The Identity of the Economic Agent – Seen From a Mengerian Point of View in a Philosophical and Historical context

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Abstract: What is an ‘economic agent’? Who is ‘the’ economic agent? This question is one of the basic issues dealt with by the founder of the Austrian school of Economics, Carl Menger (1840-1921) even though the terminology of his times was different from ours : Menger did not coin the term “methodological individualism”, which his heir’s, Friedrich von Wieser, and would popularized by Josef Schumpeter. But he gave all the elements necessary to build it. In the era around 1900’s “self-realization and identity” were not discussed as today, so this paper, historically oriented, will aim at restoring the questioning upon the nature (das Wesen) and the identity of the economic agent in this era of the “Great Crossroads” of economic schools, and the way it was seen by the father of the methodology later known in economics as ‘Methodological individualism’ is here described against that background. Menger’s views on how individuals interact with one another and how social complexity spontaneously builds in are here at stake.

INTRODUCTION

In a passage from his own copy of his 1871 Grundsätze der Volkswirtschaftslehre, Carl Menger wrote about one of his colleagues at the University of Vienna:

Stein belongs to that kind of writers, fortunately rare in Germany, who confront a competent reader with hare-brained ideas that he puts forwards inadvertently to lecture that reader from a moral stand” (Menger 1871, p. 112).

Lorenz von Stein (1815–1890) used a written style that clearly Menger, the founder of the Austrian school of economics, did not judge to be “scientific”. Menger also formulated similar reproaches towards Schmoller, the leader of the German Historical School of Economics, against whom he would fight a major academic battle, known as the “Dispute over the Methods” (Methodenstreit). But in the eyes of Menger, both Stein and Schmoller were united in the wrong kind of methodology they used—and although they diverged much, especially regarding their positioning towards Hegelianism: Stein prided himself with mastering a speculative approach (which could easily be shown as flawed).¹
Conversely, Schmoller swore only by empirical historical studies, but they join in practicalities: economic policies, social legislation, and so forth.

Yet, the monarchy wished for both by Stein and by Schmoller was "social" in the sense that its administration should correspond to the national community understood as a morally structured entity. The latter should then be considered as a "collective", thus bringing forward a notion of "collective concept" that applied to "society", "the state", and so forth. Such use will be much argued upon, for and against, during the above mentioned "Dispute over the Methods" and is strictly opposite to what "methodological individualism" would be meaning, whose concepts (if not the term) Menger would put forth, clarify and make prevail.

The interpretation that is suggested by Stein's works can somehow be referred to Hegel's "objective spirit". But to say that the philosopher's views inspired the current of thought later labeled "institutionalism" would be going a little too far— we shall come back to that trend that played a major role in post-historical German economics, preceding and also paralleling the American movement well-known under that label. The very belief in "collective entities" as legitimate topics in economic studies was thus rooted in earlier stages, those the so-called "German historical school" assessed, never fully given up by Schmoller and his disciples in the "younger historical school". Yet, when they would be, by some of their heirs, like Max Weber, it will be precisely in the name of an analysis close to Menger's own (Weber himself drew consequences that would also later inspire so-called "Ordoliberalism" after World War I—a movement we shall not enter into here).

Let individualism be examined here from a philosophical and historical point of view on economics: we shall start from a Historical stand, where Stein and Schmoller make their appearance to better explain by contrast what kind of thought Menger was opposing. We will further our inquiry into six parts. We shall follow Menger's detailed comments on texts by Aristotle wherefrom he, surprisingly in his times, deciphered most basic components for a pattern of individualistic methodology to do research in economics in a "pure" manner and provide some of the fundamentals of post-classical economic theory.

Let me also make clear from the start one point that might otherwise be somehow disconcerting for readers, probably many from Economics departments, as well as possibly also some of their colleagues, in the history of thought section, but by no means all of them. With the term "methodological individualism", we mean here a notion that is in no way reductionist. The approach that denies the existence of social properties and their influence on the individual was simply foreign to Menger. The fact that many, maybe the majority of historians of economics and thought economic, may keep in mind such an approach has to do with other developments of economics than those related to Menger and to the Austrian school.

For the philosopher, one must strictly differentiate between Menger's individualistic stand and a reductionist approach too often put forth when looking at the history of economic thought in retrospect (albeit Mark Blaug's view, which I will not discuss here though). Rationality and the role of a clear explanation of what methodological individualism is (as can be seen in today's light in Maurice Lagueux 2010) must also be explained with regard to the origins of a more appropriate use. This is clearly found in Menger, even though the word came later: what is meant by this term was better expressed with other words and is now often misrepresented by this very word: so goes history, and that is why to get a much better knowledge of it and the philosophy it carries is recommended. This is what is aimed at in the present contribution. Otherwise, the reference to the concept of "methodological individualism" could appear as incorrect and misplaced to many who usually are victims of the reductionist view in economics. Menger was immune, moreover he provides the vaccine as be does not mean at all by his approach a reductionist approach but just the opposite, a free subjective-oriented vision of the economic individualistic agent.

A HISTORICAL START: FROM LORENZ VON STEIN AND GUSTAV VON SCHMOLLER ON TO MAX WEBER AND CARL MENGER

In the perspective upheld by Stein and by Schmoller, the economic agents were not individual subjects as such. For the former, an economic agent is the status personae that would also—and, as a matter of fact, as it is the case in legal terms—apply to societies, associations, etc. For the latter, these institutions were the 'real' subjects of economic analyses. Such mediating bodies could thus be regarded as "states in the state"; and statesmen would always show some defiance towards them, but they could also use them, or count upon them.

Actually, this is what happened at a historical level: either through fighting such bodies, like trade-unions, which Bis-
marck prohibited in 1878 and whose followers, mutual associations, he was about to fight again in 1890 when he got dismissed by the emperor partly to avoid a foreseen crisis, or by associating them to power, industrial Konzerne like, say, Krupp’s or Thyssen’s, that depended much upon orders placed by the state (especially for the army), thus giving rise both to a powerful and influential military and industrial clusters.

