



Introduction to “The Social Theories of Classical Political Economy and Modern Economic Policy”

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In 1890, the centenary of Adam Smith’s death was used by Carl Menger as a touchstone for a reflection on the economic thought of Menger’s time and the liberal tradition of Smith and classical political economy. This reflection was published in two parts, on the 6th and the 8th of January, 1891, in the most respected newspaper of the Habsburg Empire, the *Neue Freie Presse*. Never before translated into English, it is presented here under the title “The Social Theories of Classical Political Economy and Modern Economic Policy.”³

To give some context to Menger’s essay, let us draw on Friedrich Hayek’s contextualization of Menger’s career. Hayek writes that in the decades after 1848, classical political economy experienced mixed fortunes across Europe: “critical attacks and attempts at reconstruction multiplied in most countries.” He continues:

Nowhere, however, had the decline of the classical school of economists been more rapid and complete than in Germany. Under the onslaught of the Historical School not only were the classical doctrines completely abandoned—they had never taken very firm root in that part of the world—but any attempt at theoretical analysis came to be regarded with deep distrust. This was partly due to methodological considerations. But even more it was due to the intense

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3. The German title differs between the first and second parts of the newspaper article. The first title speaks of the social theories of the classical political economist (!) (*des klassischen National-Ökonomen*), a reference to Smith, and the second title of classical political economy (*klassischen National-Ökonomie*). The original articles are available online from the Österreichische Nationalbibliothek ([link](#)) and are reprinted in the *Collected Works of Carl Menger*, vol. 3 ([link](#)).

dislike of the practical conclusions of the classical English School—which stood in the way of the reforming zeal of the new group, which prided itself on the name of the ‘ethical school.’ (Hayek 1992/1934, 63–64)

“The ‘ethical school’” is a reference to the school of *Social-Politik*, the movement of economists across German-speaking Europe for social reform, later called the ‘Younger’ Historical School.

Menger, who had started out as an economic correspondent, was not only an economic theorist of great significance, he was also a prominent Viennese liberal. In 1883 he published his second book, on methodology, which was critical of the ‘Younger’ Historical School. Its leader Gustav Schmoller caustically replied, Menger caustically rejoined, and Schmoller published a dismissive letter about Menger’s rejoinder. The exchange constitutes the textual core of what is known as the *Methodenstreit*. Hayek tells of “the passion which this controversy aroused” and “what the break with the ruling school in Germany meant to Menger and his followers”:

Schmoller, indeed, went so far as to declare publicly that members of the ‘abstract’ school were unfit to fill a teaching position in a German university, and his influence was quite sufficient to make this equivalent to a complete exclusion of all adherents to Menger’s doctrines from academic positions in Germany. (Hayek 1992/1934, 81)

Menger did not perceive himself as a revolutionary in economic theory. The article presented here shows that Menger was spiritually close to Adam Smith and classical political economy. Likewise, Menger’s tutorial instruction from 1876 to the Crown Prince Rudolf of Austria closely followed *The Wealth of Nations* (particularly Book I). As Erich Streissler writes, “Carl Menger was much more of a classical economist than is commonly recognized” (1994, 24).

The article presented here is one of the best sources we have for understanding Menger’s position on questions of economic policy (Böhm 1985; Streissler 1990). It is part of a larger effort, from Menger and his students, to defend classical political economy and to draw a connection between their theoretical contributions and that of the classical school. Two other important contributions to that effort are, first, Eugen Böhm-Bawerk’s lengthy review of Lujo Brentano’s Viennese inaugural lecture on the classical school (Böhm-Bawerk 1924/1889), and, second, a dissertation written under Menger’s supervision by Richard Schüller (1895) with the clearly programmatic title *Die klassische Nationalökonomie und ihre Gegner* (*Classical Political Economy and Its Enemies*).

Menger’s article, as well as Böhm-Bawerk’s review and Schüller’s dissertation, were written on the defensive. Reacting to the low standing accorded to the

classical school, Menger, Böhm-Bawerk, and Schüller were primarily occupied with correcting and refuting the arguments of their opponents. The debate over the standing of classical political economy is closely connected to the *Methodenstreit*, with a similar separation between camps. But the debate about the standing of political economy is more directly tied to economic policy and the advent of the *Verein für Socialpolitik* (VfS) and what Menger throughout the piece calls the school of *Social-Politik*. In Menger's article we have to wait until the final pages to get a good sense of what he himself favors.

The VfS, the German equivalent of the American Economic Association, was founded in 1872 by a group of economists, and was soon dominated by Gustav Schmoller, who was two years Menger's senior. Schmoller's agenda for the decades to come aimed at generating policy solutions to the 'social question.' His reformist goals were reflected in the name of the association, with its emphasis on social and economic policy. The substance of the agenda might be described as an attempt to establish a 'third way' between the *Manchestertum* and state or Marxist socialisms (Grimmer-Solem 2003, 171–186). *Manchestertum*, a pejorative term coined by the German socialist activist Ferdinand Lassalle in the 1860s to attack the allegedly anti-social attitudes of British liberals like Richard Cobden, was soon widely used by socialists and conservatives alike to attack liberalism as an extremist ideology that was imported from Britain and was bereft of any sympathy for the poor and the working class (Doering 2004, 18–21). The VfS was explicitly founded as a counterweight to the *Volkswirtschaftlicher Kongreß* (Economic Congress), a convention of Manchesterist liberal public figures like Hermann Schulze-Delitzsch and John Prince-Smith (Henderson 1950, 297–301; Hentschel 1975; Oschina 2010, 14–16). In the article Menger repeatedly distances himself from these individuals and the ideas associated with *Manchestertum*.

