

Introduction

Carl Menger and Classical Liberalism

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This issue intends to shed some light on the role of classical liberalism in the evolution of Carl Menger's thought about the nature of institutions, in particular market and money, intended as a spontaneous-driven institution, and individual freedom. A special focus will be directed towards his philosophical background, in order to understand whether it influenced his vision on social institutions, individual freedom, and economic policy, and consequently whether they played a significant role in his economic analysis.

The first portrait of Menger as a classical liberal had been depicted by American economist Henry Seager, who spent a couple of academic years as a visiting scholar in early 1890s in Berlin and Vienna, while attending those respective universities. His recollections suggested that Menger was not an isolated classical liberal of the time in Vienna. Rather, he was a mentor of a conspicuous group of economists who combined the principles of classical liberalism with the evolution of the classical school into a new theoretical economic science with became the marginal revolution. Seager considered Menger the leader of the resurgence of classical liberalism after the harsh criticism directed against 'Manchesterism' by the German Historical School. Seager underlined that Menger's classical liberalism was not merely *laissez-faire*, but mainly a philosophical view that was consistent with *laissez faire* as well as with some kind of interventionism when required. Nonetheless, Seager admitted that Menger manifested a broad disinterest from economic policy.

According to Seager, Menger's classical liberalism might be compared with Adam Smith's vision of the interaction between market and government. Seager stated that if Böhm-Bawerk had been called the "*Ricardo* of the Austrian School", Menger should be regarded as "the *Adam Smith* of the Austrian School" [Seager's emphasis]. He wrote: "[Menger provided] a general view of economics, an idea not merely of economic principles, but also of the history of economic thought and of economic practice. He introduces his course with a vivid sketch of the characteristic features of modern industrial society, emphasizing especially its dependence upon existing legal institutions" (Seager 1893, p. 255).

As is well-known, Menger was almost forgotten outside Austria between the wars, until Hayek introduced Menger's *opera omnia* to English speaker readers when he moved to the LSE in the early 1930s.

Hayek presented Menger as a conservative classical liberal. He wrote: "Actually, he tended to conservatism or liberalism of the old type. He was not without sympathy for the movement for social reform, but social enthusiasm

would never interfere with his cold reasoning” (Hayek 1934, p. 417). Hayek’s judgment of Menger as a conservative classical liberal is reinforced by the recent publication by Schumacher and Scheall (2020). They analyzed the unfinished biography of Carl Menger, composed by his son Karl who described his father as a defender of liberalism against the privileges of the ancient regime, i.e. the aristocracy and the church, as one that presented “a liberal economist, with some conservative leanings” whose conservatism might be more pragmatic than ideological. The authors reported that, according to Menger junior, his father had hoped for the emergence of a conservative party able to prepare a liberal constitution which mediated between the old society and the new democratic movements.

A few years later, in his lecture “Individualism: True and False”, delivered in 1945, Hayek reinforced Seager’s position on Menger as a follower of Smith’s liberalism, by stating that Menger belonged to the tradition of true individualists which started with Locke, Mandeville, Hume, Tucker, Ferguson, Smith, Burke, Tocqueville, and Acton.¹ In Hayek’s words: “Carl Menger was among the first in modern times consciously to revive the methodical individualism of Adam Smith and his school” (Hayek 1948, p. 4).²

The turning point of a further analysis of Menger’s work occurred when Hayek moved to Chicago where, in accordance with Frank Knight, the first edition of Menger’s *Principles* (1950) was translated into English for the first time. Knight wrote the introduction. He underlined what George Stigler had already pointed out a few years earlier: although they both praised Menger as one of the most important theorists of subjective value (along with Jevons and Walras), Stigler had regretted “Menger’s failure to develop generally the method by which the individual maximizes his want-satisfaction” (Stigler 1937, p. 239), while Knight criticized Menger for having provided “a fallacious view of the economic process [based on] a process of converting goods of higher order in goods of lower order” (Knight 1950, p. 243). None of them outlined a possible reflection on Menger’s vision: they remained focus on the analysis of Menger’s theoretical contributions rather than on his classical liberal vision.

The same interest for Menger’s analytical contribution arose in the 1970s, when the Austrian school renaissance took place, especially reinforced after Hayek had received the Nobel Prize (1974).³ As Vaughn (1990) rightly stated, the Austrian revival included Menger’s theoretical contribution as a whole and not simply his role of being the only founder of marginal utility theory who avoided the adoption of mathematics. In fact, Streissler (1972), Jaffe (1975), and Lachmann (1978) respectively pointed out three fundamental Mengerian elements which have been later developed by economists of the Austrian school: the importance of economic development as an effect of a creative process; the role of ignorance and errors in defining human needs and consequently individual plans; the notion of spontaneous order in determining the evolution of civilization. All these three elements were especially scrutinized by considering Menger’s methodological inquiry held in his *Untersuchungen*, which had been translated into English a few years earlier (Menger 1965/1883).⁴