As a consequence, the state’s intervention was regarded as a natural component of the economy as a whole. Stein distinguished capital and labor from a technical point of view, but rebuked Ricardian analysis in terms of a profit vs. wages arbitrage in the sharing of benefits, the very basis of the Marxian analytical framework and the Socialists’ claims. Social rest or unrest depended, in Stein’s view, on reasonable distributive schemes for legitimate social bonus-takers (the sick and the old, widows and orphans of workers, etc.). The regulatory consistency of such policies within an analytical framework of economic theory was not his prime concern—which does not mean he could not have been incorporated it. But it was rather Schmoller and the German historical school who succeeded in that integration, in order to make their claims all the more seriously and convincingly: the Verein für Sozialpolitik (“Union for Social Policy”) was founded in 1872 and it became a specialized body actually achieving much fieldwork in the way Stein first inaugurated half a century earlier. Away from Classical political economy, that kind of economics represented there was both national economics (of Germany) and an “administered economics” which German and the Austrian governments needed and required from the academia.

If individual economic agents were not regarded as the only elements of economic analysis, yet they were reckoned as somehow important. Stein put forward the Prinzip der Personalität, and the Historicists consciously saw that individuals seem less cheated when contracting in terms they can accept without being forced into them (due to their weak position as sellers but of labor-force). Within civil and political society, if the state is seen as a neutral referee to which everyone can refer in case of necessity, the role of the prince is thus pivotal. One may say that, after all, Hegel’s influence was there, in this “prince” who was not to take sides in any respect, but only to act as a “dot on letter i”, only to sign in ultimate acceptance, nothing more—yet nothing less for, at the same time, the whole point of princely assent is thus to assess rights and not to tip the scales in favor of any class (especially the higher classes). (Bourgeois 1979).² Quite naturally, socialists eagerly demonstrated that the state was not neutral at all in reality, but a mere tool in the hands of the ruling classes/capitalists: one reckons the idea presented by Marx (at least one interpretation of it, with deep distrust towards the “reign of law”). The harsh criticism on “formal liberty on capitalism” is parallel to that difference between confidence and distrust towards the monarch, that divides socialists and thinkers who, though interested in social matters, are not in the least “socialists” (in the sense of “anti-capitalist). Actually the name given to Historicists by their opponents: “Socialists of the chair” (Kathedersozialisten) does not refer to anti-capitalism but to statist interventionism in favor of capitalistic (notably industrial) development.

All this takes the analysis further and further away from individualism indeed. In the posterity of the Historical School, the analysis by Max Weber, who remained faithful to a kind of historicism (no wonder when studying the “religions of the world”), showed the difference at the same time that Weber discovered he had to ground his studies on individual behavior and to regard “collective entities” merely as so many unquestioned (and uncertain) belief-matters. To quote his words in his letter to Liefmann dated March 9, 1920,³ the notion that he wished to evacuate from the field of economics and sociology was precisely that of “Kollektivbegriffe” (“collective concepts”) for their inadequate role in trying to examine behavioral patterns. In this case, methodological individualism was the obvious and essential solution to a renewal in the social sciences, historicism included.

WHAT DO INDIVIDUALS DO WHEN THEY TRADE? MENGER’S ARISTOTELIAN ANSWER.

To examine the question in the light of philosophy, Menger sought how to make sense of economic concepts by referring them to, and possibly grounding them on Aristotelian ethics. Because Menger wanted to understand how partners trade, and what the process of exchange exactly is, in order to build a science of the satisfaction of human needs through exchange, he turned back before historicism to philosophical thinking, of the ancients, on the one hand, especially Aristotle, of British political philosophy (and not exclusively classical political economy), on the other hand.

It was not at all uncommon, but rather the general rule in his times to first study earlier thoughts in retrospect when discussing a matter and, in German-language academia, Aristotle was still regarded as the authority by excellence. But the reason why Menger turned to the Ancient philosopher
was not his authority generally speaking—it was some precise contents of his analysis of individual behavior. That may first be surprising and we shall develop here what Menger found in terms of exchange in the text of the Stagirite. The part played by philology to build an individualistic methodological frame rendered this analysis feasible—thus contributing to forge Menger’s methodological individualism, whereas most authors of his times (and all economists) regarded Aristotle, on the contrary, as the paragon of a “collective” polis-oriented reasoning. Therefore, we shall insist upon Menger’s reading of Aristotle, as much more was thus engaged than the Austrian economist’s own respect paid to Ancient philosophy: that trend heavily contributed to changing science in economics at a deep level. For that result to obtain, the inspirational role of Aristotle was essential for Menger.

“In trade”, which is the field where human beings exchange goods with the prospect of “satisfying their needs”, what is “justice”? “Justice” that interests Menger is “fairness in trade” as a part of “particular justice” in the Aristotelian frame. Proportions that Aristotle proposed as valid in that domain are those the Ancient formulated as arithmetical: they work for corrective justice both in legal matters (in trials where thieves are made to give back their loot) and in freewill trade and business intercourse, that bears no regard to rank or merit. There, as long as a “contract” is accepted by two partners, they have to mutually provide each other with the quantities of good that they have agreed upon. If they do not, enforcement is required. In any case, from the start, the question is how they came upon agreeing on some exchange rate? This question calls upon the idea of “value”—especially for later readers and those coming after classical political economists have in turn dealt with the issue.

Reading Aristotle’s Nicomachean Ethics, Menger connected Book V (on “justice”) and Books VIII and IX (on “friendship”/“partnership”) with respect to this issue that was not directly (or consciously) questioned by Aristotle: the origin of value (see Campagnolo and Lagueux, 2004). The ranking by Aristotle of different kinds of “friendship” shows how he formulated its forms, the lowest form being a “conscientiously useful partnership”: That provided Menger with enough hints to uncover the mechanism ruling the exchange process. How mutual subjective valuation of goods meet and eventually match each other, how some price range emerges from within that process, how partners thus “make” a price (instead of being mere “price-takers” in what would become the generally accepted view in modern economics under standard assumptions of market competition), all these elements were thoroughly annotated by Menger. They undoubtedly influenced his representation of the exchange process as a dual partnership at first, as a whole market system at a second stage. The order in which those issues are coped with in his 1871 Grundsätze is precisely the same and manuscript annotations added after publication are also significant in that respect: rather than saying the reading of Aristotle intervened before or after Menger wrote his masterwork, it is more sensible to insist that that reading accompanied the whole process of reflection.⁴

Among major ideas present in Aristotle’s works, Menger read that individuals are “price-makers” rather than “price-takers” in the sense that their subjective evaluation comes first, whatever the framework of the exchange (dual, multilateral, competitive atomistic frame). This would be central to the school Menger was later reckoned as the founder thereof, the so-called “Austrian school”. Rather than a “principle” of marginal substitution rate that would authorize but equilibrium prices—leading to a mathematically exactly determined market equilibrium (according to views formulated by Jevons and reworked by Marshall, compatible with Classical thought), or even to a general equilibrium scheme (as in the Walrasian scheme)—Menger would insist on the individualistic dynamic process.