The VfS, eventually successful in crowding out the Economic Congress, was one of Schmoller's weapons—Schmoller being a gifted academic entrepreneur—to consolidate large parts of German economists around his agenda and, after forming alliances with powerful bureaucrats in the university administration of the new Reich, to dominate the nomination of appointees to chairs of political economy in Germany as well as in Austria-Hungary (Blumenthal 2007, 66–75). That included the appointment of Brentano, his fellow *Social-Politiker*, to Vienna in 1888 (Backhaus 1993, 12–13), which ignited heavy opposition from the burgeoning Austrian School.⁴ The VfS and its intellectual climate had effects reaching well beyond Central Europe: The many American students at German-speaking uni-

4. Brentano occupied his chair in Vienna for less than a year between 1888 and 1889, when he moved to Leipzig. Menger was strongly opposed to Brentano's appointment, telling Brentano: "You cannot imagine what bitterness your appointment has filled me with" (quoted in Grimmer-Solem 2003, 265).

versities, described by Richard T. Ely as “the group of young rebels who returned from Germany about 1880,” had a direct and significant impact on the formative decades of the American Economic Association, founded in 1885 (Ely 1936, 143; see also Seager 1893). Both the VfS and the AEA were, during these decades, part of what in America has come to be called progressivism (Bernstein 2001; Leonard 2016).

This context of the rise of progressive politics is of crucial importance in interpreting Menger’s article. He writes: “It is not true that the newer school of *Social-Politik* in Germany stands in substantive contrast to classical political economy.” Quoted out of context this sentence can be seriously misleading, and a proper understanding of the article depends on what Menger is trying to convey here. He is trying to convey a similarity in spirit, or inclination—“*Tendenz*,” he calls it—of the classical school and that of the modern *Social-Politiker*. It is Menger’s central message that one can be for the poor, for the workers, and be a teacher and writer in the tradition of classical political economy. Indeed, toward the end of the article the guise falls away to some extent: The well-being of society requires that tradition.

All classical political economists, he argues, were convinced that many of the injustices of their time harmed the poor and the workers. The final pages of the article make it clear that this would entail a policy program quite different than that proposed by the *Social-Politiker*. But Menger has an even more important issue on his mind. He wants to make clear that the classical political economists were every bit as much concerned with advancing justice through economic reform. In practical terms this meant that economists working in the classical tradition could just as much belong to the VfS. Menger argues that there is a fundamental similarity between the classical economists, himself, and the *Social-Politiker* of his time. That is why he argues that Smith and his disciples could well be described as the *Social-Politiker* of their age, and why he extols their accomplishments in the policy arena, especially their success in breaking down privileges. But from these shared goals, this shared purpose, quite different social policies could result, based on differing economic theories. It is this shared purpose that is also the subject of Böhm-Bawerk’s opening article “*Unsere Aufgaben*” (“Our Mission”) (1924/1892) in the newly founded journal *Zeitschrift für Volkswirtschaft, Socialpolitik und Verwaltung* (*Journal of Economics, Social Policy and Public Administration*). This journal, in combination with the reactivation around 1890 of the *Gesellschaft Österreichischer Volkswirte* (“Society of Austrian Economists,” which was initially organized in 1875; see Egger 2001, 4–7), constituted the Austrian answer to the efforts by the VfS.

The fact that Menger is on the defensive results in descriptions of Smith and the other classical economists that seem one-sided, even distorted. In his efforts to argue that their sympathy is with the poor and workers and their intention is to

further justice, he eagerly seizes upon passages in which the classical economists accept state interventions. It is up to us, as readers, to interpret what Menger means precisely. But the end of the article should make perfectly clear that Menger was squarely at odds with the economic program of the *Social-Politiker* of his age. He makes clear that the “negative program” of the classical economists, aimed at breaking down existing privileges and moving toward a system of natural liberty, was of an importance in improving the position of the worker far greater than modern interventionist measures. Moreover, he also criticizes a number of interventions promoted by the *Social-Politiker* that create new privileges and effectively harm the lower classes.

Another remarkable aspect of Menger’s work around this period is his concern with establishing a lineage for the work being done by him and his students and associates. Around the same time he writes several commemorative articles, for a variety of occasions, in which he relates the contributions of Austrian economists to those of others. Menger clearly develops a preference for Adam Smith, whom he here calls the “consummate master” (“*Vollender*”) of classical political economy, and in the other commemorative articles Menger praises Smith as the most important classical political economist, who eschewed dogmatism and whose inclinations were always sound. Later accounts of Austrian economics have sometimes accorded a pioneering and revolutionary role to Menger himself, but Menger is clear that he saw himself as continuing the tradition in which Smith was paramount, and which included the important economic theorists of the nineteenth century, including David Ricardo, Jean-Baptiste Say, John Stuart Mill, William Stanley Jevons, and Léon Walras. Menger’s frequent reference to Smith’s disciples in this article should certainly be read as an indication that Menger considered himself to be one of them.

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The Social Theories of Classical Political Economy and Modern Economic Policy¹

Carl Menger
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[LINK TO ABSTRACT](#)

I.

The centenary of Adam Smith's death has passed virtually unnoticed on German soil. The progressive German press has bestowed only few wreaths of grateful memory upon the grave of this man, who for a century provided that very press with the weapons it has used in the battle against the oppressive economic privileges of the once-favored societal groups. German science, too, which until the middle of our century² followed the great master more with piousness than with critical independence, has only honored him timidly. Alas, on this occasion Smith has been struck by the cruel fate of being "historically interpreted," and being "defended" from too much diminution, by the representatives of a hostile group, which has meanwhile gained dominance at German universities. What we witnessed on the 17th of July of last year was an unenthusiastic, almost hesitant commemoration of the man who was once praised as the father, yes, even the consummate master of scientific political economy.

But even so, the miserable centenary we witnessed is only a minor stroke in the decline in the German public reputation of the "old" or classical political economy and its founder. When Babeuf, no longer fearful of death, stood in front of the guillotine, he worried only that his opponents would write the history of his endeavors. Classical political economy really has been struck by this fate. The role that the school plays in current public opinion in Germany has been "created"

1. This essay is a translation from German of a two-part article published in the *Neue Freie Presse*, Vienna, January 6 (pages 8–9) and January 8 (page 8), 1891. The parts are indicated here by the roman numeral headers.