Nonetheless, the connection between Menger’s classical liberalism (his vision) and his theoretical inquiry (his analysis) had been somehow ignored or taken for granted until mid-1980s, when some reflections on Menger as a classical liberal emerged, albeit they had been mainly focused on Menger’s economic policy rather than on Menger’s philosophical outlook. As rightly pointed out by Kirzner (1990), when describing Menger’s liberalism related to some potential economic policy agenda, historians of economic thought offered contradictory assessments which went from Menger as a ‘champion of laissez-faire’ (Boehm 1985; Mises 1969) to Menger as a supporter of state intervention (Streissler 1990), passing through Menger as totally indifferent about economic policy.

More recently, Ikeda (2010) stated that, unlike Mises and Hayek, Menger was a moderate protagonist of economic liberalism. His lectures to Prince Rudolf showed that Menger combined the principles of the Manchester school along with the old German economic thought of the *Cameralwissenschaften*. This combination made him a peculiar classical liberal who supported State intervention in poor countries, while regarding it as superfluous and dangerous in wealthy countries. Furthermore, Menger clearly stated that the improvement of the condition of workers must be added to a government agenda in order to prevent any possible development towards a socialist revolution.

According to Kirzner, Menger was neither a pure laissez-faire theorist nor an interventionist, albeit he believed in the spontaneity of the market and he was sympathetic toward some social instances requiring a sort of redistribution. His position about a conceivable intervention of government converged into the possibility to distribute economic goods only if the institution of property is never questioned. Kirzner's interpretation is reinforced if we consider the second edition of Menger's *Grundsätze* where he explicitly introduced social needs and common goods in order to consider social needs which might be satisfied either by the market economy or by a specific public policy (Becchio 2014).

Though classical liberalism is not just a matter of practice which converges into a specific economic policy agenda; it is a philosophical outlook that covered a primary importance in the genesis of Menger's contribution to social sciences. As Karl Menger junior wrote, his father's liberalism was influenced by the tradition of Austrian philosophy and "its immunity from the extreme form of German metaphysics" (Menger 2009, p. 45). This led him to develop a theory of society which implies the combination of individual freedom with the dynamics of groups by rejecting both atomism and holism, respectively intended as a naïve description of individual agents and as a metaphysical description of social agents. Menger's latest attitude to combine individual plans and social dynamics has been recently developed by GMU economist R. Wagner's 'neo-Mengerian' approach. Wagner introduced the notion of entangled political economy, focused on the network-based framework that is intended as a direct effect of the unintentional coordination of human plans, in order to explain complex phenomena (Wagner 2010; 2020).

As rightly pointed out by economist Sudha Shenoy (2010),⁵ Menger analyzed institutions and social forces as the results of individual needs, which are constantly subjected to modifications, and he realized that people were acting on rules that were first manifested in their actions and then articulated in some practice. This is the Mengerian notion of market economy later developed by the Hayekian notion of competition as a discovery procedure (Hayek 1968/2002).

A useful instrument to understand Menger's notion of classical liberalism against the New German Historical School, led by Gustav Schmoller, are two articles, written by Menger in 1890 on the occasion of the centenary of Adam Smith's death, recently translated and introduced by Dekker and Kolev (2016). According to Menger, when Schmoller founded the *Verein für Socialpolitik* (1872) with the intention of establishing a 'third way' between Manchesterism (pure laissez-faire) and socialisms, classical liberalism in German-speaking countries started to fade away, and both the liberal parties in Germany and Austria lost the chance to propose a useful economic policy able to combine individual freedom and some required adjustments, in order to avoid social conflicts. As Menger himself wrote:

The doctrinairism of the one [Manchesterism] and of the other [*Verein für Sozialpolitik*] have equally distanced themselves from an objective science which recognizes the role of state authority as consisting in the equally important tasks of improving the position of the working class and a just income distribution, but at least to the same degree also in promoting individual industry, thrift, and the entrepreneurial spirit (Menger 2016, p. 487).

This volume tries to consider the fundamental role of classical liberalism, intended as a philosophical vision and as an economic policy, in Menger's analytical contributions, with special attention given to the following elements: his philosophical background and education; his ideas on creativity as a way to understand development, which became central in the following Austrian notion of entrepreneurship; his investigations on social institutions such as money in a new perspective; and his contribution on methodological issues to understand complexity in society.