This process leads partners to reach a price range as they seek to satisfy their needs in trading a given good (cows for horses in the example developed in his 1871 Grundsätze der Volkswirtschaftslehre) (Menger 1871, pp. 63-69, German ed.; and Dingwall and Hoselitz 1976, pp. 183-186 English tr.). To satisfy a given desire consists first in feeling a need and then in identifying alternative possible solutions to that need. This is a purely subjective process that rules out that need might be objectively determined. Evaluation—upon which the start of the exchange process depends—is thus entirely subjective. It provides the conditions (including time and limited knowledge, or unavoidable partial ignorance) for an individual to become convinced that he/she would benefit from engaging in trade. In becoming friends/partners “useful to each other”, human individuals engage in economic actions (they are what Menger calls, in German, “wirtschaftenden Menschen”).

Thus gets formed a basis for the mechanism found both in Menger and in Aristotle, for which Menger was glad—annotations leave no doubt—to see his own views in conformity with the Ancient philosopher’s insights. In that sense, the use of archival material proves, once and for all, that Menger may be said to be “Aristotelian”.⁵ But exploration should go more deeply than whether Menger was Aristotelian: the is-
sue is what the marginalist theory of value takes from its linkage to Aristotelian methodological principles, what part in post-classical economics has to do with it. In particular, what significance the individual takes in reading Aristotle. With regard to Menger, we identify the Ancient as a major classical philosophy source for grounding Austrian economics and for reasons that may first surprise us.

MENGERIAN INDIVIDUALISTIC METHODOLOGICAL CLAIM MADE EXPLICIT ALONG ARISTOTELIAN LINES

Such an assessment appears paradoxical since the way the Aristotelian creed was commonly interpreted in Menger’s times was to regard Aristotelianism as a major supporting doctrine for collective entities and since the political element was thus given priority with respect to economic reasoning within the subject matter of political economy proper. Members of the German Historical School promptly defined the modern national community (that their own Nationalökonomie was studying) on the basis of the ancient Greek City, the πόλις. Ancient Greece, Aristotle were taken to present evidence for such reading. In the Nicomachean Ethics, for instance, those authors stressed that Aristotle regarded as necessary to maintain order and adherence within the community (κοινωνία), an essential fact that make citizens have some reason to live in common (κοινί). Menger’s analysis of “justice” and fairness in exchange in general, and trade in particular, was peculiar and had been completely overlooked. Conversely, it was insisted that both kinds of “justice” (corrective and distributive) are necessary to obtain perpetuation of the community:

[...] in the interchange of services Justice in the form of Reciprocity is the bond that maintains the association: reciprocity, that is, on the basis of proportion, not on the basis of equality. The very existence of the state depends on proportionate reciprocity [...] and it is the exchange that binds them [men] together.7

Indeed, continuity in the community as a whole was also Aristotle’s aim. Menger acknowledged both. But the reason why Historicians insisted upon this only undoubtedly lay in the fact that Aristotle defined the ‘utmost good’ as the good of the whole City in its entirety. What Historians disregarded is the fact that Aristotle based that view upon a preliminary study of individual behavior and the substantial subjective nature of individuals. That is precisely why “ethics” is the necessary introduction to politics, as Aristotle made explicit in Book I of the Nicomachean Ethics as in his other writings about ethics.8

Aristotle had put the studies of politics as coming after those on ethics, thus showing that the field of ethics (and economic matters that we saw embedded within it) act indeed as a “propedeutics” to higher theoretical matters to be “contemplated” (or, as said in ancient Greek, to make “theorems” of: θεώρημα). Some training is needed for further reflection of that sort, and it therefore comes later in the propedeutics. But it is first in heuristic order and reveals individual behavior as a basis for the rest of the socio-political behavioral matters, which are thus shown as the basis for all knowledge about ‘life in the city’ and the ‘good life’:

[...]. We ought to make an attempt to determine at all events in outline what exactly this Supreme Good is, and of which of the theoretical or practical sciences it is the object. Now it would be agreed that it must be the object of the most authoritative of the sciences—some science which is pre-eminently a master craft. But such is manifestly the science of Politics [...] ; and we observe that even the most highly esteemed of the faculties, such as strategy, domestic economy, oratory, are subordinate to the political science.9

The Politics is consequently the next step in a general analysis of the human behaviour. Rather than considering first a possibly delusive collective entity, without resorting to some behavior explaining how exchange works, Menger followed Aristotle in the order he brings the matter to study: human behavior in the individual, then a dual partnership, later on a more populated environment. Yet, the most famous definition according to which Aristotle concerned the human being as a political animal must also be resituated in context. Menger quoted Aristotle:

From these things therefore it is clear that the city-state is a natural growth, and that man is by nature a political animal, and a man that is by nature and not merely by fortune citizens is either low in the scale of humanity or above it [...] And why man is a political animal in a greater measure than any bee or any gregarious animal is clear (Aristotle 1962, 1253a7-10, pp. 9-11).10

Before Menger, these famous lines had most often been interpreted as indicating that the human being was an ontological part of the community (the Greek city or the German
nation) and oriented towards the realization of the utmost good (Ibid.,1252a1), essentially as the good that should come before all the rest is the good of the collective.

What interpretation should prevail? The issue was a major dispute. Menger’s opponents raised it as an obstacle in his attempt to renew the science of economics. Indeed, this point was decisive in the academic world still at the end of the nineteenth century. It was usual to resort to Ancient philosophy to prove one’s point: the huge progress in philological studies by German-speaking academics had given a new impulse to the use of Ancient philosophy, altogether with a shift favored by the influential Catholic Church in Austria proper.

It is therefore no wonder that Menger dedicated to that matter a whole appendix (Anhang VII) of his 1883 Investigations into the Method of the Social Sciences, and of Political Economy in particular, entitled “On the Opinion Attributed to Aristotle, that the Phenomenon of the State be originally given with the Existence of Mankind Itself” (Menger 1970).

