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## **Social Needs, Social Goods, and Human Associations in the Second Edition of Carl Menger's *Principles***

**Abstract:** This paper deals with the contents of the second edition of Carl Menger's *Principles of Economics* (1923), which was neither reprinted in German by Hayek in 1934 nor translated into English by Knight in 1950. The aim of this paper is to show that a new Mengerian economic agent can be found in the contents of Chapter I, where Menger dealt with *social* needs and *social* goods. I consider this specific contribution of the latest Menger a natural development of his methodological research on the nature of institutions. Finally, I contextualize the story of the missed reprint and translation in the debate about the meaning of economics involving Hayek and Robbins at the LSE and Knight in Chicago.

### **Introduction**

Menger worked on revisions of the first edition of *Principles* (Menger 1871) for the last twenty years of his life, and never authorized a reprint or translation<sup>1</sup>.

Karl explained that his father had long intended to revise and extend the first edition. Although he did not change the general meaning of his previous book, he added some

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<sup>1</sup> This paper is mainly based on Menger's archive, held at Duke University (where Menger's Papers contain notes and drafts of the second editions), as well as Menger Library, hosted at Hitotsubashi University (which houses Menger's personal copy of the first edition of his *Principles* with his notes and marginalia). Menger Papers includes both father and son's personal archives. Menger's archives arrived at Duke in 1988 as a donation from Eve Menger (Karl's daughter), and the first inventory of its content was published in 1990 (Barnett, 1990). Drafts of the second edition of Menger's *Principles* are held in boxes 5-13 (out of 26). Boxes 5, 6 and 7 hold the drafts of the new parts of the second edition: Chapter I (1903-1907) and Chapter IV (1906-1907). Menger's almost 20,000 volume personal library was sold to Hitotsubashi University by his wife a year after his death. Marginalia are present in many of these volumes, and more details about the history of the acquisition of Menger's collection can be found at <http://chssl.lib.hit-u.ac.jp/menger/index.html>.

‘relevant parts’, and made some minor adjustments to the central and final chapters (on value, exchange, price and money<sup>2</sup>).

If we compare the two editions, the ‘relevant parts’ mentioned by the editor are Chapter I (on human needs), and the second half of Chapter IV (on the two meaning of ‘economic’<sup>3</sup>).

According to the editor, Menger’s intense work on the revision of his *Principles* was mainly due to his dissatisfaction with the definition of a human need he gave in the first edition. In the second edition, Menger reformulated the first prerequisite of an economic good as follows: no longer simply “a human need”, but “the perception or the anticipation of a human need” (Menger 1923, 11). As Menger himself wrote in his notes, a new chapter on human needs was to come before the chapter on goods, because the nature of goods cannot be wholly understood without a deeper understanding of the nature of human needs.

### **1. Menger’s shift from individual needs to social needs**

In the first edition, Menger wrote that an economic good requires four *prerequisites*: the presence of a human need; some properties able to render a thing capable of being brought into a causal connection with the satisfaction of this need; the human knowledge of this causal connection, a command of the thing sufficient to direct it to the satisfaction of the need. In the second edition, Menger reformulates the first prerequisite of an economic good as follows: no longer simply “a human need”, but

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<sup>2</sup> The first scholar who studied the relationship between Carl Menger’s archive and the making of his *Principles* was Yagi (Yagi,1993), who described the genesis of Menger’s first edition (1871). For a detailed story about the relation between the published edition of Menger’s *Principles* and his notes and marginalia, see also Yagi’s essay at <http://chssl.lib.hit-u.ac.jp/menger/essay1.html>.

<sup>3</sup> In order to avoid any possible suspicion that the editor had been changing or manipulating the original version, it is important to underline that draft materials of the second edition of Menger’s *Principles* actually match the published second edition.

“the perception or the anticipation of a human need” (Menger 1923, 11), and defined a human need as “the starting point of any economic inquiry” [p.1].

