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MENGER THE REVOLUTIONARY

Peter G. Klein

Peter G. Klein teaches economics at the University of Missouri, Columbia. This is his foreword to the new edition of Principles of Economics, published by the Mises Institute (2007) (Pklein@missouri.edu).

“There never lived at the same time,” wrote Ludwig von Mises, “more than a score of men whose work contributed anything essential to economics.” One of those men was Carl Menger (1840–1921), professor of political economy at the University of Vienna and founder of the Austrian School of economics. Menger’s pathbreaking *Principles of Economics*, published in 1871 and now in a new edition from the Mises Institute, not only introduced the concept of marginal analysis, but it presented a radically new approach to economic analysis, one that still forms the core of the Austrian theory of value and price.

Unlike his contemporaries, Menger favored an approach that was deductive, teleological, and, in a fundamental sense, humanistic. While Menger shared his contemporaries’ preference for abstract reasoning, he was primarily interested in explaining the real-world actions of real people, not in creating artificial, stylized representations of reality.

Economics, for Menger, is the study of purposeful human choice, the relationship between means and ends. “All things are subject to the law of cause and effect,” he begins his treatise. “This great principle knows no exception.” Jevons and Walras rejected cause and effect in favor of simultaneous determination, the idea that complex systems can be modeled as systems of simultaneous equations in which no variable can be said to “cause” another. This has become the standard approach in contemporary economics, accepted by nearly all economists but the followers of Carl Menger.

Menger sought to explain prices as the outcome of the purposeful, voluntary interactions of buyers and sellers, each guided by their own subjective evaluations of the usefulness of various goods and services in satisfying their objectives (what we now call marginal utility). Trade is thus the result of people’s deliberate attempts to improve their well-being, not an innate “propensity to truck, barter, and exchange,” as suggested by Adam Smith. The exact quantities of goods exchanged—their prices, in other words—are determined by the values individuals attach to marginal units of these goods. With a single buyer and seller, goods are exchanged as long as participants can agree on an exchange ratio that leaves each better off than he was before. ➡

In a market with many buyers and sellers, the price reflects the valuations of the buyer least willing to buy and the seller least willing to sell, what Böhm-Bawerk would call the “marginal pairs.” With each voluntary exchange, then, the gains from trade are momentarily exhausted, regardless of the exact structure of the market. Menger’s highly general explanation of price formation continues to form the core of Austrian microeconomics.

Menger’s analysis has been labeled “causal-realistic,” partly to emphasize the distinction between Menger’s approach and that of the neoclassical economists. Besides its focus on causal relations, Menger’s analysis is realistic in the sense that he sought not to develop formal models of hypothetical economic relationships, but to explain the actual prices paid every day in real markets. The classical economists had explained that prices are the result of supply and demand, but they lacked a satisfactory theory of valuation to explain buyers’ willingness to pay for goods and services.

Rejecting value subjectivism, the classical economists tended to treat demand as relatively unimportant and concentrated on hypothetical “long-run” conditions, in which “objective” characteristics of goods—most importantly, their costs of production—would determine their prices. The classical economists also tended to group factors of production into broad categories—land, labor, and capital—leaving them unable to explain the prices of discrete, heterogeneous units of these factors. Menger realized that the actual prices paid for goods and services reflect not some

objective, “intrinsic” characteristics, but rather the uses to which discrete units of goods and services can be put as perceived, subjectively, by individual buyers and sellers.

Principles was written as an introductory volume in a proposed multi-volume work. Unfortunately, those later volumes were never written. Menger did not explicitly develop the concept of opportunity cost, he did not extend his analysis to explain the prices of the factors of production, and he did not develop a theory of monetary calculation. Those advances would come later from his students and disciples Eugen von Böhm-Bawerk, Friedrich von Wieser, J.B. Clark, Philip Wicksteed, Frank A. Fetter, Herbert J. Davenport, Ludwig von Mises, and F.A. Hayek. Many of the most important ideas are implicit in Menger’s analysis, however.

For example, his distinction among goods of lower and higher “orders,” referring to their place in the temporal sequence of production, forms the heart of Austrian capital theory, one of its most distinctive and important elements. Indeed, Menger emphasizes the passage of time throughout his analysis, an emphasis that has not yet made its way into mainstream economic theorizing.

While most contemporary economics treatises are turgid and dull, Menger’s book is remarkably easy to read, even today. His prose is lucid, his analysis is logical and systematic, his examples clear and informative. *Principles* remains an excellent introduction to economic reasoning and, for the specialist, the classic statement of the core principles of the Austrian School.

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Ludwig von Mises Institute, 518 West Magnolia Avenue, Auburn, Alabama 36832-4528
Phone: 334-321-2100; Fax: 334-321-2119; Email: info@mises.org; Web: mises.org

As Hayek writes in his Introduction, the significance of the Austrian School is “entirely due to the foundations laid by this one man.” However, while Menger is universally recognized as the Austrian school’s founder, his causal-realistic approach to price formation is not always appreciated, even within contemporary Austrian economics.

