is somewhat difficult to believe now that Menger was the first to base the distinction between free and economic goods on the idea of scarcity. But, as he himself says, while the very concept was not known in the English literature, the German authors who had used it before him, and particularly Hermann, had all been trying to base the distinction on the presence or absence of cost in the sense of effort. But, very characteristically, while all of Menger's analysis is grounded on the idea of scarcity, this simple term is nowhere used. "Insufficient quantity" or "das ökonomische Mengenverhältnis" are the very exact but somewhat cumbersome expressions which he uses instead.

It is characteristic of his work as a whole that he attaches more importance to a careful description of a phenomenon than to giving it a short and fitting name. This frequently prevents his exposition from being as effective as might have been wished. But it also protects him against a certain one-sidedness and a tendency towards oversimplification to which a brief formula so easily leads. The classic instance of this is, of course, the fact that Menger did not originate—nor, so far as I know, ever use—the term marginal utility introduced by Wieser, but always explained value by the somewhat clumsy but precise phrase, "the importance which concrete goods, or quantities of goods, receive for us from the fact that we are conscious of being dependent on our disposal over them for the satisfaction of our wants," and describes the magnitude of this value as equal to the importance which attached to the least important satisfaction which is secured by a single unit of the available quantity of the commodity.

Another, perhaps less important but not insignificant instance of Menger's refusal to condense explanations in a single formula, occurs even earlier in the discussion of the decreasing intensity of individual wants with increasing satisfaction. This physiological fact, which later under the name of "Gossen's law of the satisfaction of wants" was to assume a somewhat disproportionate position in the exposition of the theory of value, and was even hailed by Wieser as Menger's main discovery, takes in Menger's system the more appropriate minor position as one of the factors which enable us to arrange the different individual sensations of want in order of their importance.

On yet another and a more interesting point in connection with the pure theory of subjective value Menger's views are remarkably modern. Although he speaks occasionally of value as measurable, his exposition makes it quite clear that by this he means no more than that the value of any one commodity can be expressed by naming another commodity of equal value. Of the figures which he uses to represent the scales of utility he says expressly that they are not intended to represent the absolute, but only the relative importance of the wants, and the very examples he gives when he first introduces them makes it perfectly clear that he thinks of them not as cardinal but as ordinal figures.<sup>1</sup>

Next to the general principle which enabled him to base the explanation of value on utility the most important of Menger's contributions is probably the application of this principle to the case where more than one good is required to secure the satisfaction of any want. It is here that the painstaking analysis of the causal relationship between goods and wants in the opening chapters and the concepts of complementarity and of goods of different orders bears its fruits. Even to-day it is hardly recognised that Menger answered the problem of the distribution of the utility of a final product between the several co-operating commodities of a higher order—the problem of imputation as it was later called by Wieser—by a fairly developed theory of marginal productivity. He distinguishes clearly between the case where the proportions in which two or more factors can be used in the production of any commodity are variable and the case where they are fixed. He answers the problem of imputation in the first case by saying that such quantities of the different factors as can be substituted for each other in order to get the same additional quantity of the product must have equal value, while in the case of fixed proportions he points out that the value of the different factors is determined by their utility in alternative uses.

In this first part of his book, which is devoted to the theory of subjective value, and compares well with the later exposition by Wieser, Böhm-Bawerk and others, there is really only one major point on which Menger's exposition leaves a serious gap. A theory of value can hardly be called complete and will certainly never be quite convincing if the role that cost of production plays in determining the relative value of different commodities is not explicitly explained.

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<sup>1</sup>Further aspects of Menger's treatment of the general theory of value which might be mentioned are his persistent emphasis on the necessity to classify the different commodities on economic rather than technical grounds, his distinct anticipation of the Böhm-Bawerkian doctrine of the underestimation of future wants, and his careful analysis of the process by which the accumulation of capital turns gradually more and more of the originally free factors into scarce goods.

At an early point of his exposition Menger indicates that he sees the problem and promises a later answer. But this promise is never fulfilled. It was left to Wieser to develop what later became known as the principle of Opportunity cost or "Wieser's Law," *i.e.* the principle that the other uses competing for the factors will limit the quantity available for any one line of production in such a way that the value of the product will not fall below the sum of the value which all the factors used in its production obtain in these competing uses.