The Mengerian methodology that was later labeled “methodological individualism” is related to his new interpretation of Aristotle and the new notions that Menger provided thereof: such an origin has to be acknowledged in a consistent manner and that shows within the contents of this Appendix. Menger’s confrontation with Historicism was the stronger as he answered their attacks in identifying how they were confused—and not only regarding Aristotle but also on assimilating his own theory with another doctrine, the classical homo economicus. Menger retorted without resorting to that creed, leaving aside Classical political economists and found in Aristotle elements for his own new line of reasoning: he started from individual behavior so as to gradually reach, step by step, the phenomenon of the spontaneous emergence of larger institutions, whose development Menger again explained by decisions made by individuals—and these are not assumed as mere components but as the key to demonstrate reactions of any “collective” which the Historists were fancying moving on its own as such (an sich und für sich, so to speak their language).

Menger’s approach later to be called “methodological individualism” was already in bud even if the term is not Menger’s (and will rather be found in works by later members of the “Austrian school” such as Wieser or Schumpeter we already mentioned). The word was lacking in Aristotle’s texts as well, though for other reasons concerning the the Greek language. Also note that Menger labeled “individual” (“individuell”) what was located to space and time, events that happened in some given context. The term itself thus qualified historical facts and corresponded to what we would regard as “singular” events, happening only once, here and there—precisely the material that was used successively by Roscher for his inductive “parallelism-building” method and by Schmoller for his comparative analysis through variants and differences between phenomena. Conversely, in Menger, knowledge of facts belonging to the historical facet of economics, are simply not part of its theory. And, as far as theory is concerned, “individuellen Erscheinungen” shall not be considered as such, but as consisting in what a general analysis of elementary facts brings in on the basis of individualistic methodology.

INDIVIDUALIST CLAIMS, INDUCTION AND DEDUCTION, OBSERVATIONAL OR APRIORISTIC ANALYSIS

Along his confrontation with the German Historicists, Menger rebuked the term “Volks-wirtschaftslehre” as such—as a matter of fact, his archives prove that he even wished to modify the title of his 1871 Principles of Political Economy (Grundsätze der Volkswirtschaftslehre) into Pure theoretical Economics (Reine theoretische Wirtschaftslehre). Menger wanted to prove the validity of his own views against his enemies.

Changing the course of his theoretical investigations, he undertook first of all to justify his methodological claims. He thus wrote and published in 1883 his Untersuchungen über die Methode der Socialwissenschaften und der Politischen Oekonomie insbesondere and in English Investigations into the Method of the Social Sciences with Special Reference to Economics. Therein, Menger only spoke of “atomism” (Atomismus)—he did not coin the term “methodological individualism”). Although using the calque from the English usual wording, he did not mean to re-enact doctrines of the Classical economists of the nineteenth century. By “atomism”, Menger does not signify at all either what we, after disputes held place on the adequate lexicon, regard an “atomistic” approach in the sense of hyper-rationalism, which Hayek would later call “false individualism”. Whether Menger chose the best word to call his approach or not has to do with the fact that the word “methodological individualism” anyhow came after his disciples decided to use a different one from that “atomism”. To relate to “social atomism” would be erroneous, while Menger’s idea belong to what Hayek would later call “true individualism”. Yet, we decide not to use vocabulary that is both anachronistic here and also keeps a hue of implicit value judgment “true” or “false” that Menger did not apply to individualism. Rather, Menger intended to
bring out his own views as new against widespread “collectivistic” views. In order to do so, he started from the Ancient classical philosopher of Stagire. By commenting Aristotle’s text, Menger proved his opponents’ views were wrong in the very place where they thought they could set ground, putting forth Aristotle’s definition of a human being as a “political animal”.

The claim that has become so famous in the history of Aristotelian scholarship is found in the first lines of Aristotle’s Politics. There, it appears to support the idea that the collective would come first, since human beings are designated as ‘animal’ forms of life characterized by their political essence. Naturally that life trait is shared by some insects, like bees. And the idea found its way in the comments of other readers of Aristotle, like famously in the case of Karl Marx, who insists on how and why even the worst human architect remains superior to the most able of the bees (namely, that human beings conceive first of a scheme in his/her own mind before and independently from performing the task).

In the Generation of animals, Aristotle wrote:

Such appears to be the truth about the generation of bees, judging from theory and from what are believed to be the facts about them; the facts, however, have not yet been sufficiently grasped; if ever they are, then credit must be given rather to observation than to theories, and to theories only if what they affirm agrees with the observed facts. A further indication that bees are produced without copulation is the fact that the brood appears small in the cells of the comb, whereas, whenever insects are generated by copulation, the parents remain united for a long time but produce quickly something of the nature of a scolex and of a considerable size (Aristotle 1984, III, 10, 760b).13

Aristotle arguably gave more credit to observation than to theory as regards the study exemplified here of how bees reproduce—but that does not mean that generally speaking theory comes after observation. This excerpt does not question the principles set forth in the Posterior Analytics and Menger would indeed most certainly agree that observation is more adequate than aprioristic pure analysis so as to discover the modalities of how bees reproduce! This matter of common sense, more than of different methods, requires experiments and their intensive practice in natural sciences, because the field is so foreign to the human mind. Aristotle did not speak of testing theories, and both authors valued equally induction. Menger himself stressed his closeness with Aristotle on that very point:

The conclusion that the phenomenon C follows the phenomena A and B in general (that is, in all cases, even those not observed!), or that the phenomena under discussion here are in general coexistent, transcends experience, the point of view of strict empiricism. From the standpoint of [induction] it is not strictly warranted. Aristotle recognized this correctly when he denied the strictly scientific character of induction (Menger 1985 [1883], p. 57).

We hold that thinkers indeed share one and the same approach regarding testing theories, their divergence appearing as Menger only (but what a change!) opened up a new field for research that did not (and could not, given Aristotle’s premises) exist within the theoretical part of Aristotelian science.