He also clearly claimed that the human economy can be studied from two different perspectives: a subjective one (based on the economic behavior of individual agents and their needs), and a collective one (based on the economic behavior of social groups and their needs). According to Menger, the latter wasn’t adequately explained [p.7]: not only is an exact definition of individual needs important, but also fundamental to a complete definition of economy is a deep understanding of the nature of social needs<sup>4</sup>.

Menger wrote: “being a need perceived by an agent, the nature of human economy can be fully understood only when there is a complete definition of any possible economic agent”. On developing this specific point, Menger introduced the existence of a new economic agent. He called it ‘human associations’: “societies, associations, corporations, communities, and the State, of the national or global economy”<sup>5</sup> [p.7]. In order to explain the nature of this new economic agent (more complex than a single individual or a sum of individuals), Menger introduced three different social needs that require three different social goods to be satisfied.

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<sup>4</sup> This passage from an individual perspective to a national (or collective) one was a common feature in the traditional German economic literature. Austrian scholars –with some important exceptions (Caldwell 2003; Vaughn 1994), consider Menger a strong opponent to German political economy. Nevertheless, recent studies also based on Menger’s notes show a different story and reveal the strength of the influence of the German Historical School.

<sup>5</sup> In German: “Gesellschaften, Genossenschaften, Korporationen, Gemeinden, Staat, Volks- und Weltwirtschaft”.

The general definition of an economic good is to be a means to satisfy a human need. Social goods are particular economic goods able to satisfy social needs. Usually, a social group is simply defined as the sum of its individual components; in this case it is possible to apply the mechanisms of individual behavior to social dynamics.

Nevertheless, there are situations in which social groups are more than the sum of their parts, and the analogy between individual behavior and groups dynamics no longer work appropriately.

To explain this passage, Menger introduced: a) common needs, b) collective needs, and c) needs of human associations. As a logical consequence, three different social goods are required for their satisfaction: a) common goods, b) collective goods, and c) goods of human associations [p.7]<sup>6</sup>.

- a. Common needs are shared by many individuals. They might be satisfied by each of them in a separate way (to give an example, Menger suggested the drawing of drinking water by separate house wells or jointly by a single well (e.g. owned by a monopolist)) [p.7]. The source (demand) of these common needs is still individual; the supply of common goods to satisfy them can be provided either by individual agents in a competitive market form, or by a producer in a monopoly.
- b. Collective needs arise when individuals, who share the same common need, require a delegate agency able to provide a common good demanded by the community as a whole. They correspond to the modern meaning of “public

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<sup>6</sup> The following examples used to illustrate different kinds of social needs are provided by Menger himself.

goods”<sup>7</sup>. ‘Private transport facilities and private schools’ are examples used by Menger [p.8]. In this case, the demand still comes from individuals, more precisely from the sum of all individuals who are part of the same social group. The supply of collective goods requires a producer who can’t be the individual or the social group (again, the market form does not matter). This is the difference between common goods (a) and collective goods (b). In this case, Menger is still maintaining his original individualistic approach.

- c. Needs of human associations are shared by individuals who are voluntarily linked in a particular association, able to provide goods required by the members of that association, in order to satisfy not a common or a collective need, but a need of the human association as a whole [p.9]. They are different from (a) and (b) because, in this case, a non-individual demand exists and goes beyond the sum of individuals’ demand. The consumer is no longer a single individual or the sum of singles; the consumer is a ‘human association’. Examples provided by Menger about this new economic agent as a consumer are institutions (‘Institutionen’) like the State and the Municipality (‘der Staat’, ‘die Gemeinde’). As soon as they emerge, they assume an independent life (‘ein selbständiges Leben’). They are no longer just means (‘Mittel’) to satisfy common or collective needs; they are subjects with their own personality (‘Eigene Persönlichkeit’), following their own purposes (‘Eigene Zwecke’) [p. 9].