It has sometimes been suggested that Menger and his school were so pleased with their discovery of the principles governing value in the economy of an individual that they were inclined to apply the same principles in an all too rapid and over-simplified way to the explanation of price. There may be some justification for such a suggestion so far as the works of some of Menger's followers, particularly the younger Wieser, are concerned. But it certainly cannot be said of Menger's own work. His exposition completely conforms to the rule later so much emphasized by Böhm-Bawerk, that any satisfactory explanation of price would have to consist of two distinct and separate stages of which the explanation of subjective value is only the first. It only provides the basis for an explanation of the causes and limits of exchanges between two or more persons. Menger's arrangement in the *Grundsätze* is exemplary in this respect. The chapter on exchange which precedes that on price makes the influence of value in the subjective sense on the objective exchange relationships quite clear without postulating any greater degree of correspondence than is actually justified by the assumptions.

The chapter on price itself, with its careful investigation of how the relative valuations of the individual participants in the exchange themselves will affect the ratios of exchange in the case of an isolated exchange of two individuals, under conditions of monopoly and finally under conditions of competition, is the third and probably the least known of the main contributions of the *Grundsätze*. Yet it is only in reading this chapter that one realises the essential unity of his thought, the clear aim which directs his exposition from the beginning to this crowning achievement.

On the final chapters, which deal with the effects of production for a market, the technical meaning of the term "commodity" (*Ware*) as distinguished from the simple "good," their different degrees of saleability leading up to the introduction and discussion of money, little need be said at this point. The ideas contained here and the fragmentary remarks on capital contained in earlier sections are the only sections of this first work which were developed further in his printed work later on. Although they embody contributions of

lasting influence, it was mainly in their later, more elaborate exposition that they became known.

The considerable space devoted here to the discussion of the contents of the *Grundsätze* is justified by the outstanding character of this work among Menger's publications and, indeed, among all the books which have laid the foundations of modern economics. It is, perhaps, appropriate to quote in this connection the judgment of the scholar best qualified to assess the relative merits of the different variants of the modern school, of Knut Wicksell who was the first, and hitherto the most successful, to combine what is best in the teaching of the different groups. "His fame," he says, "rests on this work and through it his name will go down to posterity, for one can safely say that since Ricardo's *Principles* there has been no book—not even excepting Jevon's brilliant if rather aphoristic achievement and Walras's unfortunately difficult work—which has exercised such great influence on the development of economics as Menger's *Grundsätze*."<sup>1</sup>

But the immediate reception of the book can hardly be called encouraging. None of the reviewers in the German journals seem to have realised the nature of its main contribution.<sup>2</sup> At home Menger's attempt to obtain, on the strength of this work, a lectureship (*Privatdozentur*) at the University of Vienna succeeded only after some difficulty. He can scarcely have known that, just before he began his lectures, there had just left the University two young men who immediately recognised that his work provided the "Archimedean point," as Wieser called it, by which the existing systems of economic theory could be lifted out of their hinges. Böhm-Bawerk and Wieser, his first and most enthusiastic disciples, were never his direct pupils, and their attempt to popularise Menger's doctrines in the seminars of the leaders of the older historical school, Knies, Roscher, and Hildebrand was fruitless.<sup>3</sup> But Menger gradually succeeded in gaining considerable influence at home. Soon after his promotion to the rank

<sup>1</sup>*Ekonomisk Tidskrift*, 1921, p. 118.

<sup>2</sup>An exception should, perhaps, be made for Hack's review in the *Zeitschrift für die gesamte Staatswissenschaft*, 1872, who not only emphasized the excellence of the book and the novelty of its method of approach, but also pointed out as opposed to Menger that the economically relevant relationship between commodities and wants was not that of cause and effect but one of means and end.