Another remarkable feature of Menger’s contribution is that it appeared in German, while the then-dominant approach in the German-speaking world was that of the “younger” German Historical School, which eschewed theoretical analysis altogether in favor of inductive, ideologically driven, historical case studies. The most accomplished theoretical economists, the British classicals such as J.S. Mill, were largely unknown to German-speaking writers.

As Hayek notes, “In England the progress of economic theory only stagnated. In Germany a second generation of historical economists grew up who

had not only never become really acquainted with the one well-developed system of theory that existed, but had also learnt to regard theoretical speculations of any sort as useless if not positively harmful.” Menger’s approach—haughtily dismissed by the leader of the German Historical School, Gustav Schmoller, as merely “Austrian,” the origin of that label—led to a renaissance of theoretical economics in Europe and, later, in the US.

In short, the core concepts of contemporary Austrian economics—human action, means and ends, subjective value, marginal analysis, methodological individualism, the time structure of production, and so on—along with the Austrian theory of value and price, which forms the heart of Austrian analysis, all flow from Menger’s pathbreaking work. As Joseph Salerno has written, “Austrian economics always was and will forever remain Mengerian economics.” ■

THE PUBLISHING IMPERATIVE

Llewellyn H. Rockwell, Jr.

Llewellyn H. Rockwell, Jr. is president of the Mises Institute and editor of LewRockwell.com (Rockwell@mises.org).

This year is going to be very exciting, and not only because it is our twenty-fifth anniversary. This will be the most productive year in the history of publishing in the Austrian-libertarian tradition, and nearly all of it will be coming from our offices. The Mises Institute has never seen itself as a book-publishing institution, except only on a need-be basis.

Well, as the years have moved on, the need has become ever greater. First, there is the growing demand for books, a demand that we are in a position to know

about. It is obvious that our movement is growing dramatically all over the world. Mainline publishers are not, however, entirely aware of this. Neither are they inclined to take the risk of publishing material that might be considered too radical.

Second, there is a problem (and opportunity) that is unique to the Austrian School. In most schools of economics, the milieu suggests that all students need to know is in the latest textbook and the last year of journal articles. The assumption is that all that is

true is absorbed into the latest material and that which is false is cast away. Therefore there is no strong reason to keep anything from the past in print.

Ignorance of history? It's not considered a vice or a disgrace in the social sciences today. It might even be considered a sign of greater objectivity and a praiseworthy lack of anachronistic thinking.

The Austrians and libertarians are different. If Mises's *Human Action* had been written in 300 B.C. we would still be sponsoring reading groups on it. The point isn't when a book was written but rather its content. The truths of economics are universally applicable, and do not depend on the circumstances of time and place. Economic laws apply everywhere: this is what the Austrians set out to prove in the 1870s and it is a conviction that they have upheld ever since.

Well, to cut to the chase, we had all become rather alarmed in the last couple of years to see ever more of the literature that is essential to our school of thought becoming harder and harder to get. Even classics by Henry Hazlitt, John Bates Clarke, Frank Fetter, Wilhelm Röpke, Frank Chodorov, Albert Jay Nock, F.A. Hayek, and so many more, were just vanishing. Then there is the absolute imperative to always keep the whole of Rothbard and Mises in print.

In times when people are visiting libraries less and less, since so much is available online, people are developing personal libraries to do their academic work and leisure reading. Mises.org is second to none in online resources but it still remains true that unless the book is available in a physical version, the author's ideas vanish into oblivion. We cannot let this happen.

For this reason, we have sought sponsors to help us with some hugely important publishing projects this year. They are already starting to appear. This year alone, we have Menger's *Principles*, David Gordon's *Essential Rothbard*, and Hoppe's *Economic Science and the Austrian Method* in print. My own book will appear later this year. We have several books by Walter Block coming out, plus

Rothbard's own thick book of commentaries on modern economic errors, Jörg Guido Hülsmann's mini-treatise on money production, Rothbard's amazing classic, *The Panic of 1819*, Rothbard's previously unpublished book on the betrayal of the American right, and so many more that I couldn't possibly list them.

I should also mention our print-on-demand service, that just began. We've already brought back 30 books that had nearly fallen into oblivion. We are using the most modern methods of publishing to bring Chodorov, John T. Flynn, Israel Kirzner, F.A. Harper, Michael Heilperin, Fritz Machlup, Lionel Robbins, and many more in print—even a lost work by Joseph Schumpeter.

Yes, this is taking fantastic amounts of energy from our tiny staff, but we have a big job to do and a moral obligation to the ideas of liberty to do it well.

And actually I haven't even mentioned what I consider a great landmark in the history of the Mises Institute. At our Supporters Summit in New York (October 12–13) we will be releasing Guido Hülsmann's seminal biography of Mises: eight years of research and writing, travels to five countries, and close investigations of archives from a century and a half.

Nothing like this has been written on Mises. Nothing like this has been written on an economist. Perhaps nothing like this has been written on any champion of freedom. Those of us who have read drafts have all had the same reaction: we only thought we knew something about Mises. This book not only goes beyond previous biographical attempts, it displaces every essay that has ever appeared.