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<sup>7</sup> Usually, the origin of the term in German economic literature is traced back to Adolph Wagner’s “*Gemeinbedürfnisse*” (*Grundlegung der politischen Ökonomie*, 1892), and Emil Sax’s notion of *Kollektivbedürfnisse*. As corroborated by books in Menger’s library, Wagner was a very influential author for Menger.

It is important to note that in this passage Menger is dealing with the role of human associations as long as they assume the nature of a new economic agent able to demand. He is not dealing explicitly with a generic economic policy of the State.

His endorsement of a possible active role of the State was previously presented in his *Lectures* to the Crown Prince Rudolph of Austria. According to Menger, the State should promote public goods (such as public transportation) and help some sectors that need to be supported, as well as regulate some intervention to preserve natural resources and to stop any possible form of exploitation of workers, children in particular (Menger 1994, 123-129).

As Menger wrote: “in all of the cases above, the state shall actively intervene in the economic life of its citizens. Such intervention spells neither paternalism nor the exercise of control and thus a handicap, but wholesome protection and the representation and support of the community for the greatest happiness of the whole and its parts”. And he continued: “there is still another kind of useful intervention, namely when the state interferes powerfully with the economic activities of certain individuals in order to protect the community against their detrimental schemings” (Menger 1994, 125).

## **2. A new economic agent: the human associations**

Human associations as new economic agents who demand an economic good to satisfy a human need can be regarded as a shift from a strict individualism to a more complex approach to the nature of economic agents. This shift in Menger’s thought can also be regarded as a natural consequence of the concept of institutions he had introduced in his methodological research (Menger 1883). Institutions, like human

associations, spontaneously emerge as a natural development of common human life, and as a natural effect of the process of feedback among and between individuals and their environment. Human associations (not reducible to a sum of individuals) can be intended as consumers: the different nature of a human association and the mere sum of individuals within a social group is not merely quantitative, but qualitative.

From a methodological point of view, Menger had been shifting from a pure and strict individualism to a more complex perspective, based on the idea that when a human association emerges it acquires its own personality; becoming an economic agent not only able to supply (basically to provide collective goods), but also to demand, because social needs of type (c) emerge as well. This doesn't mean that Menger rejected individualism: individualism still performs human need of type a) and b).

There is a general agreement among Austrian scholars: Menger was the founder of methodological individualism, or subjectivism in economics. This is mainly due to the well-known *Methodenstreit* between Menger and Schmoller (focused on the contraposition between individualism *versus* holism as well as the possible existence of exact laws in economics), and to Hayek's introduction of Menger's thought to the English speaking world on the occasion of the publication of the German edition of Menger's *Complete Works* (Hayek 1934).

The idea of a sharp division between Menger and the German Historical School is still the dominant point of view among historians of economic thought. As some authors already noticed (Yagi 1993, Ikeda 1995, Ikeda 2008), it was Hayek who overemphasized Menger's aversion to the German Historical School in order to



underline the importance of individualism in his methodological approach. This aspect is not recognized enough, at least within the Austrian secondary literature.

The *Methodenstreit* was overrated, not *per se*, but in Menger's thought. The struggle between Menger and Schmoller was mainly a personal issue between the two colleagues, and in the 1890s Schmoller even revised some aspects of his position against Menger. More importantly, the influence of Roscher had been quite central in Menger's first edition of his *Principles* (Menger dedicated his work to him).

Reading the second edition, the "German influence" on Menger seems to be even stronger: the introduction of human associations, in some way, bridged the gap between Mengerian individualism and German holism. Some authors already underlined the presence of both individualism and "holism" in Menger's methodological approach (Krabbe 1988; Shearmur 1990) as well as some important differences between Menger's organicism and Hayek's pure subjectivism (Garrouste 1994). Some others recognize the essential role of the State concerning the emergence and the evolution of money (Hodgson 2001, Ikeda 2008). More recently, Richard Wagner has introduced a neo-Mengerian approach, based on Menger's vision of society as a complex network not reducible to some average or representative individuals (Wagner 2010). Yagi had also explored Menger's methodological individualism in terms of a possible new view of social evolution (Yagi 2011).