2. The nineteenth century.

by its hateful opponents, by agitators pursuing practical goals, by Friedrich List, and in other respects by Ferdinand Lassalle. This reputation of classical political economy has been eagerly reinforced by the scientific opponents of the progressive bourgeoisie, working in the spirit of Prince Bismarck. Thereafter in German science classical political economy is regarded as capitalistic, atomistic, abstract, and against the people,³ it is considered to be refuted and dismissed.

The reversal in the public opinion of Smith and classical political economy that has occurred in Germany has not remained restricted to academia. German economic policy has also renounced the teachings of Smith and his disciples, “the economic party doctrines of individualism and liberalism.” Prince Bismarck defended himself, and allowed himself to be defended by others, against the charge of being a politician in the spirit of *The Wealth of Nations*, as if he defended himself from an intellectual and moral failing, and ever since there is hardly a statesman in Germany who does not place special emphasis on his emancipation from Smith’s theories. Smith is not only a dethroned prince of science in Germany, he is—like another Delbrück⁴—pushed aside because of outdated views and has consequently fallen from grace as advisor to leading German statesmen. If Smith—a man once praised as the sixth great power⁵—could have witnessed the fate of his scholarly fame in Germany, he would cry out, with Hecuba:

*Quondam maxima rerum
Nunc trahor exul, inops*⁶

Such a reversal does not fail to leave a deep impact on the political parties of Germany and Austria. The liberal party had, from the moment when it secured basic political rights for the population, drawn its main force from its economic program. Questions of fiscal and socioeconomic policy were its primary concern. A close attention to particular economic interests had won it the hearts of the nations.⁷ But from the time that Smithian thought was believed to be refuted and dismissed, the liberal party has—like an Antaeus—lost that ground from which it

3. “*Volksfeindlich*,” literally ‘hostile to the people,’ has no equivalent in English; we opted for ‘against the people.’ In 1891 this word did not yet have the nationalistic connotations it would later have, when it would be closer to ‘unpatriotic.’

4. A reference to Hans Delbrück (1848–1929), a scholar who was repudiated by Bismarck-admiring historian Heinrich von Treitschke (1834–1896).

5. That is alongside the five great powers: United Kingdom, Prussia, France, Russia, and Austria.

6. Ovid, *Metamorphoses* 13:508–510: “modo maxima rerum, tot generis natisque potens nuribusque viroque nunc trahor exul, inops.” In F. J. Miller’s translation (Harvard University Press, 1916): “But late on the pinnacle of fame, strong in my many sons, my daughters, and my husband, now, exiled, penniless [...] I am dragged away.”

7. Nations (“*Völker*”) here probably refers to the different nationalities in Germany and Austria-Hungary.

mainly drew its force. The decline of the old, and the victory of the new political economy has caused, more than any other shift in public opinion, a shift in the power relations between the political parties, a roll-back of liberalism, even in the noblest sense of that word. The dominant opinion among scientists and practitioners that the Smithian system had been refuted by the new developments in German science, that classical political economy had been dismissed, is a fact of wide-ranging political significance. The liberal party lost its erstwhile connection with economic science and consequently its footing and leadership in economic matters as well as its belief in its own economic program.

I am well aware of the fact that overcoming scientific fallacies entrenched in academic minds, even when they clearly contradict facts, is one of the most cumbersome tasks of scientific criticism, especially when the dominant fallacies are supported by the interests of powerful groups in society. But time not only dampens passions, it also has a corrective impact on men's fallacies. Thus the dominant legend in Germany of the relationship between the "new" political economy and the Smithian doctrine will eventually be replaced by a better understanding. I believe we would do well not to condemn classical political economy based on the authority of its opponents, but instead to not spare efforts to evaluate it without bias, perhaps ideally to let it speak for itself once more. That is what should take place here, even at the risk of concluding that the supposed victory of the school of *Social-Politik*⁸ over Smith and the classical authors of political economy is based on a confusion between classical political economy and Manchesterism, and is thus a victory not over classical political economy, but over the one-sidedness of the doctrines of Manchesterism.

It is not true that the newer school of *Social-Politik* in Germany stands in substantive contrast to classical political economy.

In every conflict of interest between the rich and the poor, the strong and the weak, Smith sides *without exception* with the latter. I use the term "without exception" with proper consideration, as one cannot find one single instance in the works of Smith in which he represents the interests of the rich and the powerful against the poor and the weak. As highly as Smith praises the free initiative of the individual in economic matters, does he energetically promote state interventions⁹ to abolish laws, or the execution of the laws, which oppress the poor and the weak in favor of the rich and the powerful.

8. When referring to this school, its ideas, etc., Menger uses the adjective form "*social-politische*" and noun "*Social-Politik*." We opt to use "*Social-Politik*" throughout, for both parts of speech.

9. "*Eingriffe*" might have a slightly different connotation from our modern use of the word *interventions*. Nonetheless we opted for 'interventions' here, not only because it is the literal translation of *Eingriffe*, but from the other occurrences of the term it also becomes clear that Menger refers to positive state action, not to a more general idea of economic reform.

