

Kolev, Stefan; Dekker, Erwin

Article — Published Version

Carl Menger's Smithian contributions to German political economy

The Review of Austrian Economics

Provided in Cooperation with:

Springer Nature

Suggested Citation: Kolev, Stefan; Dekker, Erwin (2022) : Carl Menger's Smithian contributions to German political economy, The Review of Austrian Economics, ISSN 1573-7128, Springer US, New York, NY, Vol. 36, Iss. 2, pp. 247-269,
<https://doi.org/10.1007/s11138-022-00602-y>

This Version is available at:

<https://hdl.handle.net/10419/308170>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



<https://creativecommons.org/licenses/by/4.0/>



Carl Menger's Smithian contributions to German political economy

Stefan Kolev¹ · Erwin Dekker²

Accepted: 5 September 2022 / Published online: 14 October 2022
© The Author(s) 2022

Abstract

In this paper we contextualize Carl Menger's work in relation to the transformations of German political economy from the 1860s to the 1890s. We demonstrate that his *Grundsätze* (1871) was a culmination of the German subjectivist tradition which had started in the early nineteenth century. Menger's synthesis of this tradition is comparable to Adam Smith's synthesis of earlier knowledge in the *Wealth of Nations* (1776). Menger's contribution was continuous with the intellectual project of leading German economists, such as Wilhelm Roscher, to whom Menger had dedicated his book. Roscher, however, also promoted a historical turn, that was combined with a progressive policy agenda by a new generation of German economists after they founded the Verein für Socialpolitik in 1872. These divergent Roscherian legacies clashed vehemently in the Methodenstreit. During this debate Menger elaborated in his *Untersuchungen* (1883) an evolutionary and spontaneous theory of institutional change, in line with the legacy of the Scottish Enlightenment and in contrast to a more rationalist and constructivist theory of institutional change expounded by Gustav Schmoller and other Verein economists. The new policy-oriented direction of German political economy carried the day, also due the fundamental socio-economic transformations in the German and Austro-Hungarian Empires, and prompted Menger to restate in 1891 the social policy agenda of the classical political economists, most prominently Smith. Menger's recurrent proximities to Smithian political economy – in the synthetic contribution of 1871, the theoretical innovation of 1883, and the policy agenda of 1891 – suggest that his arguments are best understood as a defense of what Boettke has called the “mainline” in economics.

Keywords Carl Menger · Adam Smith · Methodenstreit · Social Policy · Mainline Economics

JEL classification A11 · B12 · B15 · B53 · P16

✉ Stefan Kolev
stefan.kolev@fh-zwickau.de

Extended author information available on the last page of the article

1 Introduction

Traditions need founders, and the Austrian School picked Menger. Founding myths have an important function, they provide guidance, coherence and inspiration to later contributors. Above all, they provide a tradition with a clear (often antagonistic) identity. But founding myths are also misleading, they attribute innovations and contributions to the founder, at the expense of their predecessors. They attribute to the founder more distinctiveness from his contemporaries than he had – even more so when the original context of the founder is disregarded, out of conscious neglect or lack of familiarity. This paper sets out to sort out myth from reality in the originality and distinctiveness of the work of Carl Menger and some of the other early contributors of what became known as the Austrian School. Founding myths are often produced much later, as the political theorist Benedict Anderson so wonderfully demonstrated in his *Imagined Communities* (Anderson, 1991).

Part of the founding myth of the Austrian School is that it arose in opposition to German political economy, or more particularly the German Historical School. The famous dispute over methods, the *Methodenstreit*, pitted Menger, the revolutionary subjective marginalist, against the empirically minded inductivist relativists of the Historical School. This antagonism has helped to bolster the internal identity of the Austrian School and highlights further distinctive features of the new school. But as social scientists we should of course not mistake them for historical truth. Therefore, we will contextualize Menger in the German-speaking political economy of his time. This has the downside of neglecting the slowly advancing internationalization of the field, but has the upside of not buying into that other founding myth, the marginal revolution (Black et al., 1973; Jaffé, 1976; Hollander, 1982).

Our contextualization of Menger highlights three central contributions of Menger to German political economy: the synthetic contribution of his *Grundsätze* (1871), the theoretical innovation of his *Untersuchungen* (1883) and the social policy agenda of classical political economy (1891). We suggest here that these contributions created continuity between German-speaking political economy of his time and Adam Smith. In this sense Menger is distinctly anti-revolutionary, especially compared with other contemporaneous approaches in German political economy which consciously sought to break with what came before, most notably the Historical School.

These warnings against revolutions in economic theory and political practice make Menger a “marginal revolutionary,” only in the most literal sense of the term: a reformer who – despite the progress he strived for – acknowledged the giants in theory and policy whose shoulders he stood upon. And who – despite all the differences to earlier historical contexts – rejected the uniqueness of his own time. Our characterization and contextualization of Menger make him a good representative of Peter Boettke’s thesis of “mainline economics” (Boettke, 2012).

