

## KNUT WICKSELL'S TRIBUTE TO CARL MENGER

TRANSLATED BY PER L. BYLUND

### EDITOR'S INTRODUCTION

Wicksell's obituary of Carl Menger is here published in English for the first time, thanks to the efforts of Per Bylund who translated it from the original Swedish. It is a noteworthy piece that deserves publication because Wicksell was a contemporary of the second generation of the Austrian school and an active participant in the later phases of the marginalist revolution. His judgments and observations are of great interest to contemporary Austrians and historians of economic thought, especially where they conflict with currently prevailing views. Furthermore, since this is not a lengthy obituary, the very fact that Wicksell decided to address certain theoretical and doctrinal issues gives his remarks added weight.

There are two points in particular on which Wicksell contradicts modern views. The first concerns the relationship between the

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capital and interest theory of Menger and that of his leading student, Eugen von Böhm-Bawerk. Ludwig Lachmann once characterized Böhm-Bawerk as someone who "never meant to be a capital theorist" and as "essentially a Ricardian," noting Menger's remark that Böhm-Bawerk's theory was "one of the greatest errors ever committed."<sup>1</sup> Lachmann never did provide the context for Menger's statement. Nonetheless, since then, many modern Austrians have dismissed Böhm-Bawerk's capital theory as inferior to Menger's. In sharp contrast, Wicksell, who himself was an eminent capital theorist, portrayed Menger's scattered comments on capital and interest as a poorly formulated, proto-Böhm-Bawerkian attempt to resolve the question of the necessary and regular surplus of value of consumer goods relative to the value of the complementary goods of higher order that cooperate in their production. According to Wicksell, despite Menger's valiant efforts, "the full clarity of this issue was however reserved for Böhm-Bawerk (and Jevons) to communicate."

The second issue where Wicksell diverges from contemporary Austrians relates to the significance of Menger's work in methodology. The consensus view among Austrians today holds Menger's contributions to methodology, especially his book *Investigations into the Method of the Social Sciences*, in high esteem.<sup>2</sup> Wicksell, however, was of the opinion that despite the "many fine remarks" included in *Investigations*, the work suffered from "tiring opacity." Even worse, Wicksell maintained, Menger's methodological works in general "constituted a loss of energy, which to some extent pulled him from his actual field of work." Wicksell also offers an interesting speculative hypothesis that Menger's foray into methodology combined with the great and rising acclaim and expectations that his theoretical ideas continued to evoke worldwide, led him to question his own ability to make further progress in the theoretical core of economics. Wicksell concludes that Menger's "fame rests on this work [*Principles of Economics*] and it is due to it that his name will be known to posterity, for it

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<sup>1</sup> Ludwig M. Lachmann, "On Austrian Capital Theory," in Edwin G. Dolan, ed., *The Foundations of Austrian Economics* (Kansas City: Sheed & Ward, Inc., 1976), p. 145.

<sup>2</sup> Carl Menger, *Investigations into the Method of the Social Sciences*, trans. Francis J. Nock, 3<sup>rd</sup> ed. (Grove City, Penn.: Libertarian Press, 1996).

should be safe to claim that that since Ricardo's *Principles* no book... has had such influence on the development of economic theory as Menger's *Grundsätze*...."

## CARL MENGER

by Knut Wicksell

The passing of Carl Menger constitutes the departure of the last of the three well-known economists (the others were Jevons and Walras) who, in the 1870s through the concept of marginal utility—or more generally the principle of scarcity or marginality—gave theoretical economics the upsurge on which it continues to thrive. That such an epochal discovery would be made at the same time by several scientists, unbeknownst to each other, was previously unknown to science.

For the most part, these kinds of discoveries are of ideas that are already in the air and sooner or later *must* be recognized due to the new problems that science has become occupied with. This was largely the case with differential calculus, with which the theory of marginal utility has so many similarities: as soon as science with Descartes began to examine curvilinear shapes of higher degrees than the circle and conic section, or with Galileo the movement of bodies whose velocities continuously change, the infinitesimal approach was rather inevitable and a calculus based thereupon would probably have come about in due course even without Newton or Leibniz.

In the case of marginal utility, however, nothing was in the air. The teachings of classical economics had been criticized and discredited, but classical economics had been superseded only by its negation: attempts by Cournot, Dupuit, and Gossen to rationally recover the theory passed unnoticed; economists began to despair of theory and increasingly turned to historical studies. The new doctrine therefore was like a bolt from the blue.

As is common in such situations, unfortunate issues of priority have not been entirely absent, however not raised by those directly involved. Jevons is given priority, since he introduced his ideas in short articles in the British Association proceedings and in the Journal of the statistical society already in the 1860s. His work *Theory*

of Political Economy was not published until 1871, however—the same year as Menger's *Grundsätze der Volkswirtschaftslehre*. Unfortunately, due to a misprint, a later publication year was printed on the book's cover. This caused a well-known Italian economist to insinuate that Menger had, during his visit to England as escort to the archduke Rudolf in 1877, learned about Jevons' system and—plagiarized it. The accusation is fabricated; there is nothing to suggest that Menger would have known more of Jevons than Jevons, even eight years later, when publishing the second edition of his *Theory*, knew Menger. Walras' book was published three years later and could have influenced Menger even less. Contrariwise, among the listed authors in the *Grundsätze* is *Auguste* Walras, the father of Léon; and as the latter relies on the father in a main point made in his representation, it is possible that we can find in this a common starting point for Menger's and Walras' works.