Cubeddu and Menon introduce the first English translation of five articles written by Menger between 1889 and 1908. Authors presented Menger as a public engaged intellectual and counted him as an exponent of "Josephinian" liberalism⁶. In their introduction to Menger's papers they provide some unknown information concerning Menger's ideas on education, free scientific research and his aversion to the influence of religious power which was heavily affecting the Austrian academia and society. The newly translated articles include the obituary of Crown-Prince Rudolf, which well documented Menger's engagement as a teacher. Menger's desire to train not only his students, but also the future Austrian ruling class as well as

his awareness of the international relevance of the Austrian School appeared evident in *An Interview* (1903). The other three articles by Menger, *Survey on the Catholic University* (1901), *The Conquest of the Universities* (1907), and *The Issue of the Universities* (1908), present Menger's concern about the intellectual and scientific autonomy of Austrian universities and public school threatened by the pressure of the conservatives within the Austrian Catholic Church.

Dekker and Kuchař focused their paper on the central role of knowledge in Menger's analysis of the economic process, long before this was done more widely in economics, by pointing out that Menger's emphasis on knowledge was evident in his view on entrepreneurship and it was central to explain economic growth. The authors argue that knowledge in a liberal society can be thought as an emergent order, which, however, is subjected to a common governance structure. They draw attention to two different types of knowledge in Menger: a shared cognitive knowledge that helps create functional institutional frameworks such as markets (tacit knowledge); an increasingly specialized and differentiated knowledge used in the production of heterogeneous (capital) goods (Menger's higher order goods). Hence, they place Menger within the tradition of the evolutionary endogenous growth theory which goes from Mandeville and Smith, was later developed by Marshall, Young, Hayek, Lachmann, up to the Olstoms' analysis of commons.

Candela and Lambert investigate which was the role of the entrepreneur in Menger's account of the market process. However implicit it might be, they show that Menger's explicit discussion of price theory contains an entrepreneurial element. Authors suggest a more systematic understanding of the Mengerian entrepreneurial activity that incorporates both price-adjusting and non-price adjusting behavior, that allows us to clarify and partially overcome the apparent dichotomy between Schumpeterian and Kirznerian entrepreneurship. In fact, they show that Menger's account of price theory combines not only price adjusting behavior (i.e. arbitrage) but also non-price adjusting behavior (i.e. product differentiation; variations in quantity and quality; institutional innovations).

Pender sketches Menger's theory of money through a network science perspective. After having explained the phenomenon of spontaneous self-organization into a hub-and-spoke network, known as preferential attachment, Pender argues that, by adopting Menger's account of the endogenous emergence of money as a preferential attachment process, monetary economics could be enriched. In Menger's terms, the preferential attachment continues until one good eventually becomes so widely accepted that it is one half of every exchange: what we call money is whatever good evolves into the hub of the trade network. Pender also points out that the spontaneous self-organization of complex trade networks leading to the creation of a medium of exchange bolsters the classical liberal perspective while cautioning against attempts to build such complex networks from the top down.

The last three papers deal with methodological issues in Menger. Robitaille presents the epistemological implications of Menger's distinction between theory and history when he described complex social phenomena and the role of free institutions. Author clarifies some of the philosophical influences on that distinction, i.e. his Aristotelian perspective and his reaction to the German Historical School. Furthermore, Robitaille compares Menger's position with the further developments by Weber and by Mises. Paper by Crespo as well as Campagnolo's rejoinder to Crespo sum up the latest developments on the inquiry about Aristotelianism in Menger. Crespo raises doubts about Aristotelianism in Menger while Campagnolo shows that the role of Aristotle is fundamental in order to understand Menger's philosophical outlook which led him to embrace classical liberalism.

All the contributions in this volume are a new attempt, which never ends to be enriched, to considering the role of classical liberalism in the making of the Austrian school of economics through Menger's philosophical vision. The Mengerian roots of the Austrian classical liberalism combine 'true individualism' and the recognition of the inherently social nature of individuals which requires cooperation, albeit neither intentional nor planned, rather grounded on spontaneous order. The role of the market as an institution that allows human beings to be socially coordinated by facilitating communication through exchange is a symbol of the human capacity to combine individuals' freedom within a social framework.

NOTES

- 1 For true individualism, Hayek meant a theory that tries to understand the dynamics of society, in order to consider a possible political agenda resulting from this understanding.
- 2 As Horwitz wrote: “Menger bridges the gap between Smith and Hayek by reorienting Smith’s discussion of economic progress away from the division of labor alone and toward knowledge more broadly” (2001, p. 86).
- 3 The conference which took place at the South Royalton (1974) is considered the founding meeting of the modern Austrian revival. The conference volume included papers on praxeology and method, the history of Austrian school, capital theory, theory of money, inflation, and the market process (Dolan 1976).
- 4 On this specific point Lachmann criticized Menger for not being subjectivist enough.
- 5 Shenoy was an Indian economist who played a significant role in the Austrian revival. See Becchio (2018).
- 6 Josephinism denotes some reforms, issued by Emperor Joseph II (1780-1790), aimed to remodel Austria by following the ideals of the Enlightenment. Among them, the Edict of Tolerance (1782) which removed restrictions against Protestant and Orthodox Christian believers as well as legal barriers against Jews performing certain professions.

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