2 German subjectivism as a tradition of individualism

2.1 Subjectivism and marginalism

Subjectivism has often been singled out as the most important defining feature of Austrian economics (Horwitz 1994). It does indeed set Austrian economics apart from neoclassical economics, and subjectivism is an important feature of Menger's work. It can also not be denied that Menger, as Jaffé (1976) highlighted, was the most subjectivist of the three marginalists. Menger's *Grundsätze der Volkswirtschaftslehre* (Principles of Economics) (Menger, 1871) was, however, not at all original in his subjectivism. Both in Vienna and in Germany, a subjective theory of value as well as a subjective notion of what turns artifacts into goods was widely shared, as David Harper and Tony Endres demonstrate in detail in their contribution to this special issue.¹

The most famous proponent of the subjectivist view was Karl Heinrich Rau (1792–1870), whose textbook went through eight editions between 1826 and 1869 (Streissler & Milford, 1993, 45). His textbook was entitled *Grundsätze der Volkswirtschaftslehre* (Rau, 1826), identical to the name Menger chose for his first monograph. Rau was by no means the only one to start from a subjectivist foundation. In 1832, Friedrich von Hermann (1795–1868) was insistent that economics should start from a subjectivist perspective: “Whatever satisfies a want for man, he calls a good” (Hermann, 1832, 1, cited in Streissler, 1990, 49). Later in his textbook Hermann wrote: “The first and most principal factor determining price is, in fact, in all cases demand, the main roots of which are the value in use and the ability to pay of the purchasers. From demand and what the demanders are willing to pay for a good we see which amount of goods they are willing to forgo for the sake of the desired good and this determines how high the cost of the least remunerative production can be” (Hermann, 1832, 95, cited in Streissler, 1990, 41). The latter quote illustrates well that this subjectivism was not isolated from later insights into market prices or the notion of opportunity costs. Our goal is not to deny any originality to Menger or his student Friedrich von Wieser in these fields, but to demonstrate their work elaborated themes and theoretical connections already present in their German predecessors. In Vienna, the situation was no different. Menger's predecessor Albert Schäffle (1831–1903) was a renowned proponent of the subjectivist method, as one of us has demonstrated elsewhere (Dekker, 2016, 48–51).

It was not only subjectivism, but also marginalism which was part and parcel of the subjective theory of value in the German tradition. Bruno Hildebrand (1812–1878), one of the three main representatives of what has been controversially called the Older German Historical School (Pearson 1999; Caldwell 2001; Lindenfeld 2002), wrote in 1848: “The more the quantity of a useful commodity is increased, the more the utility of each piece diminishes as long as the want has not changed” (Hildebrand, 1848, 318, cited in Streissler, 1990, 44). The same applies

¹ On the French and Italian traditions of subjective theory of value which co-evolved with the German tradition, see Kauder (1953a, b).

for other central tenets of the alleged “marginal revolution” like the marginal-value product and the equimarginal principle of utility in demand. While the two laws of Hermann Heinrich Gossen (1810–1858) were indeed overlooked and discovered only after the “marginal revolution” (Hayek, 1927), numerous formulations of the marginalist approach to utility were circulating, notably by Hans von Mangoldt (1824–1868) in Freiburg and Carl Schüz (1811–1875) in Tübingen. Of special importance for Menger’s context is his Prague teacher Peter Mischler (1821–1864), whose 1857 textbook *Handbuch der National-Ökonomie* contained similar formulations of marginalism (Streissler, 1990, 42–46).

The origin of this subjectivist approach in the German tradition, which during Menger’s lifetime was referred to by his own student Johann von Komorzynski as “the older German use value or utility value school” (Komorzynski, 1889, 65, cited in Priddat, 1998, 1509), has been traced by various authors to Gottlieb Hufeland and his *Neue Grundlegung der Staatswirthschaftskunst* (New Foundations of the Art of State Economic Policy) (Hufeland, 1815). Hufeland’s treatise appeared two years ahead of Ricardo’s *Principles* and at the same time at an important junction in the history of German political economy. The art of state economic policy in his work reminds of the older German cameralism, which conceived of the economy as a sub-order of the political order, and economics as a sub-discipline of the art of governance. Keith Tribe has singled out Hufeland’s theory as a crucial step in the transition to the new *Staatswissenschaften*: in these “sciences of the state,” law, politics and economics would soon co-exist as interlinked, but autonomous sub-disciplines with their own distinct principles (Tribe, 1995, 24–31).