The authors quoted above – Yagi excepted - did not consider the second edition however. A possible new interpretation of Menger based on his latest contribution, will open a different way of re-thinking the nature of social needs and goods as well as

the nature of “human associations” (like the State) as economic agents inside the tradition of liberal thinkers.

### **3. The misfortune of Menger’s final work.**

As Hayek recalled in the 1920s, the first edition of Menger’s *Principles* (1871) had become a great rarity, and libraries had run out of it years before. In spite of this, his work was popular among students of economics. Paradoxically, they were introduced to Menger’s thought and to the history of economics by Othmar Spann’s textbook<sup>8</sup>: “his little textbook on the history of economics [*Die Haupttheorien der Volkswirtschaftslehre*] , reputedly modeled on Menger’s lectures on the subject, was for most of us [students] the first introduction to this field” (Hayek 1992, p. 23). As Hayek wrote, Spann (not Mises) first introduced the logic of the means/ends relationship: “he had some helpful things to say on the logic of means-ends relationship but soon moved into region of philosophy which to most of us seemed to have little to do with economics” (Hayek 1992, pp. 22-23).

Mises had been isolating himself from other Viennese colleagues mainly because of his intransigent liberalism and his struggle against socialism (Chaloupek 1990, Hayek 1992, Boettke 2001, Caldwell 2007). He was on better terms with colleagues at the London School of Economics (Edwin Cannan and Theodor Gregory, to name just two) and with Viennese young students who joined him in his *Privatseminar* (like Hayek himself).

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<sup>8</sup> In 1919, Othmar Spann was appointed professor of political economy at the University of Vienna where he taught until Nazi persecution rose in 1938.

When the second edition of Menger's *Principles* was published in 1923, it was almost unexpected and, in a certain sense, regarded as unnecessary<sup>9</sup>. As mentioned before, it was never republished in German, nor translated into English.

To understand the reason of such an unfortunate fate, we have to consider the story of Menger's *Renaissance* (that took place few years later in London) and Knight's decision to translate it into English in 1950. The role of Hayek was determinant in both situations.

#### **4. Menger's Reinassance at the LSE**

As is well-known, in the early 1930's Hayek went to the LSE at Mises' suggestion. He joined the newly appointed professor Lionel Robbins, and they became close friends (Howson 2013). Once Hayek moved to London they started a challenging new project: the building up of a microeconomic theory based on a strict methodological individualism and the notion of scarcity.

The most important result of this project was the publication of Robbins' book in 1932 where he rejected the conception of economics as the study of the causes of material wealth, and defined economics as "the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses" (Robbins 1932, 15). Robbins himself quoted Menger and Mises (together with Strigl, Fetter, and Mayer) as the main sources of that definition of economics. Not by chance, other references of Menger's thought inside his book are on the subjective theory of value

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<sup>9</sup> Among reviewers, F. Weiss doubted the accuracy of the editor's work (Weiss 1924); J. Bonar insisted on a new formulation of "capital" as provision for future wants (Bonar, 1924); G. Del Vecchio blamed the fact that Menger did not introduced some objective element to define the value as Marshall did (Del Vecchio, 1924).

in the first edition of Menger's *Principles* (Robbins 1932, 56), and on Menger's struggle against the holism of the German historicism tradition (Robbins 1932, 96).

Robbins was very influenced by Mises and Hayek while working on his book (Howson 2011, 210). On the other side, both Mises and Hayek were so deeply satisfied by the book that Mises used it in his seminar in Vienna, where Robbins was invited to give some lectures (Howson 2011, 232).

In such a framework we have to think about the re-publication of Menger's works, supported by the LSE, under Hayek's supervision. Menger's *Collected Works* appeared in German as the first work of *Reprints of Scarce Tracts in Economic and Political Science of the London School of Economics*. On that occasion, Hayek wrote a well-known introduction (Hayek 1934) that appeared also separately in *Economica*, the review of the LSE (Robbins had joined the editorial board of *Economica* in 1929). Hayek's article is a long and exhaustive presentation of Menger's economic theory and methodology for an English-speaking audience.