From the ontological, heuristic and even chronological points of view, the City (πολίς) does not merely come first, and individuals only second in every aspect as they should only be regarded as “parts making up the whole” yet bearing no sense whatsoever if (or once) cut from the whole body collective. That line directly inspired by the vulgarized representation of German idealism from the beginning of the nineteenth century, was mistaken. Besides, it could also be shown (but we shall not venture therein now) that Hegel’s saying about the “beautiful whole” (“schöne Totalität”) phrase was unduly separated from his speculative form of philosophy of history and what the latter entailed. Historians were indeed empirically convinced that the Greek city did not exist through its citizens. But Menger did not reject observational claims any more than Aristotle did: both acknowledged them. Menger added the pure theoretical analysis from the notion of individual on top. Menger saw in the Historicians’ only nonsense. And he wrote it, again in Appendix VII: “impossible to sustain, simply nonsensical” (Menger 1883/1963, p. 267).14

BACK TO MENGER ON ARISTOTLE’S ‘HUMAN BEING AS A POLITICAL ANIMAL’ PHRASE

First, Menger indicted vulgar interpreters for cutting the sentence off the rest of the text of the Politics. Facing hostility from his colleagues academics, he would not reproach them with using a type of argument that proves nothing but stubbornness in following ancient texts, but conversely re-read
those texts (because they deserve it) in the light of a clarified interpretation, closer to the meaning that the Ancient himself had conveyed. Menger’s opponents would be left with nothing to resort to else than this text, so Menger was indeed challenging them—and convincing his reader—that if he succeeded, his claim was proven.

Appendix VII of the Untersuchungen consists in this comment and, indeed, is that demonstration. Menger had a translation of the text by Aristotle (a whole page or so) in German from the original Ancient Greek. Menger voluntarily paraphrases Aristotle, who did not ever deny by any means the possibility that un-civilized mankind may indeed have existed, not only before the Greeks themselves, but even before the kingdoms of the “Barbarians” (i.e. non-Greek populations). Within this uncivilized condition a tendency was gradually displayed to socialize, which had reached the point of state-building only when they passed from tribal organizations to real kingdoms. The idea of Aristotle that Menger likes to quote is therefore not only that “man [that is, a human being, ἄνθρωπος] is a “political animal [ζωον πολιτικόν]” but that human beings can only be so after a stage, which is preliminary to civilization. Therefore, Aristotle did not demonstrate that human beings necessarily always lived within the frame of a state—rather the contrary. Subsequently, it is not demonstrated in Aristotle that the state be chronologically prior, or at least as old in time, as mankind—rather the contrary (Menger 1883/1963, pp. 269-70).

Menger showed that the “holist” interpretation and creed could not be given in good faith in the light of the text by Aristotle. Although Menger did not evoke the contemporary context directly at this stage of his demonstration, it was clear for readers of his times that there lay in the background an issue of influence, in the first half of the nineteenth century, of Romantic philhellenic currents. A “renaissance” of German national identity was strongly identified to some dreamed-of ‘city-nationalism’ of the Ancient Greeks. In the second half of the nineteenth century, the Pangermanists took over such feelings to embody them in the concept of Volk, thus made to serve purposes less speculative than political.

An argument is taken from there to debase the tole of the individual. Conversely, the comment made on the full exact quotation from Aristotle’s Politics shows that the order chosen by Aristotle is conform to chronology, but also to the methodology that was not foreign to Aristotle. Menger does not pronounce on ontology in Greek thought but surely methodologically places individual human beings first, then families, groups of those (or tribes) and last in emerging, the state—Aristotle describes that indeed and rather the contrary from he was said to have told.

Back to the fundamentals of the Greek representation of the world (Weltanschauung), human beings first freed themselves from the Cyclopes. Even they had built themselves and their small families, incipient communities from individual action. Of course, such mythological times are impossible to know for sure by human beings: that is why Aristotle referred his audience to Homer’s poems, which he cited (and Menger as well):

And this is what Homer means: And each one giveth law / To sons and eke to spouses—for his Cyclopes live in scattered families; and that is the way in which people used to live in early times (Menger 1883/1963, p. 269 from Aristotle (1932, p. 9, 1, 1252b23). And each one giveth law / To sons and eke to spouses—for his Cyclopes live in scattered families; and that is the way in which people used to live in early times (Menger 1883/1963, p. 269 from Aristotle (1932, p. 9, 1, 1252b23).

Menger’s contradactors would put the argument forth that this view is more rational than mythological, and more theoretically based than historically proven, but is not this precisely Menger’s claim? To think of a human being without thinking of that human being’s community is not merely impossible. And what Aristotle meant with the “ζωον πολιτικόν” phrase is not that a concept of human being without the concept of state would be void, but that the former naturally (as in ‘animal’, referring to some natural evolution of things) brings to the latter. There are men without the socio-political environment of that kind if it can be granted that there is no mankind as such without the socio-political environment of that kind.

As a matter of fact, some sentences in Aristotle’s text support the view that, once the state exists, it then becomes necessary to envisage each and every human being according to the role played in and for the whole community. The metaphorical image of the limbs and the organs of the physical body apply to the political body—and were indeed to engender a very lasting tradition of “organicism”. Yet this does not prove 1°) that elements necessary to discuss how is or organization and functions that body are not individuals, after all and 2°) that “uncivilized man might not be thought of without resorting to the state and, moreover, that the emergence of the state may of all necessity be as ancient as that of human beings either: a view that Aristotle never ever support. What is indeed the case is that “the human being in the Greek sense of the term, the civilized human being cannot be older than the state” (Ibid, p. 269-70), but that human beings may evolve and have intercourse, even partnerships before that moment.

THE IDENTITY OF THE ECONOMIC AGENT – SEEN FROM A MENGERIAN POINT OF VIEW IN A PHILOSOPHICAL AND HISTORICAL CONTEXT
Human beings simply existed and traded, in a state as primitive as can be imagined, before any *Kultur-Menschen* lived in a regulated or “civilized” community. Again: as primitive as one may wish to imagine these circumstances, the reasoning about exchange was already necessarily prevailing. Indeed, even before a human world happened to exist, as early as some reason was imparted to some reasonable beings, they would act according to the rules that make the process exchange an understandable process. In other words, the language that renders trade intelligible makes the world simpler and scientists wiser: such truth applies even before any state came into existence because the relationships between human beings, seen as partners-in-trade or “economic agents” to use more modern parlance, do not refer to any existing state but are indispensable in order to understand the very emergence of communities as such.