Hufeland wrote when German Romanticism flourished, which also impacted the relation of the new *Staatswissenschaften* to the field of history, a point to which we will return below. Max Alter, for instance, concludes that Menger was the heir of German romanticism (Alter, 1990, 36–54, 79–112). Idealism constituted a crucial component of German Romanticism. The idealist denial of, and opposition to, materialist positions is one explanation of the prevalent skepticism among German economists towards the objective value theories as expounded in the classical political economy of Smith, Ricardo and Malthus. We call this romantic subjectivism “individualist idealism,” both for the philosophical notion about the primacy of individuality and as the theoretical source of value, valuation and value judgments. Subjectivism, as individualist idealism, is a worldview in which individual values, individual valuations and individual value judgments shape the development of society, rather than a collectivist entity like Hegel’s *Weltgeist*.² This individualist idealism was also the most important building block of the ideal of *Bildung* as developed by Wilhelm von Humboldt and the later *Bildungsbürgertum* which was foundational in Menger’s milieu (Coen, 2007).³ As we outline in the paper, his subjectivism as

² On the perennial tension between individualism and collectivism in the emergence and evolution of historicism, see Meinecke (1936).

³ This general intellectual development provides a more straightforward explanation for subjectivism than the speculation that it might have something to do with the rentier point of view, as Streissler (1990) suggested.

individualist idealism was Menger's mainline all the way from the first monograph in 1871 to the final publication in 1909.

Menger's *Grundsätze* was not a monograph but a textbook, in line with the custom at the time for a *Habilitation*. The habilitation thesis, a second doctoral thesis, was directed at a larger audience, often students, and as such represented a proof of a broad command of the field.⁴ As a textbook author Menger did not provide a revolutionary departure: instead, he maintained both the structure and the substance of the standard German textbooks of its time, although he omitted a discussion of national wealth – a notion which he explicitly criticized in the second edition (Menger, 1923). Menger's most novel substantive contribution in the context of the tradition of German textbooks as published by Rau, Hermann, Mischler and Wilhelm Roscher, was his analysis of different market structures in chapter five and the theory of money in chapter eight. This does not mean that there were not subtle conceptual differences and critiques elsewhere in the book, but his book was written in the tradition of the German textbooks as it thrived during the mid-century. It synthesized in a systematic manner theoretical contributions which had sometimes remained isolated or unconnected. Along with this substantive contribution, the book also contained a structural innovation which we contextualize in relation to Adam Smith in the next section.

2.2 Roscher's contested legacy

If one took the standpoint of the early 1870s, one would observe something that is the opposite of what the Austrian founding myth suggests. In Vienna, Menger published his conventional *Grundsätze* which was dedicated to Wilhelm Roscher and aimed to systematize a theoretical framework which had been in place since at least the 1830s. His book is presented as a further development of an established tradition and received as such (for a systematic collection of the reviews see Salazar, 2021).

Meanwhile in Germany something was brewing. In the 1860s it became more common to write one's habilitation on a historical applied subject. For instance, one studied the development of the institution of banking cooperatives in the Rhineland (Held, 1869), recent developments in Prussian taxation (Nasse, 1861) or the history of guilds and unions (Brentano, 1871–72). In 1872 the Verein für Socialpolitik⁵ was founded, headed by Gustav Schmoller, but with wide support in the German economics discipline. From that moment onwards, the rite of

⁴ The habilitation was also the moment after which one hoped to obtain a chair. Through some good fortune Menger obtained a chair of economics in Vienna, although it was typical that one would first spend a substantial period at a lower-ranked university elsewhere in the Empire. His predecessor Albert Schäffle became minister in the Habsburg government for a little while, after which he lived of the pension of his ministerial wage that was higher than the professorial wage, leaving his chair vacant (Streissler & Streissler, 1994).

⁵ Due to successive German reforms of orthography, over the past 150 years the name of the Verein has switched from "Socialpolitik" to "Sozialpolitik" and back. In this paper we have consistently used "Socialpolitik" in the name of the Verein and "Sozialpolitik" for the notion itself.

passage into academia became an applied study, often historical in nature, about changes in legal or economic structures in a particular region. Obviously, such studies were not necessarily at odds with the theoretical subjective and marginalist framework as laid out in the textbooks of mid-century, or the contemporaneous great synthesizing projects of Roscher. But the studies were fundamentally different in orientation (*Richtung*). They reframed economics as an *applied science*, one which could provide important knowledge for the modernization of the economy and the emancipation of the lower classes.