The content of the *Grundsätze* does not need to be reproduced here, since it has been made common knowledge in the world of economics by Menger's numerous and gifted disciples Wieser, Sax, Böhm-Bawerk, Robert Meyer, Zuckerkandl and others. Even writers such as our own [i.e., *Swedish*] Cassel, who still purports to "reject" the theory of marginal utility, firmly relies on it; one only has to recall the vague and meaningless conceptual rules with which a Schäffle must still be content: exchange value as a *balance* between production cost and the subjective use value—to immediately see the difference between the present time and times past. Böhm-Bawerk's splendid and captivating depiction in *Grundzüge der Theorie des wirtschaftlichen Güterwertes* (Conrad's Jahrb. 1886, an excerpt reproduced in his *Positive Theorie des Kapitals*) is particularly important here. It relies, however, in terms of content, completely on Menger. Even the well-known and often cited example about the farmer's five sacks of wheat with different uses can be found virtually verbatim in Menger.

In addition to exchange theory proper, Menger's book also includes a couple of, unfortunately all too brief, paragraphs on *monetary theory* and in the concluding chapter a *theory of money*. Menger has undoubtedly, through his strong emphasis on capitalist production as *future-oriented* production, also influenced Böhm-Bawerk, but at the same time in a less fortunate dictum provoked his criticism. Menger notes that the means of production, the economic

goods of “higher order,” are valued through the consumers’ goods they produce, and asks how it can be that the exchange value of the former regularly falls short of that of the latter—viz., by the amount of capital interest. His answer is that since production takes time, not only the means of production are required but also the *command* of the means during the period of production, and this command is in itself an economic good, and its equivalent, capital interest, necessarily forces the exchange value below that of the consumers’ goods. This sort of reasoning is clearly unsatisfactory. Whoever possesses the means of production also commands them at will and need—as Böhm-Bawerk did not hesitate to point out—not pay for this command. He is nevertheless not yet in possession of the *consumers’ goods*, but will have to *wait* for these, and it is for this waiting that he himself presupposes or calculates compensation; or, if you will, the value of the means of production are equal to the present value of the consumers’ goods. This was duly noted by Menger in a footnote; the full clarity of this issue was however reserved for Böhm-Bawerk (and Jevons) to communicate.

Menger later returned to the issue of capital, in an essay in Conrad’s *Jahrbücher* 1888, just before Böhm published his *Positive Theorie*. It seems to me that his view in this essay is rather a step back from that in the *Grundsätze*, however. He opposes, e.g., the old definition of capital originating from Adam Smith as the “produced means of production” and also claims that the forces and supplies provided spontaneously by nature, as soon as they have gained economic significance due to their being scarce, must be included in capital. The statement is of course correct, but really affects only the Smithian, too-narrow definition of the concept “production,” as if this would always require the involvement of human labor. A tree growing wild is as much capital as a planted tree, says Menger. It is doubtlessly so, but were there abundant natural forests, none of the trees would have exchange value and would therefore not be capital. Where forests are scarce, trees earn annual land rent, and this successive land rent, along with accrued capital interest, must in equilibrium equal the value of the natural tree, just like the planted tree is valued according to the value of labor used in planting plus accrued interest on capital. The issue is here merely one of different types of production. The issue of the already existing supplies of means of production in mines and

ore streaks, which can be used to any extent, is much more challenging. It is here the case that, as I noted in my review of Cassel's book (*Ekonomisk Tidskrift*, 1919), they can only through *deliberate restriction* of mining—hence a monopolistic approach—obtain economic value and award their owners annual return (royalty). Otherwise they would only offer remuneration for work done and therefore not have exchange or capital value in themselves.

In terms of the theory of money, Menger primarily pursues the questions of the essence and origin of money, especially the latter. He only touches briefly on the important issue of how the *value* of money is determined. He seems here to still take an essentially "metallic" position. He says, namely, (p. 320) that since the "force of custom is so strong that the ability of a metal used as money to continue in this role is assured even when men are not directly aware of its character as an industrial metal," then "the ability of a material to serve as money, as well as the custom on which this ability is founded, would disappear immediately, if the character of money as a material applicable to industrial purposes were destroyed by some accident. I am ready to admit that, under highly developed conditions of trade," he continues, "money is regarded by many economizing men only as a token. But it is quite certain that this illusion (Täuschung) would immediately be dispelled if the character of coins as quantities of industrial raw materials were lost."