<sup>3</sup>It might not be altogether out of place to correct a wrong impression which may be created by A. Marshall's assertion that between the years 1870 and 1874, when he developed the details of his theoretical position, "Böhm-Bawerk and Wieser were still lads at school or college. . . ." (*Memorials of Alfred Marshall*, p. 417). Both had left the University together and entered civil service in 1872, and in 1876 were already in a position to expound in reports to Knies's seminar in Heidelberg the main elements of their later contribution.

of *professor extraordinarius* in 1873 he resigned from his position in the prime minister's office, to the great surprise of his chief, Prince Auersperg, who found it difficult to understand that anybody should want to exchange a position with prospects to satisfy the greatest ambition for an academic career.<sup>1</sup> But this did not yet mean Menger's final *adieu* to the world of affairs, in 1876 he was appointed one of the tutors to the ill-fated Crown Prince Rudolph, then eighteen years of age, and accompanied him during the next two years on his extensive travels through the greater part of Europe, including England, Scotland, Ireland, France and Germany. After his return he was appointed in 1879 to the chair of political economy in Vienna, and thenceforward he settled down to the secluded and quiet life of the scholar which was to be so characteristic of the second half of his long life.

By this time the doctrines of his first book—apart from a few short reviews of books he had published nothing in the intervening period—were beginning to attract wider attention. Rightly or wrongly, with Jevons and Walras it was the mathematical form rather than the substance of their teaching which appeared to be their main innovation, and which contributed the chief obstacle to their acceptance. But there were no obstacles of this sort to an understanding of Menger's exposition of the new theory of value. During the second decade after the publication of the book, its influence began to extend with great rapidity. At the same time Menger began to acquire considerable reputation as a teacher, and to attract to his lectures and seminars an increasing number of students, many of whom soon became economists of considerable reputation. In addition to those already noted, among the early members of his school his contemporaries Emil Sax and Johann von Komorzynski, and his students Robery Meyer, Robert Zuckerkandl, Gustav Gross, and—at a somewhat later date—H. von Schullern-Schrattenhofen, Richard Reisch and Richard Schüller deserve special mention.

But, while at home a definite school was forming, in Germany, even more than in other foreign countries, economists maintained a hostile attitude. It was at this time that the younger Historical School, under the leadership of Schmoller, was gaining the greatest influence in that country. The "*Volkswirtschaftliche Kongress*," which had preserved the classical tradition, was superseded by the newly founded "*Verein für Sozialpolitik*," Indeed the teaching of economic theory was more and more excluded from German universities. Thus

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<sup>1</sup>Menger had at that time already declined the offer of professorships in Karlsruhe (1872), Basel (1873), and a little later also declined an offer of a professorship in the Zurich Polytechnic with prospects to a simultaneous professorship at the University.

Menger's work was neglected, not because the German economists thought that he was wrong, but because they considered the kind of analysis he attempted was useless.

Under these conditions it was only natural that Menger should consider it more important to defend the method he had adopted against the claims of the Historical School to possess the only appropriate instrument of research, than to continue the work on the *Grundsätze*. It is to this situation that his second great work, the *Untersuchungen über die Methode der Socialwissenschaften und der politischen Oekonomie insbesondere* is due. It is well to remember that in 1875 when Menger started to work on that book, and even in 1883 when it was published, the rich crop of works by his disciples which definitely established the position of the school, had not yet begun to mature, and that he might well have thought that it would be wasted effort to continue while the question of principle was not decided.

In their way the *Untersuchungen* are hardly less an achievement than the *Grundsätze*. As a polemic against the claims of the Historical School to an exclusive right to treat economic problems the book can hardly be surpassed. Whether the merits of its positive exposition of the nature of theoretical analysis can be rated as high is, perhaps, not quite certain. If this were, indeed, its main title to fame there might be something in the suggestion occasionally heard among Menger's admirers that it was unfortunate that he was drawn away from his works on the concrete problems of economics. This is not to mean that what he said on the character of the theoretical or abstract method is not of very great importance or that it had not very great influence. Probably it did more than any other single book to make clear the peculiar character of the scientific method in the social sciences, and it had a very considerable effect on professional "methodologists" among German philosophers. But to me, at any rate, its main interest to the economist in our days seems to lie in the extraordinary insight into the nature of social phenomena which is revealed incidentally in the discussion of problems mentioned to exemplify different methods of approach, and in the light shed by his discussion of the development of the concepts with which the social sciences have to work. Discussions of somewhat obsolete views, as that of the organic or perhaps better physiological interpretation of social phenomena, give him an opportunity for an elucidation of the origin and character of social institutions which might, with advantage, be read by present-day economists and sociologists.

Of the central contentions of the book only one may be singled out for further comment; his emphasis on the necessity of a strictly



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