Both orientations were present in the work of Roscher. His assessment of Menger's *Grundsätze* in his monumental history of German political economy is curious because he places it inside the section on the "Historical School," something which is probably an artefact of adding it late in the writing process. But otherwise, it captured well what Menger's contributions was:

"Finally, the Austrian C. Menger with his very abstract conceptual analysis, which is mostly based on a thorough history of economics (Dogmengeschichte). His work is always independent and often rather productive; for example, it expounds price formation first in isolated exchange, then in monopolistic trade and only eventually by including double-sided competition." (Roscher, 1874, 1040)

Menger had dedicated his *Grundsätze* to Roscher, who was widely recognized as the authority in German-speaking political economy. Career considerations may have certainly played a role, but the dedication is telling about Menger's self-image in 1871, especially when it is interpreted in alongside the following paragraph of the preface:

"It was a special pleasure to me that the field here treated, comprising the most general principles of our science, is in no small degree so truly the product of recent development in German political economy, and that the reform of the most important principles of our science here attempted is therefore built upon a foundation laid by previous work that was produced almost entirely by the industry of German scholars." (Menger [1871] 1981, 49)

At the time Roscher played a crucial and multifaceted role in these "recent development in German political economy." He was not a great theorist himself, but he was masterful at historicizing theory, especially in identifying *continuities and steady growth* across various schools, linguistic communities and traditions. Yet, Roscher is also credited as one of the first to design and deploy the *historical method* and the relevance of the context of place and time for political economy.

If Menger perceived Roscher's work to be exemplary for German political economy, it made perfect sense to perceive himself as *reformer*. As reformer he contributed to the evolution and steady growth of the body of economic knowledge as conceptualized by Roscher. This self-image is reinforced by Menger's underscoring that he considered himself to be a German and working "upon a foundation laid by previous work that was produced almost entirely by the

industry of German scholars.” That did not mean that Roscher or Menger adopted a hermetic attitude to non-German authors (Streissler & Milford, 1993). Of the considerable number of non-German thinkers, Smith received the most references in the *Grundsätze*, while the Scottish economist featured frequently in Roscher's history of economics as well as in his appreciation of classical political economy as a body of theory.

Apart from the substantive importance of Smithian political economy, we can also observe a crucial *structural* similarity in the purpose of the major books of Menger and Smith: both were synthetic in nature. Menger's *Grundsätze* and *Wealth of Nations* have their innovative nature, primarily, in *combining previously existing pieces of economic theory into a new whole*. Both Menger and Smith have been taken to task about the novelty of the individual elements in their books. But their main contribution is to be found in the theoretical coherence and relative simplicity with which they presented the accumulated knowledge of their age: Menger condensed the German subjectivist tradition in the *Grundsätze*, while Smith captured English and French political economy in the *Wealth of Nations*. In 1871 Menger could believe that he was continuing and deepening the synthetic projects of Smith and Roscher.

In the Schumpeterian definition of innovation, the contribution of both Menger and Smith was to produce a captivating combination of what had been already there, and it was the captivating nature of these two summaries which blazed an intellectual trail for the next generations – along with their myth-producing efforts to make Menger *the* founder of the Austrian School and Smith *the* father of modern economics, at the cost of what had been there before the synthesizers weaved the threads into an inspiring summary. The references to Smith in the *Grundsätze* testify how closely Menger had studied the *Wealth of Nations*, up to the point that he emulated Smith's style and structure of argument: “I know that I shall appear tiresome to some readers. Following in the path of Adam Smith, I will risk some tediousness to gain clarity of exposition” (Menger [1871] 1981, 133).

The complexity arises because simultaneously a young generation of German economists – Schmoller, Adolf Held, Georg Friedrich Knapp and Lujo Brentano – also felt that they were making the next logical step in the development of economics. All in the age cohort of Menger, they were gathering forces around the Verein für Socialpolitik with the support of older German economists like Roscher, which held its first congress in Eisenach in 1872. In their call for contributions written by Schmoller, they displayed a degree of impatience and discomfort with the older economics:

“Filled with the conviction that the future of the German Empire as well as the future of our civilization generally will be substantially influenced by how our social conditions will be shaped in the immediate future (...), the undersigned call to a conference men of all political parties, assuming they have an interest in and moral-ethical concern for this question and believe that absolute *laissez faire et laissez passer* is not the right thing in the social question.” (Cited in Grimmer-Solem, 2003, 176)

Schmoller's generation was influenced by the statistical work of Ernst Engel, the economist now primarily known for his Engel curve. During the 1850s Engel was

head of the Statistical Bureau in Saxony, in 1860 he became president of the Prussian Statistical Bureau and kept this influential position until 1882. He was the main innovator in statistics in Germany and his work fed into what we propose to call the “institutional statistics tradition,” an approach to statistical analysis which became the core of the Historical School as it formed around the Verein. This “institutional statistics” approach emphasized the study of how different institutional arrangements gave rise to different outcomes. This allowed for comparisons over time as well as between different regions which were at different stages of economic development and industrialization. The studies by Held, Nasse and Brentano we mentioned at the beginning of this section are good examples. The approach was the forefront of social statistics at the time and later made important breakthroughs in the analysis of time-series but displayed a reluctance to strong generalizations and instead emphasized qualitative differences in institutional structure.⁶