Smith fights against the industrial policy of the mercantile system because it favors the industries of the rich while neglecting and oppressing those branches of industry which guarantee the sustenance of the poor and the weak. He demands free mobility because its limitation hurts labor much more than capital, as the rich merchant can obtain the right to settle down anywhere much easier than the poor craftsman. He is against the regulation of the so-called legal settlement laws, because they primarily hurt the poor and violate natural liberty and justice when expelling someone from a parish who has chosen the very place as his residence; he favors high wages, in which he sees both an imperative of humanity and of prudence. Smith is against state meddling with the wage contract, especially when the intervention proves to be to the *disadvantage* of the worker and to harm “the holiest and most inalienable right of the worker, the right to his labor.”¹⁰ He speaks so infrequently against state intervention *advantageous* to the poor and weak that he rather endorses it in all cases when he expects it to be *favorable* (and not oppressive) for the propertyless classes. Smith even favors legal provisions on the wage level when they are set at such a level that they *favor* the workers, and he *always* declares such fixed wages as just and fair.¹¹ Smith also favors the law which forces in some trades the masters to pay the workers in money and not in kind.¹² Yes, Smith goes so far as to argue that, while *capital profits are a deduction from the full product of labor, rents are the incomes of those who wish to reap without having sown*. When matters concern the protection of the poor and the weak, the basic principled standpoint of Smith sometimes is more progressive than that of any of the modern “*Social-Politiker*.”¹³ At various points in his work, his views touch upon those of the modern socialists. As is well known, Louis Blanc, Ferdinand Lassalle, and Karl Marx constantly refer to the theories of Smith and those of his disciples, not to those of their opponents.

10. Not all quotations by Menger are literal. This one is most likely a reference to: “The property which every man has in his own labour, as it is the original foundation of all other property, so it is the most sacred and inviolable. The patrimony of a poor man lies in the strength and dexterity of his hands; and to hinder him from employing this strength and dexterity in what manner he thinks proper without injury to his neighbour, is a plain violation of this most sacred property” (Smith 1976/1776, 138).

11. Menger uses the word “*Lohntaxen*,” which has since fallen out of use. This mercantilist institution was used by many medieval cities to regulate the wage levels for the different branches of employment in the sense of ‘fair wages’ for these different branches, mostly in the form a fixed wage or of a maximum wage. The aim of a maximum wage was to prevent inflation due to excessive wage dynamics in the sense of wage-price spirals, and of a fixed wage to prevent downward spirals of wages if employers in a guild colluded against the employees.

12. In Smith’s original: “Thus the law which obliges the masters in several different trades to pay their workmen in money and not in goods, is quite just and equitable. It imposes no real hardship upon the masters. It only obliges them to pay that value in money, which they pretended to pay, but did not always really pay, in goods” (1976/1776, 158).

13. Adherents or practitioners of *Social-Politik*.

From the above, every unbiased reader can discern the true inclination of Smith's *Social-Politik*. He identifies laws and execution of laws which oppress the workers and the propertyless to the favor of the propertied classes, and which harm "the holiest and most inalienable right, the right of the worker to his labor." Therefore he stands, in line with *his* historical task, for the liberation of the propertyless classes from the harmful influence of the state on the labor contract and, if I may say so, of odious privileges. However, Smith does not stop there. He demands in numerous cases positive regulations in favor of the workers. To consider Smith an enemy of labor, or even to be a doctrinaire indifferent to the working class, is a falsification of history. The complete opposite is correct.

It should not be thought that it was just Smith whose view, in the spirit of the liberality of the eighteenth century, was shaped by the duty of the individual and of society to the workers. Rather, it is also the disciples of the great friend of humanity [Smith] who energetically speak up for the propertyless classes.

According to Ricardo, "the general happiness" depends primarily on the fate of the working classes. The wage level, he argues, determines the welfare of the largest part of society. Every shift in the distribution of income which gives the workers a greater part of the national income is a very desirable improvement in the condition of society, because through such a shift easily the most important class of society, the working class, gains. "However," says Ricardo, "one could state that with this the income of the capitalist will not increase, or that the million which falls to the workers in the form of the increased wages, is deducted from the rents of the landlords. Even so!" says Ricardo, "This cannot shake my argumentation. The condition of society is still improved. My argument proves that it is even more desirable that the single most important class of society gains through this new distribution of national income."¹⁴

The labor-friendly attitude appears least in Robert Malthus, the representative among the classical economists of agrarian interests. He too demands help in cases of need, even when this can be offered by a sacrifice from the propertied classes: "At least then the evil will be generalized, tempered, and made bearable for all."¹⁵ I know, Malthus says, of nothing more miserable than the idea to condemn

14. In Ricardo's original: "But it may be said, that the capitalist's income will not be increased; that the million deducted from the landlord's rent, will be paid in additional wages to labourers! Be it so; this will make no difference in the argument: the situation of the society will be improved, and they will be able to bear the same money burthens with greater facility than before; it will only prove what is still more desirable, that the situation of another class, and by far the most important class in society, is the one which is chiefly benefited by the new distribution" (1821, 32.51).

15. In Malthus's original: "Yet even in this way of employing labour, the benefit to some must bring with it disadvantages to others. That portion of each person's revenue which might go in subscriptions of this kind, must of course be lost to the various sorts of labour which its expenditure in the usual channels would have supported; and the want of demand thus occasioned in these channels must cause the pressure of

workers to dress themselves in rags and to live in miserable huts, in order to be able to sell a few more of our cloths and calicos abroad. He demands the employment of the unemployed through public works. Every friend of humanity, he argues in another passage, must wholeheartedly wish Robert Owen success in his efforts to pass a parliamentary act limiting the number of working hours for children and prohibiting their employment at too young an age. He even declares that he would immediately favor eliminating the corn tariffs if this permanently improved the condition of workers. However, he is not convinced of the utility of this measure (just like our current agrarians don't believe that the abolition of corn tariffs improves the position of the workers). However, it should not be overlooked that Malthus is fundamentally influenced in these doctrines by his patriotic concern over the independence of his home country, which he considers threatened by England's dependence on imported corn during war times.