Guido covers the period before Mises came to America in astonishing detail. He delves deeply into his family background in Lvin, now in Ukraine, as the son of an important senior railroad official. Even at this early stage, Mises was a phenom.

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News from the Institute

25th Anniversary

Join us in celebrating our twenty-fifth anniversary, a quarter century of the scholarship of freedom in the Misesian tradition. The Mises Institute remains small in staff but its reach covers the globe and its influence stretches across generations of students and professors. What we are really celebrating here is not an institution but an idea and those who have made it possible through their generous support. The official celebration takes place in New York, October 12–13, 2007, where the grand Mises biography will be released. For more information see mises.org/events. ■

Print-on-Demand

We can't be more pleased at the progress we are making in our print-on-demand books. Check weekly for new titles. Please take a look at what we have done: mises.org/printondemand. ■

The Mises Circle

If you are a Texan, or just want to immigrate for the day, join the Mises Circle in Houston on April 14, 2007. Ron Paul, Walter Block, Guido Hülsmann, Lew Rockwell, and James Fogal will be there, thanks to Jeremy S. Davis. These regional events have been successes, and if you want to hold one in your area, please contact James Fogal: james@mises.org. ■

Video

Have you watched a Mises Institute video lately? We have hundreds and hundreds of hours of video lectures on Mises.org. It is just about the best learning opportunity on the web. Come to mises.org/media and take a look! ■

Summer Fellowships

We are taking applications for our Mises Summer Fellows program. It's three months of the most intense learning you will experience in a lifetime. It is not an internship but a serious academic undertaking that could end up establishing a research program for a lifetime. Please write Pat@mises.org. ■

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Did you know that Mises once had sympathies with socialism? He did until he looked into it more deeply, and read the masterpieces of the Austrian tradition. From then on he burned with a desire to fight for liberty in every way that an economist could.

Mises reconstructed monetary theory. He rebuilt the method of economic science. He demolished socialism and interventionism. He did the earliest and most brilliant studies on the economics of war. And he put free-market economics on its first firm philosophical footing.

It's all here in this extraordinary book: how Mises stopped the Austrian inflation and prevented communism from wrecking the country, how he fought against national socialism, what he contributed to the theory of money and banking and monopoly, how he came to found the Austrian Institute of Business Cycle Research, how he managed to keep up his remarkable schedule, who attended his internationally famous workshop in Vienna, why he waited to marry Margit, and so much more.

For Mises's life in America, Guido discusses the travails of publishing, his job search, his students, and his response to political events. But the main theme of the book is always Mises's ideas and how they affected the world. And here we find the real drama.

Put simply, it was Mises who saved the ideas of liberty from extinction in the dark decades of the 1930s and 1940s. It took brilliance, bravery, and the willingness to make huge personal sacrifices.

But his lifetime motto from Virgil sustained him: Do not give in to evil, but proceed ever more boldly against it.

Mises was a hero, while others fell away. He was an exemplar of academic courage in a century in which most intellectuals willingly served tyranny left and right.

So often when we hear about heroes, we hear about politicians and presidents. But in Mises we find the genuine article, a creator who accomplished so much, a man of integrity who refused to bend his principles, no matter what the personal cost.

The story has never been told with the flourish and level of detail we find in Guido's book, and never before in a way that demonstrates that Mises is far more important in advancing the science of liberty than we ever knew. This is a book for the ages, about a man for the ages.

The story is not only about Mises. It is about the twentieth century and the battle between good and evil that is embodied in the struggle between liberty and the state. It is about the terrible consequences of bad ideas, and about the need for moral courage in the face of intellectual combat.

I can't think of another book that covers all this so well.

This has been a hugely expensive project for a small institute, and it was more than worth it. But we want the price to be reasonable. We want this book in the hands of people all over the world, including students, who will be stirred to emulation.

There is still time to support this project, so please write me if you are interested, and join us as we look forward to an amazing year. ■

Our complete book and merchandise catalog is available online at mises.org.

You may order online at mises.org, or by phone at 800-636-4737.





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Please contact our Director of Development, James W. Fogal, CFP®, at James@Mises.org or (334) 321-2106 with any questions you may have.

UPCOMING EVENTS

- **DESPOTS LEFT AND RIGHT: THE TYRANNIES OF OUR TIMES**
The Mises Circle in Houston—Sponsored by Jeremy S. Davis
April 14, 2007 • Houston, Texas
- **THE HISTORY OF POLITICAL PHILOSOPHY: FROM PLATO TO ROTHBARD**
A Steve Berger-Kenneth Garschina Seminar with David Gordon
June 4–8, 2007 • Auburn, Alabama
- **MODERN AUSTRIAN ECONOMIC ANALYSIS**
A Seminar with Peter Klein and Joseph Salerno
June 11–15, 2007 • Auburn, Alabama
- **THE LIFE AND TIMES OF LUDWIG VON MISES**
A Seminar with Guido Hülsmann
July 23–27, 2007 • Auburn, Alabama
- **MISES UNIVERSITY**
July 29–August 4, 2007 • Auburn, Alabama
- **MISES INSTITUTE SUPPORTERS SUMMIT AND 25TH ANNIVERSARY**
October 12–13, 2007 • New York, New York



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