Prior to any state, whatever primitive condition may be imagined, as soon as some barter exists, the conditions for sociable exchange are set. If and when *Cyclopes* traded goods, they followed the same process—although, of course, not with the same items, not the same merchandise and not the same payments systems—as later Greek citizens, contemporary to Aristotle, did, and as we, suggests Menger, modern members of a civil society, still do. The concept of trade and the language appropriate to it become autonomous—that life of their own in the realm of ideas is the universal tool that was sought and indicated as soon as Aristotle’s early texts in the history of human philosophy and mankind’s understanding of their common fate as far as the satisfaction of needs and the production and trade of material goods are concerned. The conditions of its realization in the concrete everyday world entirely depends upon the conditions of that world—and that truly is a matter for historians to deal with. But the process itself essentially reproduces the same causal links: if some “essentialism” is to be reckoned in Menger’s causal realism, then it appears here blatantly—as it does not depend upon any given time and location, people and institutions.\(^{20}\)

It is rather the contrary: civilization develops precisely from there. Institutions emerge and grow, and spontaneous self-organization of mankind make sense, explaining how states, money and all institutions appeared.\(^{21}\) Menger developed that aspect in Book III of his own *Untersuchungen*: the origins of that thinking is to be found in—or, at least, is in conformity with—his analysis of Aristotle. The argument once opposed to Menger’s reasoning now turns in its favor.

### FROM ARISTOTLE, AND ON TO MENGER’S OWN INDIVIDUALISTIC ANALYTICAL FRAMEWORK

Menger’s reflection related methodological and chronological facets of the same issue: how to decide what comes first for analysis. Ontological analysis may follow the same path as well, but Menger did not need it to be so, and mostly refrained from such philosophical positioning in his notes, and absolutely in his published writings. It is implicitly assumed that economists may indeed suspend judgment upon that aspect. That will show again the difference with the Historicists, who cannot decide for their own cause if they have neither the tools of logical reasoning, nor the basis of the Ancient philosopher’s texts. The matter whether to ground each and every approach of human society upon individuals may better be left undecided—in any case, it cannot be solved in the way Historicists wanted to. Conversely, from the standpoint of methodological analysis in the realm of economic exchange, individualism now appears as the only relevant stand. In that perspective, historical elements may also in turn be summoned in favor of the individualistic frame of theory so formulated.

Indeed, as early as his 1871 *Grundsätze* Menger displayed many historical elements so as to illustrate his thoughts, from material that he had collected from the same material that Historicists would use: narratives by explorers, etc. One may find these in his Library (roughly one third of the 20,000 volumes kept therein), but they were made to fit a frame openly and directly opposed to “empirical” naïve historicism.

Menger put forth the relationships between individuals as they would build self-conscious interest and trade material goods and services to guarantee they cover their own needs. This is the success of this procedure that explains and ensures that the community would in turn, as a consequence, be “cemented”, provided that fairness in trade, or “justice” be upheld. It is precisely because Aristotle’s opinion starts from individual behavior that the analysis of Book V on justice within the community makes sense. Partnership as described in Books VIII and IX can similarly be applied in the sense of a preliminary stage, within the field of ethics, before reaching the political level: what would better show that the city, the utmost good towards which everything should tend, comes only secondary.

Aristotle indeed insisted on the fact that, without such an ultimate goal, the meaning of the elementary activities could
not remain identical. Yet, this does not mean either that such activities from outside the city could not exist, nor that they could not provide the adequate conceptual tools so as to understand subsequent events. The Aristotelian frame is not a collective frame, but definitely an individualistic one. And in Menger’s eyes this is proven enough by the texts he quotes at length in Appendix VII of his *Untersuchungen*. There, in his *Untersuchungen*, Menger proves that Aristotle established a process through which the state comes into being from the gradual built-up of families, clans, tribes, in a conglomerate. Clearly this parallels the way money gets created, begins to circulate and ultimately pervades all, which was described in the last chapter of his 1871 *Grundsätze*. The state finds its source in individuals, just like money does. These individuals already gathered together while the state itself did not exist yet! The 1883 *Untersuchungen* in turn is meant to show this very clearly—again, although the word individual (individuell) is applied by Menger only to historical time-space conditions, singular events so to speak: *Singularerscheinungen*.

In the end, individual behavior explains both economic phenomena that one may observe and their historical setting, the list of events that illustrate some general truth once the latter can be demonstrated independently from these observations. Families exist as a first process of coming together, based on a quite natural relationship, and before any state, only later then within a state. Intentional views and results are individual and collective planning is never an explanatory factor in itself: it is rather what has to be explained. How it obtained into a state is a result of natural tendencies and activities that show that the state is itself, but such a result—and no a-priori essence (ibid, p. 268).

The individualistic analytical frame is therefore both consistent in the methodological field—and validated by Aristotle’s text: Menger asked for no more. General analysis of individual behavior provided him with the basic methodology that he needed, both to discard Historicism and to differentiate oneself from classical political economy, whose *homo economicus* appeared indeed flawed to him (partly for its psychological grounds—in utilitarianism, Benthamite or otherwise, partly for the unwise use made of it by partisans of classical free-trade theories). Because they had not paid enough attention to Aristotle’s careful phrasing, Menger’s opponents could be proven wrong. It seemed to Menger that they had been quite unskillful and failed to conform not only to the words of the “great philosopher” (as Menger respectfully calls Aristotle in the, *Untersuchungen*), but also to sane human understanding and faculty of reasoning that teaches us all that a complex entity, a whole, simply cannot be as old as the elements within it, that it is necessary that its own genesis and coming into being be liable to their own prior existence (ibid, p. 270).

Through their assertions, the Historicians wished in fact to prove too much (namely, the ontological superiority of the state) and they failed to demonstrate their point enough (the point of economics being to show how exchange is merely possible). The conclusion to be gotten is that it may be wiser to leave ontological matters aside altogether when dealing with a matter that is methodological—actually, Menger was participating in the rise of what we now call modern “epistemology”, which was then labelled in Germany as Erkenntnislehre and bore remnants of past doctrines of Naturphilosophie and outdated methodological claims.

Menger finally proved a better philosopher in consciously coping with philosophical texts, refusing to take a stand, while many German erudites naively vulgarized a poor philosophy. Menger showed no mercy for the mistakes of the latter, and the polemical debate on methodology (the Methodenstreit) displayed considerable acrimony on both sides. But Menger had shown that he could side with Aristotle, which was precisely where he had been challenged. His tactics had been superior, only because his reading had been more cautious, whereas his opponents wrongly understood the Stagirite, wrongly used the “schöne Totalität” so to speak Hegelian excellent phrase and mistook anthropological statements and speculative philosophy for use in their positive discourse. They missed the true causes of simple trade when ambitioning to describe the evolution of mankind. Menger stood for what could today be labelled as “causal realism” in an Aristotelian frame and supported by logical reasoning.