The head of French classical political economy, Jean-Baptiste Say, argues much in the same spirit as the current *Social-Politiker*. "The entrepreneurs," he argues, "claim to have the right to assemble to resist the undue pretensions of the workers. But when one believes that the coalitions of workers who fight for the assertion of their rights are blameworthy, how come that one does not hold the same opinion of the coalitions of entrepreneurs opposing the workers who demand sufficient wages? The employers already have enough instruments of influence through their wealth and social position and are not entitled to even more influence. When the authorities side with one camp in such struggles of interest, the other side will invariably be oppressed."¹⁶ "A humanitarian perspective," he argues in another passage, "makes it desirable that workers and their families can dress themselves as is fitting given the climate and the season; that they have spacious, airy and heated rooms; and that they have healthy, abundant, and somewhat varied food."¹⁷ "When it is the custom of a nation that it is unconditionally necessary that every worker has the duty to save for old age, then this will undoubtedly increase

distress to be felt in quarters which might otherwise have escaped it. But this is an effect which, in such cases, it is impossible to avoid; and, as a temporary measure, it is not only charitable but just, to spread the evil over a larger surface, in order that its violence on particular parts may be so mitigated as to be made bearable by all" (1826, III.VII.13).

16. Say's *Cours complet d'économie politique pratique* has not been translated, and we can thus only refer to the French original: "Les maîtres ont prétendu qu'ils étaient obligés de se rassembler pour résister aux injustes prétentions de leurs ouvriers; mais si l'on trouve répréhensibles les coalitions d'ouvriers qui se concertent pour faire valoir leurs droits en commun, pourquoi ne trouve-t-on pas telle la réunion des maîtres qui s'entendent pour refuser un salaire suffisant? Les maîtres, par leur fortune, par leur position sociale, ont déjà des moyens d'influence qu'il ne convient pas de fortifier" (Say 1840, 556).

17. "Humanity, indeed, would rejoice to see them and their families dressed in clothing suitable to the climate and season; houses in roomy, warm, airy, and healthy habitations, and fed with wholesome and plentiful diet, with perhaps occasional delicacy and variety." Say continues with a serious caveat: "But there are very few countries, where wants, apparently so moderate, are not considered far beyond the limits of

the wages. *However, in the eyes of every friend of mankind it must look outright appalling that this has not already been the case for a long time.* One must lament that the worker not only does not save for old age, but not even *for accidents, for illness and incapacity for work.*¹⁸ In some of his writings, Say goes further. He writes that one must combat the problems of the working classes according to their causes. He suggests, regarding important matters, that the state should make positive interventions in favor of the workers. “M. de Sismondi”, he writes, “who in general recognizes the harmfulness of state interventions in private affairs, nonetheless believes that the law should offer protection for that contracting party (the worker) which, in the nature of things, finds itself in such a precarious and subordinated position that it is frequently forced to accept irksome conditions. It is impossible not to share the opinion of Sismondi as well as not to agree with the currently emerging trend in English legislation to fix the age under which children are not allowed to be drawn to work in factories.”¹⁹

Such are the “anti-labor doctrinaires,” the men whose teachings are notoriously denounced as capitalist, against the people, and refuted, against which our modern “*Social-Politiker*” rail, and against whose affinity Poschinger seeks to defend Prince Bismarck, as if against a disgrace inflicted on the latter.²⁰ It is no less an outrage against the historical truth when the doctrines of those who develop Smith’s doctrines in *his* spirit are made to appear as representatives of a cruel and exploitative capitalism, than when it is done with Smith himself.

The same lack of unbiasedness and truthfulness that is present in the critique of classical political economy by the newer schools of *Social-Politik* is also present in relation to numerous other matters of economic policy.

strict necessity, and therefore not to be gratified by the customary wages of the mere laboring class” (Say 1855, II.VII.51).

18. “Did the habitual practice of society imperatively subject every family to the obligation of laying by some provision for age, as it commonly does for infancy, our ideas of necessity would be somewhat enlarged, and the minimum of wages somewhat raised. It must appear shocking to the eye of philanthropy, that such is not always the case. It is lamentable to think of the little providence of the laboring classes against the season of casual misfortune, infirmity, and sickness, as well as against the certain helplessness of old age” (Say 1855, II.VII.52–53).

19. “M. de Sismondi, convenant en principe des inconvénients qui résultent de l’intervention de l’autorité dans les conventions particulières, pense néanmoins que la loi doit prêter quelque force à celui des deux contractants qui est nécessairement dans une position tellement précaire et dominée, qu’il est quelquefois force d’accepter des conditions onéreuses. Il est impossible de ne pas partager en ce point l’opinion de M. de Sismondi, et de ne pas approuver une disposition récente de la législation anglaise, qui fixe l’âge au-dessous duquel il n’est pas permis à un manufacturier de faire travailler les enfants dans ses ateliers.” (Say 1852, 50).

20. In his foreword to *Aktenstücke zur Wirtschaftspolitik des Fürsten Bismarck* (*Documents on the Economic Policy of Prince Bismarck*), Heinrich von Poschinger wrote that Bismarck derived his power, in part, “from the gradually spreading belief in the German Reich that his economic policy was based not on *The Wealth of Nations*, but on the well-being of every single man” (1890, ix, our translation).

It is not true, it is a falsification of history, that Smith is a doctrinaire of “*laissez faire, laissez aller*,” or that he thought that the only way to advance the economic well-being of society was the completely free play of individual interests. He recognizes on numerous occasions in his works that the endeavors and interests of single individuals and entire societal classes can contradict the general interest, and in such cases he not only does not reject state interventions but rather lets them appear as an imperative of humanity and consideration for the common good. He expects so little of implementing the principle of “*laissez faire*” that he, on the contrary, points to a number of organizations and institutions *which are to a great extent advantageous to the common good, and which would never be possibly established by the free play of competition*. He explicitly declares that in these cases the state has *the important duty to establish and maintain the offices and organizations which foster the common good*. Smith is not only for interventions by the state in the economy in favor of the poor and weak, especially the workers. He also endorses, proportional to the circumstances,²¹ corn tariffs in favor of agriculture, export subsidies for wool to raise the national production, and, yes, moderate tariffs on all manufacturing products, to secure an advantage for national labor on the domestic market. But unlike our modern *Social-Politiker* he never neglects the advantages of the international division of labor, and he recognizes the destructiveness of protective tariffs that steer national production in an inappropriate direction. He is so far from advocating a complete freedom of trade that he declares it equally absurd as the realization of some Utopia.²² Smith declares that the state has the task to provide roads, canals, harbors, public warehouses, etc., and yes, under certain circumstances he even favors the state fixing the prices of basic foodstuffs, etc.