But Menger would experience in his own country how the irredeemable paper money—as he in later publications on money states himself—for many years even had a *higher* value than the silver, for which the bills had once been redeemable. This probably does not amount to conclusive evidence against the metallic theory, since people *hoped* to redeem the bills for *gold* later on. Due to the force of circumstances, the full and free redeemability of bills for gold never came about in Austria, yet the bills retained their value as measured in gold almost as well as in countries with a real gold standard up until the World War. This experience could not but affect Menger's view on this issue. In his great monograph, *Das Geld*, in *Conrads Handwörterbuch* (moreover, even in an essay in *Revue d'Economie Politique*, 1892) one still finds echoes of his older opinion here and there—he claims, for instance, that the significance of the velocity of money is "overrated" (?)—but for

the most part he accepts the formalist understanding (the quantity theory). He explicitly argues that it should be possible for a joint intervention by different states to regulate gold production, reserve requirements for paper monies, and so on, to create a means of exchange whose “intrinsic” value is kept unchanging over time.

Menger’s relationship with the contemporary German economic science was not initially polemical. He states in the preface to the *Grundsätze*—certainly significantly exaggerated—that “the reform of the most important principles of our science here attempted is therefore built upon a foundation laid by previous work that was produced almost entirely by the industry of German scholars,”<sup>3</sup> and he wishes for his own work—which was dedicated to Roscher—to be viewed as “a friendly greeting from a collaborator in Austria,” etc.

This friendly greeting went almost completely unnoticed in Germany. Even nearer, the national German science was represented by his Vienna colleague Lorenz von Stein (whose obituary Menger wrote in *Conrad’s Jahrbücher*, 1891), who, I am told, by no means was sympathetic to Menger’s “attempted reform”; nor was there a sympathetic response from Germany, where at this time the historical or historical-ethical orientation almost completely dominated minds and, for a while, appeared to wish to completely do away with all theory. That Menger would feel offended by this lack of understanding is understandable, but somewhat regrettable. His second biggest work (1883) did not turn out to be the continuation or special part of the first, as advertised on the title page of the *Grundsätze*, but instead a voluminous monograph on the *methodology* of the social sciences. Also, this work undeniably included many fine remarks: especially its last section, in which the author in part shows, with numerous quotes from Bodinus, Bacon, Macchiavelli, and others, that the importance of the historical treatment of the social sciences was known and recognized since the earliest times (and therefore not a discovery

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<sup>3</sup> That he, knowledgeable of the work of Jevons—i.e., the previously mentioned short articles—would have expressed himself thusly is hardly conceivable. Moreover, it seems his knowledge of English economics was generally lacking, since he (p. 168) attributed to Ricardo such an unreasonable view as the one that, if all land in a country would be equal in both character and location, it “would yield no rent at all.”

by the German Historical School), and in part points out that the alleged parallelism between the historical orientation in economics and the so-called historical jurisprudence (the Savigny School) is really based on a misunderstanding of the latter's meaning and purpose. Far from contesting the strict conformity to law of judicial phenomena, this school contrariwise sought to elevate them to the rank of true natural laws, out of reach of man's conscious undertakings—accordingly almost the opposite of what was claimed by the "historical" school with respect to economic law.

In my view, this work nevertheless suffers from tiring opacity; much easier to read is the pamphlet *Die Irrtümer des Historismus*, an extraordinary philippic directed toward Schmoller that was published the following year. Overall, I fear that Menger's methodological works—an additional and greater volume was planned but never written—constituted a loss of energy, which to some extent pulled him from his actual field of work. The promised sequel to his first book was never published, and even a new edition of this book, which was already printed, is said to have been held back by Menger and was eventually canceled due to a misunderstanding. It seems as if Menger, after once having let go, started to distrust his own ability to further develop his life's work. It is not unlikely that the attention given to the "Austrians school," i.e., mainly his own ideas, all over the world—except for in Germany—became a *barrier* to his continued work, since he felt the expectations for his new writing were set too high for him to meet. In any case, his remaining works—which to a great extent concern some practical issues related to the Austrian monetary reform—are certainly highly respectable, but neither of them can be said to have fully delivered those promises that his ingenious first work so richly and abundantly indicated. His fame rests on this work and it is due to it that his name will be known to posterity, for it should be safe to claim that since Ricardo's *Principles* no book—not even excepting Jevons' ingenious, but all too aphoristic work, and Walras' work that is regrettably too difficult to read—has had such great influence on the development of economic theory as Menger's *Grundsätze*, and this is not only in national economics but also in political economy and financial theory—a development that to be sure is still in its infancy.

Menger was originally a journalist and for a short time managed the trade department of a Vienna newspaper. He was

consequently not, as Schmoller would like to make him out to be, a “weltflüchtiger Stubengelehrter” [unworldly armchair theorist] but had, as is evident in the *Grundsätze*, significant experience from practical business. He is rather proof of the truth of the old saying, that practitioners, when using the proper approach and with adequate intellect, often become the most daring and most abstract theorists, while economists who from the beginning have been far from practical life do not always dare to follow their thinking to the ultimate consequences—for fear of offending men of practical skill and capability.