Schmoller published his first major studies on the effects of industrialization in Germany in the 1860s. In these studies he distinguished between transitory and permanent downsides of industrialization. He found that most harms caused by industrialization in terms of working conditions, wages and effects on the artisan sector were transitory in nature. The effects of the 1840s had been largely negative, but by the 1860s it had become clear that industrialization had mostly positive effects for workers and their living conditions. His work of the period represented a measured optimism, with an eye for transitory pains. It did not yet contain the activist reform agenda he would adopt during the 1870s. During the 1870s, the Verein promoted plans, projects and policies aimed at the improvement of housing conditions, unemployment and disability insurances. This was supposed to happen through voluntary associations of mutual self-help (*Selbsthilfe*), as well as through the state – and the social reformers’ opinions diverged significantly about the relative importance of the bottom-up and the top-down institutions (Grimmer-Solem, 2003, Chap. 7).

Roscher’s legacy was contested, already during his lifetime, especially how “historical” the historical method should be, and to what extent this method could be used to shape the politico-economic reality in Central Europe (Sommer, 1932).

2.3 Spontaneous order and individualism

By 1880 the landscape of German political economy, and significantly the German economy as well as government policies toward it, had sufficiently been impacted by the Verein and the new historical approach, so that that the unity and continuity which Roscher had summed up in his 1874 book was fading. It was against this agenda that Menger’s *Untersuchungen über die Methode der Socialwissenschaften und der Politischen Ökonomie insbesondere* (Investigations into the Method of the Social Sciences, with Special Reference to Economics) (Menger, 1883) was primarily aimed, a fact easily obscured by a narrow Methodenstreit framing. It was not

⁶ Recent studies of attempts to develop international standards in business-cycle statistics in the 1920s highlight how formative this institutional statistics approach was on the Continent (including Russia) well into the twentieth century (Clavin, 2015; Lenel, 2018; Kolev, 2021).

that Menger and Schmoller did not quibble over methods, they most certainly did (Horn & Kolev, 2020). But their disagreement found its origins in how they thought about social change. The reformist agenda put forward by the Verein headed by Schmoller believed in what Menger called “pragmatic reform,” that is, the design of institutions aimed at promoting the welfare of, in particular, the working classes. As Grimmer-Solem has demonstrated in his excellent study of the period (Grimmer-Solem, 2003), the goal was to integrate the working class into the middle-class and hence create a solid basis for a unified state as well as a bulwark against socialist and reactionary ideas, a bulwark rooted in middle-class convictions and allegiances.

Within the Verein, there were significant differences of opinion about the policies required to foster German integration and the emancipation of the proletariat into German middle-class society. These came to a head in 1879 during the Frankfurt meeting where Schmoller and Knapp decided to support Otto von Bismarck's economic agenda which included tariffs and monopolies in the railway and tobacco industries (Frie, 2013). They did so, not out of conviction that these were sound policies by themselves, but they hoped that Bismarck would combine these reforms with bold social legislation. Held, Brentano and others objected to tariffs in principle, but were even more worried about the openness with which Bismarck formed coalitions with major industrial or agrarian interests at the expense of the public (Sheehan, 1966, Chap. 5).

This political context is of importance because it forms an essential change in circumstances from 1870 to 1880. Even though the more historically oriented and empirical economics was already on the rise around 1870, by 1880 it had also become a political factor of significance through the Verein. It first presented itself as a broad platform of economists who sought to draw attention to the social question, and this was the reason that the Verein was used as a model for the founding of the American Economic Association in 1885 (Ely, 1936). But the Verein increasingly turned into a partisan organization in which the political tensions which characterized German society at the time were reflected. Nevertheless, it attempted to function as a consulting body to the Reichstag, which itself lacked the administrative capacity to conduct scientific studies, and did so through large empirical enquires conducted by individual scholars or groups. A prominent example was the 1890–1892 survey on the situation of the agricultural workers to which Max Weber contributed the part on the Eastern German provinces (Weber, [1892] 1984).

When Menger wrote his *Untersuchungen* in the early 1880s, he was not merely responding to critical reviews of his *Grundsätze*. In fact, it remains a point of debate how critical these reviews really were (Streissler, 1990; Yagi, 1997; Salazar, 2021). Nor was he merely fighting over the direction of German-speaking political economy, although the issue of control over appointments to the chairs certainly mattered in the dispute (Blumenthal, 2007, 67–71). Menger responded to a change in the political climate in which a far more activist economic policy was pursued under the leadership of Bismarck. Along with this political shift, part of the economists associated with the Verein, Schmoller prominently amongst them, became outspoken political activists.

The tension between the more theory-oriented economics of Menger and the older German tradition of Rau, Hermann and Roscher on the one hand, and the more

practical and the institutionally oriented economics of Schmoller, Knapp, Held and Brentano on the other, had now gained a clear political edge. Menger stood for a cautious approach rooted in older principles of economic policy in line with a solid foundation of economic theory, whereas the Verein economists believed that policy could – and should – actively shape the process of social and economic development. The central question in this disagreement became the nature and origin of institutions.