This part of the story is crucial. Robbins and Hayek, possibly influenced by Mises, had the same intent: the definition of economics as a science of subjective choice under some conditions of scarcity (means, time, and knowledge). They found in Menger a formidable forerunner of this approach, and in Mises an important follower. Not by chance, in his paper Hayek presented "the work of Professor Mises twenty years later, [as] the direct continuation of Menger's work" (Hayek 1934, 414).

In telling Menger's intellectual biography, Hayek presented the contents of the first edition of his *Principles* as a firm ground for a subjective theory of value, exchange, price, and money, grounded in the idea of scarcity. The contents of Menger's methodology (Menger 1883) as well as his pamphlet challenging Schmoller (Menger 1884), are examples of a strictly individualistic method of analysis.

The way Hayek introduced Menger was, in a certain sense, misleading. Hayek had been trying to depreciate Menger's affinities with the German tradition. He presented the *Methodenstreit* as an occasion for Menger "for an elucidation of the origin and character of social institutions" and "his emphasis on the necessity of a strictly individualistic or, as he generally says, atomistic method of analysis" (Hayek 1934, 406). Hayek totally disregarded the influence of the German Historical School on Menger.

Stressing the distance between Menger and the German tradition was very useful to reinforce Menger's role as a founder of marginalism (together with Jevons and Walras). Moreover, in his writings dated in the 1940s, Hayek insisted on similarities between Menger and Scottish scholars, mostly by overrating Smith's influence on Menger (Hayek 1948)<sup>10</sup>.

As we have seen, Menger introduced human association as a new economic agent in the second edition of his *Principles*. This development in Menger's thought could have been considered misleading and even dangerous for what Hayek and Robbins legitimately had in mind. The fact that the second edition appeared posthumously gave them the chance to easily discard it.

Hayek noted that Menger refused to reprint and/or translate the first edition, but he postponed the project of a second edition because "other tasks claimed his prior attention" (Hayek 1934, 410). Hayek mentioned the second edition, but felt its republication would be useless. According to Hayek, there was nothing new in the

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<sup>10</sup> A careful reading of the two editions reveals that Smith's influence on Menger is not so central: Menger often quoted Smith, but usually in order to criticize him. Moreover, Carl Menger's papers feature few notes on Smith compared with Cairnes, Mill, Say, and German thinkers. On a related note, among German thinkers who influenced Menger, Gossen is not included: he had a minimal role in Menger's thought (Ikeda 2008).

latest Menger; and more importantly, the draft material was too fragmentary and in awful disorder.

Hayek wrote: “an inspection of his manuscript has shown that, at one time, considerable parts of the work must have been ready for publication. But even after his powers had begun to fail he continued to revise and rearrange the manuscripts to such an extent that any attempt to reconstruct this would be a very difficult, if not an impossible task. Some of the material dealing with the subject-matter of the *Grundsätze* and partly intended for a new edition of this work, has been incorporated by his son in a second edition of this work, published in 1923. Much more, however, remains in the form of voluminous but fragmentary and disordered manuscripts, which only the prolonged and patient efforts of a very skillful editor could make accessible. For the present, at any rate, the results of the work of Menger's later years must be regarded as lost” (Hayek 1934, 416).

The reception of Menger's *Collected Works* went to the direction Hayek and Robbins had wished. A few years later, scholars and economists considered the introduction of subjectivism in economics as Menger's main role in the history of economics (Sweezy 1936; Bloch 1940), and Robbins' and Hayek's recent publications were regarded as “directly affected by Menger's methodology” (Sweezy 1936, 724)<sup>11</sup>. In a paper published in 1937, George Stigler praised the LSE's efforts to rediscover classics in order to reinforce this approach, and he underlined the importance of Menger as the most important theorist of subjective value. Stigler also regretted “Menger's failure to develop generally the method by which the individual maximizes his want-satisfaction” (Stigler 1937, 239).