This point of view is essentially shared by the other authors of the classical school. They too are anything but supporters of the principle of *laissez faire*. In fact they sometimes go even further in their support of positive interventions by the state in the interest of the common good. J. B. Say demands forestry legislation, which protects the land from wood shortage and the water courses from depletion; he endorses measures of the government favoring agriculture and preventive measures against unsound practices of industrialists. In trade policy he not only argues for some consideration for existing industries and a gradual shift toward

21. The German “*nach Maßgabe der Verhältnisse*,” might alternatively be translated as “if reasonable given the circumstances.”

22. Menger presumably has in mind the following passage of *The Wealth of Nations*: “To expect, indeed, that the freedom of trade should ever be entirely restored in Great Britain, is as absurd as to expect that an Oceana or Utopia should ever be established in it. Not only the prejudices of the publick, but what is much more unconquerable, the private interests of many individuals, irresistibly oppose it” (Smith 1976/1776, 471). But assuming that is indeed the referent passage, the meaning which Menger ascribes to it seems to us not to have been Smith’s intended meaning.

freedom of trade, he also demands state support for such industries which initially operate at a loss but offer the prospect of becoming profitable in the course of time—the support of industrial education of the people by the state—fundamentally anticipating the ideas of Friedrich List. In the same manner, Malthus supports protective tariffs, insofar as they have the goal to let specific lines of production in a country develop, to prevent great fluctuations in the economic life of a people, or to restore the equilibrium between different classes of society. He argues that protective tariffs are an important means in an economic policy aimed at the common good. Ricardo believes that tax-balancing tariffs and subsidies are necessary, and he supports the famous Corn Laws. It is an antihistorical legend that classical political economy supports the unrestrained rule of individual self-interest and the passivity of the government in economic matters.

The newer school of *Social-Politik* in Germany has not refuted and dismissed classical political economy—it has, rather, continued its development in certain respects, and in other respects, as I will show, it has lagged behind. In the fight of the school of *Social-Politik* with the proponents of capitalistic Manchesterism—its caricature of Classicism—it was partly right, *but not against Smith and classical political economy*. The final configuration of classical political economy cannot be found in Cobden, Bright, Bastiat, Prince-Smith, and Schulze-Delitzsch, but rather in John Stuart Mill, the social philosopher, who, next to Sismondi, must be considered the most important founder behind the modern direction of *Social-Politik*, as far as it has an objective scientific character. Whoever reads the writings of the classical school as an interrelated whole will find the above judgment to be confirmed in every respect.

Classical political economy has erred in many respects, and in some decisive respects for the further development of economic theory. The current fashion in the newer German political economy which underestimates Smith and his school is based upon misunderstandings and misinterpretations of the classical authors, the correcting of which is the duty of objective science. This underestimation has even led Roscher to the noteworthy remark that the future “will restore the honor of men like Ricardo and Malthus as scientists.”²³

23. “Recent science has endeavored, and successfully, to examine the facts which contradict the Ricardian and Malthusian formulations of the laws in question, and to extend the formulas accordingly. ... [I]t is not hard to comprehend that, while this process of elucidation is going on, most scholars, those especially possessed more of a dogmatic than of a historical turn of mind, should estimate these two leaders more in accordance with their few defects than with the great merits of their discoveries. ... For my own part, I have no doubt that, when the process of elucidation above referred to shall have been thoroughly finished, the future will accord both to Ricardo and Malthus their full meed of honor as political economists and discoverers of the first rank” (Roscher 1878, p. x).

II.

The real difference between classical political economy and the modern school of *Social-Politik* in the workers question is not their inclination. Both recognize the unfavorable economic position of a large part of the workers within the population, both demand changes in favor of the workers, and neither fundamentally denies state help. The contrast is that the Smithian school believes that the improvement of the economic position of the workers lies primarily in the elimination of all state and social institutions which are disadvantageous for the workers' employment and their income, and only deems positive interventions by the state in the economy advisable where the self-help of the workers and their free associations do not suffice for attaining the above purpose. Our modern *Social-Politiker* on the other hand—I mean those who are serious about improving the workers' lot—place the main emphasis on positive measures of the state, now that a large part of the laws of past ages which oppressed the poor and the weak in favor of the propertied classes have already been abolished. In this difference we cannot recognize a fundamental opposition, no different inclination, but only a difference in the evolution of circumstances regarding the continued development of the efforts to improve the position of the working class. The economic policy of classical political economy was precisely dedicated to the most immediate and urgent needs of the time in which it came into being, a time full of unjust class privileges and detrimental restrictions on the poor and weak, full of irrational and self-interested over-regulation. Smith and his disciples recognized the needs of *Social-Politik* in their time very precisely when they first pressed for the abolition of the harmful restrictions on workers and when they opposed the state interventions in the economy detrimental to the poor.

Smith and his disciples were "*Social-Politiker*" for their time at least to the same degree as those economists who currently claim for themselves the honor of this title as against the Smithian school. The men who stood up for the elimination of serfdom, feudal labor,²⁴ arbitrary justice, exclusive and exploitative guilds, monopolies, tax privileges, etc., have, when we look back at the conditions that had been there before their activities started, even with regard to their "negative program," at least an equal claim to the honorary title of *Social-Politiker* as do any economists of the present.

But that negative part does not exhaust the program of Smith and his disciples. We have seen that those same men spoke out for the necessity of positive measures by the state in all fields of economic life as soon as the free conduct

24. Menger refers to the institution of "*Frohnden*."

of the individual proves insufficient for or harmful to the common good. No unbiased observer would believe that either Smith or his disciples would, from the spirit of their teachings, if they were asked today, oppose the more recent positive regulations which are truly aimed at the well-being of the workers class,²⁵ but probably they would oppose the corn tariffs, the progressive increase in indirect consumption taxes, the cartel laws, and various other laws and institutions of “*Social-Politik*.” It would be unfair to question the “inclination” of these men.