Grimmer-Solem in his otherwise excellent treatment gives here a characteristic opinion of Menger's view that would have made the reformists of the Verein proud:

“What Menger was in effect proposing was not a rationalistic account of economic and social outcomes but instead a justification of existing outcomes on the grounds that they had stood the test of time. For an atomist like Menger, organicism was appealing because it linked individuals to social outcomes, having to account neither for the formation of groups nor the discretionary impact of those groups on social outcomes. Menger's method was in fact fused with his view of the world and values, and he made no attempt to critically separate his political teleology from his scientific method.” (Grimmer-Solem, 2003, 257)

What he gets right is that he locates the fundamental difference in the theory of institutional development, but Grimmer-Solem uses a frame of evaluation that was alien to Menger and curiously holds it against Menger that he merged his social vision with his science, whereas this was the stated purpose of the historical economists.

Yagi (1997) perceives clearer that it was precisely in the conceptualization of individual action and social outcomes that Menger made essential progress over his German predecessors. When the generation of romantic historians, including the lawyer Friedrich Carl von Savigny, had drawn attention to the organically grown institutions, they had appealed to collective notions such as *Volksgeist* or *Nation* to explain their emergence. This led to circular explanations in which differences in institutions were “explained” by reference to cultural or national differences. Menger agreed with their organicist conception of institutions, but – in line with what we called above his “individualist idealism” – sought to explain their emergence from individual behavior and interests. His theory of the emergence and evolution of money in his *Grundsätze* remains the paradigmatic example.

For Menger institutions developed out of the interaction of individuals and he therefore attempted to decompose different institutions back to their analytical origin in individual action. Schmoller objected to Menger's isolated treatment of institutions, such as money, and considered (macro-)institutions formative for economic life. Policy and historical conditions were the real foundation, and economic change and reform was, therefore, more likely to come from a conscious change of institutions.

This conception and its similarities with the older evolutionary organicist tradition put Menger directly at odds with Schmoller. As Yagi demonstrates, Schmoller laughed at “Menger's strong sympathy to the mysticism of spirit of a nation in the way of Savigny,” but drew a contrast with Menger's subjectivist contemporaries:

"It was really progress, compared to Savigny, that Roscher did not start with such a mystical romantic idea." (Schmoller, [1883] 2021), cited in Yagi, 1997, 247). Menger for his part objected to the purely "pragmatic" view of institutions, his term for rationalist design. Whatever our precise evaluation, and we will provide more evaluation below, here a real break was occurring. But that break was not enforced or created by Menger, who sought to reconstruct and solidify the older organicist conception of institutions which he associated with Savigny and Edmund Burke. The break was created by the economists around the Verein, who increasingly adopted what we would now call a legal-positivistic or rationalist-constructivist theory of institutions and institutional reform. Menger's work continued older German historical traditions which he sought to revive.

It is worth emphasizing that it was precisely this theory of institutional change which laid the foundation for Hayek's contributions in the middle of the twentieth century. Although Hayek typically relies on stylized histories of economic thought to make analytical points, he saw correctly that Menger rediscovered, or reintroduced the theory of institutional formation which had been central to the Scottish Enlightenment of David Hume, Adam Ferguson and Adam Smith – even though Menger's pronouncements, especially in Chap. 2 of Book 4 in the *Untersuchungen*, leave open to what extent Menger himself located his contribution in the tradition of Smith, at least whether he did so in the same way Hayek did later in his reading of the Scottish Enlightenment in connection to Menger. In the romantic historical thought of the early nineteenth century, this organicist or spontaneous theory of institutional formation had continued to be relevant.

Neoclassical readings of Menger are prone to overlook Menger's institutionalism. Recently Van 't Klooster has offered a variation on this reading by suggesting that Menger sought to limit the scope of (pure) economic science (Klooster, 2022). But neoclassical theorizing felt no need for a theory of institutional evolution because it posited rational agents independent of institutional context, which Menger did not do. Menger instead fits well into what Peter Boettke has termed "mainline economics," which focuses its "scholarly efforts on studying how these [cognitively limited] individuals, acting in their own self-interest, create complex social arrangements under the division of labor that align individual interest with the social interest" (Boettke, Fink & Smith, 2012, 1220). Within this mainline tradition, exchange is mediated through institutions, of which money is one of the most fundamental. Hence Menger studied how money evolved over time and enabled more extensive and elaborate forms of exchange. What he objected to in the Historical School was the idea that optimal or better institutions could simply be designed or implemented from above, a key concern which his student (and Hayek's teacher) Friedrich von Wieser elaborated (Wieser, 1910; 1914).