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<sup>11</sup> The author was referring to Robbins' *Essay* (1932) and Hayek's book on *Collectivistic Economic Planning* (1935).

The second edition of Menger's *Principles* was completely forgotten: Hayek's and Robbins' choice became unquestionable.

### **5. Menger at Chicago**

During the following decade, Hayek's efforts were directed toward clarifying his own methodology. Menger (not translated into English yet) was presented as a follower of the 'true individualism', together with 'Adam Smith and his school' and in opposition to the 'false individualism' based on Descartes' and Rousseau's rationalism (Hayek 1948, 4).

In 1950, Hayek moved to Chicago, where Frank Knight was leading the Department of Economics. The two had met in Vienna twenty years before; once Hayek moved to London, he (and Robbins) used Knight's textbook to explain the theory of price; in 1947 Knight and Hayek jointly organized the foundation of The *Mont Pèlerin Society*. Even though Hayek was never admitted as a Faculty member of the Department of Economics in Chicago, Knight regularly attended Hayek's seminars on liberalism and the liberal tradition (Emmett 2011, 60).

It was likely during this seminars that Knight decided to edit the first translation of Menger's *Principles* into English. Knight wasn't an admirer of Menger. In his long *Introduction*, he explicitly regarded Menger's contribution as theoretically inferior to those of Jevons and Walras. Also, he harshly criticized Menger's adoption of the principle of cause and effect as the only possible general explanation to understand the nature of an economic choice (i.e. an act to get an economic good able to satisfy a human need), (Knight, 1950, 16); and he also considered Menger's definition of cost as a good of higher order as fallacious: "Perhaps the most serious defect in Menger's economic system, if we may so call his position as a whole, is his view of

production as a process of converting goods of higher order into goods of lower order. This involves a fallacious view of the economic process and in particular of the role of time. In the first place, there is in fact no such serial sequence. It would call for the existence of good of a supreme or highest order, not produced by higher goods, and in the economic meaning there are no such goods.” (Knight, 1950, 25)<sup>12</sup>.

Reasons why Knight translated Menger’s should be found in a different scenario. The role of Menger in the history of economics is no longer as strictly theoretical as it was in London two decades before; it was rather political. Menger was depicted as a Founding Father of economic liberalism.

Knight claimed that Menger’s (and his Austrian followers’) merit was mainly to have embedded the new economic theory they proposed (marginalism) within the ideology of the free competition, in the only possible political framework (liberalism). Menger had been seen as a revolutionary thinker, not just because he brought the subjective-value theory into the general definition of economics and he had been a “pioneer of the modern theory of utility” (Knight, 1950, 10), but because the primacy of subjectivism in economic principles considers the act of “economizing” as the only possible free choice and liberalism as the only possible free contest.

As Knight wrote one year later: “economic principles are simply the more general implications of the single principle of freedom, individual and social, *i.e.*, free association, in a certain sphere of activity. The sphere is that of economizing, *i.e.*, conduct in which quantitative means are used to achieve quantitative ends” (Knight 1951, 7). The primacy of subjectivism has as an immediate consequence the primacy of the market: “the perfect market (miscalled perfectly competitive) is unreal but

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<sup>12</sup> In his extreme criticism, Knight did not consider the role of knowledge and errors in Menger’s thought (Caldwell 2003, 22).



conceptually necessary. It is the embodiment of complete freedom (...) The freedom in question centers in the right of each to be the judge of his own values and of the use of his own means to achieve them” (Knight 1951, 8).

Robbins’ endorsement of Menger’s subjectivism was a matter of theoretical foundation of the discipline; Knight’s endorsement was a political and ideological choice.

The English translation of Menger’s *Principles* brought Karl Polanyi, who was teaching at Columbia University at that time, to reconsider Menger’s work as a whole. He discovered the second edition of Menger’s *Principles* and subsequently regarded Knight’s use of Menger (and by Hayek and Robbins earlier) as an abuse (Polanyi 1971)<sup>13</sup>.