**CONCLUSION IN THE FORM OF A MENGERIAN RIGOROUS METHODOLOGICAL INDIVIDUALISM**

In his “Die aristotelische Werttheorie in ihren Beziehungen zu den Lehren der moderner Psychologenschule” (1905), Oskar Kraus would claim to defend his views. He criticized a so-called “Hegelian way”, yet not to much avail, since what he indicted had more to do with blind historicism than Hegelian philosophy. Kraus also rehashed how close Menger and Aristotle were. His conclusion was quite right: “Aristotle indeed approached that theory so close that, from his theory to that of the modern “psychological school” the bridge [to Menger] could be crossed with a light step.”
But Menger could quite understandably not support (and not need the support) of those who came like Kraus with half-witted arguments. Firstly, because a theory of value grounded on marginal utility, born from subjectively felt needs, was what Menger offered, not Aristotle per se (See Campagnolo and Lagieux, 2004; Previous quote from Kraus, 1905: 590). Secondly, because by Psychologenschule, Kraus used another misnaming as he meant the Austrian school that Menger was later called the founder (Campagnolo 2008). Thirdly, because one may think that unfortunately, the bridge was too light to cross in Kraus’ case, while indeed there was much work and much reason to see Menger as a most accurate commentator of Aristotle. Kraus and his likes were unwisely supporting their arguments, while potentially favorable to Menger’s views, they could serve him badly. Facts show that Menger became aware since when Kraus had sent a separate copy (a “Sonderdruck”) of his article, Menger annotated it not seldom unkindly (see Campagnolo 2002). It was too obvious how Kraus “reconstructed” a theory that he claimed to find in Aristotle, missing the point that was Menger’s: reading Aristotle closely but elaborating one’s own new theory. Out of Aristotle to a new world of his days, Menger pointed what remained scattered (although fundamental) elements in the Ancient thought to build a modern epistemological framework.

Let me conclude by retelling then Menger’s rigorous methodological individualism, fed from views in various sources, among which we especially recalled here the Aristotelian one. The framework would be adopted and adapted in many directions, including 1) a theory of individual information and data processing, 2) a theory of the emergence of institutions, that was itself consciously brought about for the most in what Menger states in Book III of his 1883 Investigations: spontaneous order, like methodological individualism, was a term coined later (the former by Friedrich Hayek) but if Menger’s heirs could turn his insights to their advantage and form most of their own theories around his, the reason is that all the ingredients had somehow been spelled out then, in the elements put forth in the Grundsätze and the Untersuchungen.

Among those causality and realism, mostly based upon Aristotelian creeds, are specific to his view of the world of science. They may not easily allow for mathematization, for instance. But the mathematization of the discipline was not a major factor of improvement to Menger’s eyes: it could even lead to mistaken views and a well-understood notion of utility (Nutz) should not get assimilated with some mathematized theory of pleasure in the tradition of Bentham—and Jevons. Things could be otherwise with modelization, especially step-by-step modelization, but that obviously pertook to a different era. It would thus be almost pointless to discuss the extent of Menger’s own mathematical training. On the one hand, mathematics made sense to Menger if they could contribute to clarity—not conceal it, he noticed when annotating the volume Zur Theorie des Preises by Auspitz and Lieben (wherein he judged concepts were defined unproperly and equations covered clear notions for untrained readers). On the other hand, the fact that mathematics—especially those in Menger’s time—are particularly apt to describe static circumstances, but not dynamic processes was deeply hindering the heuristic value of the tool for Menger. It is rather more helpful to speak of factors that must, in Menger’s eyes, enter economic analysis (time and limited knowledge, that is: ignorance) while showing that equilibrium schemes fail to take into account what he deemed as the reality of individual agents.

This nature or ‘essence’ (das Wesen) of the individual may not be fully ontologically acknowledged, it is the purest form of a full-fledged methodological tool that would engross the all realms of social sciences from then on. Ideas of “the economy as a whole” conducted to imagine properties of collective entities that were not what economics was seeking in Menger’s definition. The organization of society being complex, complexity could come only as an extension of a proper analysis of ultimate components of economic activity. The idea is simply devoid of contents that supposes a collective entity acts like one individual, whereas only individuals ever interact—at least, and as far as economic analysis is concerned, the basis of economic analysis consists by construction of a pure economic theory necessarily only of Privatwirtschaften for Menger.

Other pretense concerned with “collective decision”, from pauperism issues tending towards social welfare, to reform enhancing collectivization, are fruits of an analysis that does something else than what is pretended and that does, in Menger’s eyes, in the name of either naïve, or erroneous claims (or both naïve and wrong): Schmoller and his disciples illustrate that path when reckoning “society” (Gesellschaft) or “the people, das Volk, as the subject of economic action, as “the” economic agent. The title of the last appendix of Menger’s 1883 Investigations makes clear Menger thinks it is a duty to denounce such false pretense and the names under which they are presented (all entangled with what Menger deprecated as the “so-called ethical direction in economics”: “Ueber die so genannte ‘ethische’ Richtung der Politischen Oekonomie”). A plurality is made of ultimate ele-
mments Its acting as one bodily entity is a delusory tool for science, however good it may be for other purpose, like political building of a nation (the German Machtstaat, which Menger, as a Viennese, regrets indeed). A plurality is not what pure economic theory reckons as its object.

And were some ‘noble mind's generosity’ at stake, this anyhow does not make for logical ethics: Aristotle is a guide more certain. Did not Hegel as well discard some "kind souls" who forget what makes knowledge and firmness both valid for souls and for values, including monetary values: the accurate evaluation ex ante of the interests of agents, including economic interests, which can be known only subjectively if freedom is not to be ousted from society. Indeed, thereabout Aristotle, Hegel and Menger seem in line to such kind of evaluation, that is also called “pricing” in contexts where prices are determined within a process of exchange—and there is no way around that truth if individuals are price-makers, that is in contexts where 'pure economics' makes sense. Which is simply what science can do.\(^1\)

NOTES

1 Stein claimed to follow Hegel. But precisely (as Marx himself said) Stein may have misunderstood the speculative contents of his reading. To put it in an nutshell: in Hegel, the essence of a phenomenon is never some hidden principle at work "underneath" (or "behind", or "above") a so-called "realm of appearances", some concealed force that one should exhume. Again, for those not well acquainted with Hegel's thought (and therefore easily victims of some most common misreadings): "behind-the-scenes" notions make no sense in the Hegelian system, the Geist (spirit) is something utterly different from its misrepresentation; it is a speculative notion. And the essence (das Wesen) of a phenomenon consists in the whole totality of its appearances, interrelated and belonging to the same order. In other words, ontologically speaking: there are no different orders.