Boettke's mainline interpretation has two additional benefits. First, he contrasts this *mainline* to a *mainstream* which might at points in time diverge too much in a rationalist direction, or too much in a historically relativist direction. Menger's argument for the importance of theory vis-à-vis the Historical School is an example of the latter, while Hayek's rediscovery of the evolutionary institutionalism of Menger in the 1930s is an example of the former. Second, the mainline thesis emphasizes the continuity of economic thought, rather than the breaks, fads and supposed

revolutions, which have characterized economics as a discipline (Boettke, 2012). This continuity and gradual improvement are precisely how Smith, Roscher and Menger thought about the growth of economic knowledge.

3 Sozialpolitik and political economy: new acquaintances or old cousins?

3.1 Divergence in the 1880s

The two camps which were contesting for the prestige of Roscher's legacy famously clashed in the 1880s during the Methodenstreit. The evolution and increasing influence of Schmoller's emerging Younger Historical School widened the gap. Schmoller had replaced Roscher as the dominant leader of German political economy, strengthened by his prominent role in the Verein.

This clash was not merely methodological or political, but also about academic politics. The controversies around the chair appointments in Freiburg 1885, won by the Austrians through the appointment of Eugen von Philippovich, and in Vienna 1887, won by the Germans through the appointment of Lujo Brentano, are further testament to embattled atmosphere of the period (Leipold, 2021, 114–42). Brentano was as ardent free-trader and closest in political views to Menger, opposing Schmoller repeatedly about free trade within the Verein. His inaugural lecture in Vienna, even though not symmetrically sympathetic to Schmoller and Menger, was an attempt to reconcile the differences between them. But Menger did not seek reconciliation, and Brentano left only a year later to Leipzig, deeply frustrated (Sheehan, 1966, 106–108).

During the 1880s the German applied economics and the Austrian theorists diverged rapidly. The most important students of Menger, Eugen von Böhm-Bawerk and Friedrich von Wieser, refined the marginal theory of their mentor. Böhm-Bawerk's habilitation *Rechte und Verhältnisse vom Standpunkte der Volkswirtschaftslehre* (Legal Rights and Relationships from the Economic Point of View) (Böhm-Bawerk, 1881) continued and expanded the older German subjectivist tradition. Like Menger before him, Böhm-Bawerk criticized foreign authors for relying too much on material or otherwise limited conceptions of economic goods, which Böhm-Bawerk sought to expand to rights and relationships. He explicitly argued that the recognition of the broad nature of (potential) economic goods had been the strong point of German political economy (Böhm-Bawerk, 1881, 26–27). His subsequent work on capital theory reinforced the impression that the Austrians were only interested in matters of pure theory. Wieser's second major work *Der natürliche Werth* (Natural Value) (Wieser, 1889) started from idealized assumptions to study valuation in a Robinsonian setting after which it gradually relaxed the theoretical assumptions. Although Wieser was attentive to the fact that application of the general principles was not a mechanic process, his style and exposition were increasingly out-of-sync with German political economy as done at the time, which incorporated statistical material and tended to study economic and social conditions

empirically. For instance, Max Weber who later in his career was drawn to the work of Wieser (Kolev, 2018, 9–19), graduated in 1889 with a study on legal institutions in Italian city states during the Renaissance and in 1892 completed his habilitation on legal institutions in the agrarian sector of the Roman Empire.

In this climate of the 1880s, there was no longer a productive exchange between Menger and German economists – even though in the academic years 1875–1876 and 1876–1877 Menger had sent Böhm-Bawerk and Wieser to Germany to deepen their study of political economy with Roscher at Leipzig, Knies at Heidelberg, and Hildebrand at Jena (Tomo, 1994, 44–52; Hennings, 1997, 9–10; Kolev, 2018, 5–6). If we broaden our perspective beyond the leading thinkers, the picture hardly changes. The other habilitands (students) of Menger also pursued research projects which diverged from the applied orientation in Germany. In 1884 Emil Sax initiated a research program on taxation and public goods theory which had a marginalist core (Sax, 1887). In that same year Viktor Mataja started theorizing entrepreneurial profit as well as liability and tort law on marginalist grounds (Mataja, 1884). In other words, they continued the theoretically oriented program of Menger and sought to expand subjectivist marginalism in new directions. Eugen von Philippovich was, and remained throughout his life, an in-between. In his habilitation he combined Austrian theory with the German focus on comparative institutions by studying the role of Bank of England and its relation to the state (Philippovich, 1885).

3.2 The social question comes to Vienna in the 1890s

The 1880s were a period of polemics and divergence, but the early 1890s brought a remarkable degree of convergence. This was undoubtedly facilitated by the passage of time, which tends to heal most wounds. But that cannot fully explain the extent of the convergence. For that it is required to consider the changing socio-economic circumstances in Vienna and the Habsburg Empire. The importance of this context was itself subject of the Methodenstreit and that we draw attention to it, means that we recognize the value and relevance of the historical institutionalism which the Historical School advocated.