Polanyi’s critique was two part<sup>14</sup>.

He blamed Hayek for intentionally refusing to reprint the second edition because of Menger’s introduction of “the two basic directions of the human economy” (Polanyi 1971; Cangiani 2006, Becchio 2011) in Chapter IV. The first one is a *subjective* direction, based on the use of goods to satisfy needs (later reformulated by Robbins

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<sup>13</sup> Polanyi didn’t read the German edition of Menger’s second edition when it was published despite living in Vienna and attending Mises’ private seminars. (Polanyi and Mendell 1987; 1990). During that period, Polanyi and Mises also started a direct discussion on the possibility of planned economy between 1922 and 1924 on the *Archiv für Sozialwissenschaft und Sozialpolitik* (Becchio 2007). Papers in Polanyi’s archive at the Butler Library, Columbia University, reveal that he became familiar with Menger’s latest book while teaching at the university during the early 1950s. See also Polanyi’s typewritten notes “on the translation of Menger’s ‘Grundsätze’” and “on the scarcity definition of ‘economic’ as presented in Menger’s *Grundsätze* [1923] and Robbins’ *Nature and significance of economic science*” at Karl Polanyi Archive, Columbia University.

<sup>14</sup> Polanyi’s interpretation of Menger’s second edition of his *Principles* is very well known among scholars interested in Polanyi’s thought, but almost unknown among Austrian scholars, with some exceptions (Campagnolo 2009, Shionoya 2012).

as the formal aspect of the logic of rational choice later reformulated by Robbins), and already present in the first edition. The second direction, added by Menger in the second edition, is *objective* and represents the total amount of goods and labor, given by natural and social conditions of a society as a whole [Menger 1923, 60 and 72-79]<sup>15</sup>.

On one side, Hayek's choice to reprint the first edition did not allow the reader to know that Menger had been developing a more complex meaning of 'economic'; on the other side, it implicitly gave a sort of *ex ante* endorsement of Robbins' definition of 'economic' provided by Menger, as the only possible meaning of 'economic'.

According to Polanyi, the situation got worse later in Chicago.

In the first edition, Menger had used the term 'wirtschaftende' as a synonym of 'ökonomischen' (to be 'engaged in economic activity'). Also, his use of 'wirtschaftende' had two meanings ('related to the allocation of means in a context of scarcity', and 'related to the way of saving resources for any future need'). Although a proper translation would have depended on the context of the sentence, only the expression 'economizing' (related to scarcity) was adopted, with no further distinction. In fact, when the translation was carried on, the English word 'economizing' no longer meant 'engaged in economic activity'; its meaning was restricted to the formal aspect of the rational allocation of scarce resources.

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<sup>15</sup> According to Menger, a complete definition of human economy as a *real* phenomenon includes both the relationship between scarce means and given ends (the subjective side) and the set of 'material' conditions of the human economic activity, i.e. the whole set of goods (the *objective* aspect) [Menger 1923, 60].

In the second edition, Menger was much clearer on this point: he distinguished between ‘wirtschaftende’ when he was referring to allocation based on scarcity, and ‘sparend’ when he was considering how to use resources in the future<sup>16</sup>.

Menger clearly stated that both meanings are parts of the general definition of ‘economy’ (‘Oekonomie’), that is different from ‘economics’ (‘Wirtschaftswissenschaften’), the science of economy<sup>17</sup>.

Polanyi’s “conspiracy theory” rises some relevant points. He rightly maintained that Menger’s main concern in revising his *Principles* was to give a broader definition of ‘economic’. This is well known, and drafts of his second edition as well as marginalia on his copy of the second edition confirm it.