One could at most pose the question which group of social philosophers has actually *achieved more* for the protection of the needy classes, if this way of posing the question should not be dismissed as unhistorical. The goal of both schools is, considering the circumstances of their time, improving the economic position of the weak and the oppressed. But if the acceptance of theories of *Social-Politik* by the least privileged classes is taken as the correct measure of their relative merit, then the issue can hardly be decided in favor of our modern *Social-Politiker*. Wherever I look, the working class even today does not rely on the newer economic theories, according to which we should not be certain that high corn tariffs (imposed by grain-importing countries!) raise the price of bread, that petrol tariffs raise the price of the most important source of light for the worker, or that indirect taxes raise the cost of living of the worker and lower his standard of life. Rather, I find to this day that the workers, almost without exception, base their efforts on the theories of classical political economy, on the price theory of the classical school, on the land rent theory and the wage law of Ricardo, on the maxims of the classics that favor direct taxes, etc.

The same can be said for the newer positive measures for the improvement of the working classes. I do not want to doubt the inclination from which they owe their origin, nor their expected successes. But I must state the following two things: that the laws which protect the worker originate from England, the land of “classical political economy,” and secondly—what I believe is more important—that nowhere is there a considerable group of workers who would be willing to exchange the right of self-determination and in particular the right of free association for the sum of all of the positive measures of modern *Social-Politik*. And that is, I believe, for good reasons. However highly one wants to value the worker-insurance as has already partly been introduced in Germany and in Austria, plus the entire sum of the *Social-Politik* measures aimed at the improvement of the working classes, an unbiased observer would have to recognize that the liberation of the workers from the former oppressive laws that favored the propertied classes, and the freedom of association for which the classical school argued, are, in their

25. Menger uses in the context of workers the word “*Arbeiterstand*”, literally “workers’ estate,” even though other contexts he also uses “*Classe*.”

practical effects, to the present day, of immeasurably greater value. The intellectual leaders of the workers movement have also recognized that at all times. They accepted the improvements of modern *Social-Politik*, but they expect a more substantial improvement of the position of the workers from the freedom of association. Only recently, the English leader of the workers, Burns,²⁶ declared at the Liverpool congress that the freedom of association gives the workers a means of power which should enable the workers to achieve all their goals and which initially should be used with some caution for the very sake of the workers' own interests. The measures of *positive* state assistance favoring the working classes have not been met with the same enthusiasm by the representatives of the working classes, and have not given rise to the same great hopes. The merits that classical political economy has earned for the situation of the needy classes certainly do not lag behind those of newer schools of *Social-Politik*. The supposedly purely "negative program" of Smith and his disciples is still met with a higher esteem by the representatives of the needy classes than is the "positive program" of the newer *Social-Politiker*. This is even more the case since the latter is bound up with a system of other measures of *Social-Politik* that are decidedly detrimental for the working classes, and against which Smith and his disciples would vehemently object in the name of those same propertyless classes.

Where the classical economists are certainly equal to the modern *Social-Politiker* with respect to their worker-friendly inclination, I believe that in another respect the perspective of classical political economy is without a doubt significantly superior to that of the new *Social-Politiker*. By that, I mean the correct insight into the causes of the well-being of the working classes. That the position of the workers does not only depend on the positive legal interventions, but at least as much on the progressive accumulation of capital and on the entrepreneurial spirit of those who possess it, is too often completely overlooked nowadays. The one-sided tendency against everything which is named capital and enterprise has seemingly blinded the newer schools of *Social-Politik* to the recognition of this truth and its practical consequences. It is true that the distribution of income between capital and labor is in itself a problem of the utmost importance and every measure through which labor gains a greater proportion of the fruits of production, as long as it does not threaten the continued existence of industries, should be applauded as welcome social progress. But with equal certainty would I argue that a significant increase in wages can only be the consequence of the progressive accumulation and productive use of capital. Indeed, the employment of a growing labor force with increasing wages or even at the current wage level can only go hand in hand with capital accumulation and an increase of productive activities. They who, too

26. John Elliot Burns (1858–1943) was a British unionist, MP, and minister of the Liberal Party.

one-sidedly, only have an eye for a maximally beneficial distribution between the entrepreneur and the worker of the value of production, fail to see that the expected benefits from this for the working class, however important they may be, are severely limited. The expected benefits which arise automatically from the accumulation of capital and its productive use are of far greater importance.

Our age has often been accused of the fact that, unlike the propertied classes of antiquity, we do not enjoy life leisurely, but instead continuously strive for the acquisition of more wealth—that the propertied classes have been inflicted by an irrational pleonexia, which is not so much guided by a striving for leisurely enjoyment but rather from striving to possess more than others. It is this accusation which, especially with respect to the bourgeois classes of contemporary society, is not completely unjustified, and which matters even more when we take into account that the abstract drive for the accumulation of capital is partly cancelled out, in its effects for the capital owners, by the reduction of the interest rate. However, it seems to me that it is overlooked by those who make this accusation that this pleonexia is a kind of economic remedy for the progressive growth of the labor population, for it is among the most important means to provide this very population with employment and wages. However one might think about the “abstract capitalist drive” of the bourgeois classes of society, from the perspective of *Social-Politik* it is beneficial. At the very least it does not deserve the loud reproach of those who do not voice one word of reproach toward the waste of capital that takes place among other social classes, sometimes in ruinous ways, for example through the mortgaging of increased rents from land and the use of this money for consumption purposes.