2 Historian of philosophy Bernard Bourgeois was providing a refutal of the point made by Eric Weil in his Hegel et l’État, where Weil insisted that the counsellors of the prince sought to obtain detailed positioning on the part of the prince, siding with a class in particular, while offering a wide spectrum of possible intervention policies. Bourgeois recalls that, in Hegel’s reasoning, that was simply out of the question.


4 As did all students in the Austro-Hungarian Empire, Menger studied the Aristotelian corpus in the original Greek as well as in German translation, and his latest notebooks show that he was still re-reading it in his old age. See Campagnolo (2002).

5 An abundant literature deals with this issue—it would be long to quote again here, but the debate is assessed and literature explored in works listed in Campagnolo (2010/2013), chapter 7 and the bibliography thereof.

6 In the passage already quoted from Ross’ (1925) translation: “Now this unit is in truth demand, which holds all things together” (1133a26-27) appears that notion of what is common (κοίνος).

7 Aristotle Ross (1925) translation of Aristotle’s Nicomachean Ethics (1132b31), p. 281. The passage was stressed by Menger in the copy he owned of Aristotle (1856) Nikomakische Ethik, p. 145.

8 Such as the Magna Ethica and the Eudemian Ethics, which we do not study here (to be sure, these volumes are not in the Menger Library, and it does not appear that Menger used them in his notes).

9 Aristotle Ross (1925) translation of Aristotle’s Nicomachean Ethics (1094a25-30), pp. 5-7. The passage was stressed by Menger in the copy he owned of Aristotle (1856) Nikomakische Ethik, p. 16.

10 This passage we shall deal with subsequently was heavily stressed by Menger in the volume by Aristotle that he owned.

11 “Every state is as we see a sort of partnership, and every partnership is formed with a view to some good (since all the actions of all mankind are done with a view to what they think to be good). It is therefore evident that, while all partnerships aim at some good, the partnership that is the most supreme of all and includes all the others does so most of all, and aims at the most supreme of all goods; and this is the partnership entitled the state, the political association” (Aristotle 1932, p. 3.).

12 That is clear as Menger crossed out the title of his opus on the copy he owned of his book, sent by his Viennese publisher Wilhelm Braumüller. That can be seen in his Library now kept at Hitotsubashi University.

13 Generation of Animals.

14 Our translation.

15 Permit us to notice: just like in the case of Hegel, to whom Menger by no means refers.
16 We restitute the paraphrase as it goes, though we summarize it. Greek terms are of course in Menger’s edition.
17 We refer the reader to chapter 2 of (Campagnolo, 2010) where premises of the “sources of German Political Economy as a Building-Block of National Identity” are dealt with.
19 Our translation from Menger’s phrasing. The “uncivilized human being” or rather “pre-civilized” (“Urkultur-mensch”) is in contrast with the “civilized” one (“Cultur-mensch”) that Historians said they could think of without connecting it to the state: “Der Culturmensch ist ohne Staat nicht denkbar”, ibid. What Menger reckoned is only that the latter is true of the already Greek human being: “der Culturmensch nicht älter als der Staat sein könne”.
20 But cannot unfortunately be based upon a similar demonstration from the archives, as the Topics and the volumes by Aristotle that support his logical canon are not in the catalogue of Menger’s Library as it has been kept in either Japan or in the United States.
21 Given the fact that Friedrich Hayek was much inspired by those views, as an heir to Menger, but that he also added his own ideas, the common representation today has been much influenced by later thinking than Menger’s. Through legitimizing the method that starts with the individual, Menger stated the non-necessary feature of the relationship linking together state to human being. That sufficed for his demonstration. A more global position hostile to institutions and “social constructs” was not his purpose, as the Untersuchungen show, contrarily to his later followers. Menger insisted that all institutions were not purposely and “consciously” born, but that spontaneity in the emergence of some institutions does not mean that social intents by human beings be unworthy or useless, or even necessarily self-destructing or counter-productive. That latter idea belongs to others, whom Menger’s ideas indeed inspired but who added their own views to his—and may be forgot to read and interpret Aristotle as cautiously as Menger had done.
22 Even more so when loudly presented as “planning for freedom” by the bearers of power—a term that would later be used by another heir of Menger, Ludwig von Mises, to denounce its delusion.
23 Here, we paraphrase Menger’s exposition for the sake of brevity.
24 Again, we provide the reader here with paraphrase of Menger’s terms.
25 Our translation from German.
26 In this essay (“Une source philosophique de la pensée économique de Carl Menger”), Kraus is shown to have served also with equally interest and clumsiness Menger’s disciples, Böhm-Bawerk and Wieser.
27 For more detailed aspects of Menger’s philosophical sources, see (Campagnolo 2010, part 3) and for quite exhaustive references to the literature on that topic, see the bibliography in the same volume.
28 Limited, according to his son, the mathematician Karl Menger, although his father Menger had worked in the stock exchange and was used to manipulating figures, as it would show when he was to counsel the monetary reform of the Austrian Empire, the Valutareform of the 1890s. Hayek insisted on that latter fact, in his Introduction to his edition of the Collected Works (Gesammelte Werke), while Menger’s son was direct about it and judged his father’s aptitudes in that field poor—but one must then add that it was half-a-century later and in a context quite different, when the son coordinated his own Mathematisches Kolloquium in Vienna.
29 Notes on the volume by Auspitz & Lieben, Zur Theorie des Preises, 1887, copy owned by Menger, p. 2 and p. 5. The book is often regarded as a predecessor to the “theorem of the envelope” later discovered, but with major lacks, like, for instance, the fact that the use of the ceteris paribus clause was absolutely not justified by the authors. Altogether, it was unsatisfying, and Menger was clear about his own view.
30 This essay is based upon Campagnolo’s analysis 2010. For more on the way this book situates the work of Carl Menger “at the Great Crossroads” of economic thought in the 1900s, see Nenovsky (2011).
REFERENCES