Despite this, Polanyi completely misunderstood Menger when he maintained that Menger’s aim was to highlight the importance of the objective meaning of economic, and to diminish the subjective one<sup>18</sup>. The objective meaning was not in opposition to the subjective one (as Polanyi seems to suggest); in fact, it is the application of the

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<sup>16</sup> The linguistic conundrum may be solved by identifying and distinguishing the following English and German terms: (1) economy = *Wirtschaft*, (2) economizing = *wirtschaftend* (also: *sparend*), (3) economic efficiency = *Wirtschaftlichkeit*, (4) economics = *Wirtschaftswissenschaften*. *Sparend* means also *saving*. I owe this clarification to an anonymous referee, to whom I am very grateful.

<sup>17</sup> ‘Wirtschaft’ means the economy in general, that is different from ‘Wirtschaftswissenschaft’ (economics as a science).

<sup>18</sup> Polanyi’s interpretation of Menger’s Chapter IV is mostly biased by his personal struggle against the formalist tradition in economics and anthropology, which he considered unable “to recognize any other form of economy than the one based on market-price mechanism: the self-regulation of the market is never questioned, and the economist’s question is reduced to the understanding of how does it work” (Polanyi, 1971, 17). Menger did not fight against this subjectivist perspective (quite the opposite), but its true he didn’t think this approach was the only possible one. Polanyi is a post-Weberian who believes that the economy is subsystems of the society as a whole. This is an idea that Polanyi inherited from Marx and Weber, which Menger did not share at all.

mechanism of choice based on scarcity of goods of higher orders, i.e. to the supply side of the market. Menger never rejected the subjective meaning of economic, quite the opposite. He was extremely clear on this point.

Furthermore, Menger's two directions are both central to his definition of economy: scarcity necessitates economizing and the alternative use of needed resources, as well as the technical arrangement of the existing resources. The technical direction represents the supply side of the economic process, and the economizing direction refers (in anachronistic terms) to the demand side<sup>19</sup>.

Polanyi's concern about the wrong translation of 'wirtschaftend' is much more consistent in the story of a possible manipulation of Menger's contributions and in the bad fate of the latest Menger.

## Conclusions

The followers of the Austrian school have been always aware of the misfortune of the second edition of Menger's *Principles*; and Hayek's and Knight's decisions were never questioned. The history of the second edition does not concern the Austrian tradition alone, however.

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<sup>19</sup> Yet, the specific meaning of these two directions follows from the two extreme examples provided by Menger on p. 78: (1) On the one hand, an economy would be fully determined by the technical direction (the objective aspect) if the resources at hand, suitably arranged, would suffice for completely satisfying all human needs. In such a situation of affluence the economy would be characterized only by its technical aspect, the task would consist in putting the existing resources to alternative uses in such a way that affluence can indeed be accomplished. (2) On the other hand, if the resources of an economy were rigidly given (and neither production nor the transfer of resources to alternative uses possible), then only the economizing direction (the subjective aspect) would be relevant for this economy. In this sense, economizing is the response to scarcity. I own this specification to an anonymous referee, to whom I am very grateful.

If the missed re-publication, as well as the non-translation into English, are contextualized within the debate surrounding the building of the present meaning of 'economic' into the mainstream, they become important for the history of the discipline as a whole.

Menger worked on the second edition to develop the meaning of human needs and to present a more complete definition of 'economic': this led him to introduce a new consumer (the human association, like the State). While he never rejected the formal meaning of economics (as Polanyi suggested), the introduction of the needs of the human associations (that reconnects him with the German Historical School tradition) led him to revise, not reject, his former strict individualism.

During Menger's revival, Hayek, Robbins, and Knight were building the subjective approach to economics. Their operation implied a strong rejection of any economic agent aside from individuals. In different ways, they successfully used Menger as one of the Founding Fathers of the formal approach to economics. None of them had any interest in showing the more complex methodological approach of the latest Menger. Polanyi's observation about the translation of 'economic' into the word 'economizing' can be implicitly regarded as part of their strategy. Hayek and Robbins as well as Stigler and Knight had no interest in another possible way of reading Menger. They derived all they needed from the Menger of the first edition: a theoretical base for subjectivism and a political endorsement for liberalism.

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