So classical political economy certainly does not lag behind the newer school of *Social-Politik* in its worker-friendly inclination, and with respect to the correct insight into the causes of the more or less satisfactory fate of the propertyless classes, classical political economy is far superior. Classical political economy does not overlook the importance of capital, the entrepreneurial spirit, and commercial intelligence for the well-being of the working class. It is free from doctrinaire spitefulness towards capital and enterprise, which the newer doctrines of the *Social-Politiker* have adopted from socialist agitators. It does not lose sight of the fact that even an unequally distributed wealth of capital is less harmful for the working classes than is a lack of capital, and that the worker is never more helpless than when the “cursed money” dries up for the entrepreneurs, or when an intimidated entrepreneurial spirit shies away from capital investments.

I have argued that the newer measures of *Social-Politik* to lift up the needy classes are already contained in the program of classical political economy. But I should have added a caveat to this argument, which I believe, also, lends a great superiority to the Smithian perspective over those of the new *Social-Politiker*. Adam

Smith and his disciples always stood up for the *common good*, not for class interests, and they were even less prone to advocate favorable measures for particular factions within social classes, an accusation from which the newer *Social-Politik* cannot be completely spared.

Our rural population has been badly hit by the decline in prices of agricultural products. They are supposed to be assisted by disinheriting a part of them, with this adding a new artificial rural proletariat to the already existing proletariat. The class of farmers is supposed to be assisted by pushing the overwhelming majority of the farmers into the proletariat. Artisans and craftsmen wage a heavy fight with big industry. The cure against their decline is supposed to lie in setting up excessively high protective measures for the existing businesses while making it more difficult for self-employed new entrants to start a business, so that the class of dependent wage laborers would be artificially increased. The position of the workers, clearly, leads to highly sophisticated thoughts from the *Social-Politiker*. The solution should, according to some, come from associations of workers, which, through exclusion of the poorest and the neediest, would lead to a certain worker aristocracy, which would be granted the advantages of petty bourgeois existence, but which would at the same time make the struggle for existence hopeless for the remaining workers. The creation of privileged factions within the individual classes of society—a preferred *numerus clausus*—where the rest of society is completely neglected, would supposedly cure the social afflictions of our times! And all of this is propagated not from the perspective of one-sided factional interests, but from that of a popular *Social-Politik*! The task of helping the weak and disinherited shall be met by artificially increasing them in number, and especially by increasing the wealth and employment advantages of particular factions within social classes through “positive legal measures,” while those outside these factions would not only be denied access to property but also to employment. Even the cartels of the industrialists—the configurations of the roughest, most collectivist Manchesterism—have finally found their apologists, and finally are they recognized as beneficial institutions of *Social-Politik*, yes, even as universal means for the solution to our social problem. In this way the social ills of the world are supposed to be eliminated, and the encroachment of socialist elements in the armies, which are cited as a threat to our current legal and social order, stopped!

Social-Politik measures of this “positivism” are as alien to Smith, to his teachings, and to those disciples who have continued to work in his spirit, as the importance for society of capital and entrepreneurial spirit is alien to the modern *Social-Politiker*.

Thus, again, classical political economy does not lag behind the newer schools of *Social-Politik* in its sympathy toward the poor and the weak, and with respect to the correct understanding of the nature and the causes of economic

phenomena—the correct theoretical insight—classical political economy is far superior.

The effects of the new doctrines on the classes of the population who are to be supported have been felt. The striving for a better position in society through thrift and personal industriousness, a striving that no unbiased observer can deny is responsible for the most important economic improvements of all classes of the population, is visibly disappearing in large parts of the people, while all their thoughts and intentions are directed towards the struggle of individual classes to secure a maximum share of the total production of the economy. The striving for personal industriousness has given way to a class struggle that, as seen from the perspective of society as a whole, is unproductive. Self-interest, so much despised by the *Social-Politiker*, has not disappeared from the world, but rather has degenerated into a collectivist, a national and a class egoism, which does not strive for an increase in the total production (that which is to be shared!) but rather for the maximal part of the total production for every individual social class.

The school of *Social-Politik* in Germany suffers from a doctrinarism, which in its one-sidedness vividly brings to mind the doctrinarism of Manchesterism, only that the latter uncritically expects everything from the free play of individual interests, while the former expects everything from artificial “organizations” and the interventions of state authority. There was a time when the reputation of a competent economist was granted to anybody who declared an intention to destroy anything that smacked of state influence or organization. To receive the highest praise of the current representatives of one strand of *Social-Politik*, no more is needed than to display blind animosity against capital, entrepreneurial spirit, and any form of individual initiative and responsibility in economic matters.

The doctrinarism of the one and of the other 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.

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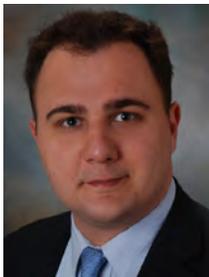


Carl Menger (1840–1921) was an influential thinker and professor at the University of Vienna. His *Principles of Economics* of 1871 was a breakthrough in economic theory, notably for its marginalist approach and its subjectivism. His individual-centered conception of the economy was soon perceived as revolutionary and has ever since attracted generations of scholars to expand on this conception, with his immediate and closest associates being Eugen von Böhm-Bawerk (1851–1914) and Friedrich von Wieser (1851–1926). Following the publication of his *Investigations into the Method of the Social Sciences with Special Reference to Economics* in 1883, Menger engaged in what later would become known as the *Methodenstreit*, a controversy on the role of theory and history in economics, his principal opponent being the head of the Younger Historical School, Gustav Schmoller (1838–1917). In the decades after the *Methodenstreit*, Menger remained influential, both as teacher and as a public figure, but did not publish new treatises, either on theory or methodology. After the birth of his son Karl in 1902, Menger increasingly withdrew also from public life, and Wieser succeeded him at University of Vienna as the professor of economic theory. Menger's library was later sold to Hitotsubashi University in Japan, while his archives are preserved at Duke University. Between 1933 and 1936, F. A. Hayek edited the four-volume *Collected Works of Carl Menger*. Menger is widely credited as having originated the Austrian school of economics.

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