Schmoller and the Verein economists produced a political economy specifically targeted at the context of the young German Empire: they assessed the dynamics of the transition which the German economy and society were going through in the second half of the nineteenth century to be distinct from earlier processes of socio-economic change (McAdam et al., 2018). This was not just a matter of material, technological or demographic changes. Ideationally, the Verein economists were experiencing a society increasingly torn apart between the extremes of a Social Democratic movement aiming at a Marxian-inspired revolution, and a reactionary conservatism aiming at an anti-modern retrotopia (Balabkins, 1988, chap. IV). Institutionally, the Empire was at the forefront of democratization. Universal male suffrage for the Reichstag was introduced upon the foundation of the Empire in 1871, much earlier than in Austria (in 1907) or England (1918). In the late 1870s factory health and safety laws were passed, while in the early 1880s further bills aimed at

accident and health insurances were introduced on Bismarck's initiative. In Prussia and Saxony, the Social Democratic movement had become an important political player in the 1870s, which prompted Bismarck to ban the party in 1878, but the movement bounced back stronger after the ban was lifted in 1890 (Perrin, 1910; Wegner, 2020).

In contrast, the speed of urbanization and industrialization was much slower in Austria. The conflict which dominated the Habsburg Empire was that of nationalism, in particular the demands for more autonomy of various nationalities and regions. The Austrian Social Democratic movement developed as a spiritual child of the movements in Prussia and Saxony only a generation later, and it took until 1888 before a Social Democratic party was established (Judson, 1996). In contrast to Germany, the Social Democratic party was unable to attract empire-wide support and remained mostly limited to Vienna and the Bohemian industrial centers. Compared to the revolutionary fervor in the German Social Democratic party, the Austrian sister party remained moderate under its long-standing, reform-oriented leader Victor Adler who remained the dominating figure until 1918 (Kogan, 1949; Cohen, 2007).

These crucial differences between the German and the Austro-Hungarian Empires, socio-economically as well as regarding the dominating political conflicts, help to explain why the "social question" was not nearly as pressing to Menger and his students in the 1880s, but this also helps to explain why the further theoretical refinements of marginalist theory as developed by the Viennese were met with lukewarm reviews or simple indifference among German economists. By the 1890s, however, the socio-economic developments and political demands which had motivated the founding of the Verein and had changed the direction of German political economy, had also taken place in Austria.

In 1875 the *Gesellschaft österreichischer Volkswirte* had been founded, with Menger's colleague Lorenz von Stein as its first president (Egger, 2001, 4–9; Klausinger, 2019, 488–489). After initial enthusiasm, the Gesellschaft became dormant, but its activities were resumed in 1888 (Wasserman, 2019, 51–54). The broad new composition of the resurrected Gesellschaft betrays that it was resurrected to become an ecumenical endeavor. The newly elected president in 1892 was Karl Theodor von Inama-Sternegg, an economic historian who served as the president of the Central Statistical Commission in Vienna; Böhm-Bawerk became board member to represent the theoretical tradition; Philippovich occupied his typical role of a bridge between the historical or policy-oriented tradition and the theoretical tradition.

In 1893 Philippovich returned from Freiburg to Vienna and had meanwhile become a vocal proponent of social reform. He established connections between the Gesellschaft and the Viennese Fabian Society which was also founded in 1893. Victor Adler, the leader of the Austrian Social Democrats, also joined the Gesellschaft and was one of the leading speakers at the meeting in January 1892 where new labor legislation was discussed (Egger, 2001, 13–14). An important change in the political tides preceded these new activities of the economists in their Gesellschaft: the 1880s were the decade in which Austria first introduced social insurance schemes based on the German precedents (Ebert, 1975).

The new spirit was best captured by the founding of a new journal in 1892, *Zeitschrift für Volkswirtschaft, Sozialpolitik und Verwaltung*.⁷ It was the organ of the resurrected Gesellschaft, and its title reflected its dual interest in theory as well as more policy-oriented work. The first paper to appear in the new journal discussed "Socialreform in Oesterreich" (Social Reform in Austria). This might provide the impression that the historical economists had won the day, but it was preceded by an equally important essay by Böhm-Bawerk (1892) entitled "Unsere Aufgaben" (Our Tasks). He provided a programmatic overview of the tasks which lay ahead for the economists of the age. Central to this task was the question to what extent economists had to be attuned to the peculiar needs and character of their age. Böhm-Bawerk argued for a middle path, one which clearly recognized both the universal invariant elements of economics and the historically specific needs which a social scientist should seek to serve. This framing was later echoed in Schmoller's programmatic address when assuming the rectorate at the University of Berlin a few years later entitled "Wechselnde Theorien und feststehende Wahrheiten im Gebiete der Staats- und Socialwissenschaften und die heutige deutsche Volkswirtschaftslehre" (Changing Theories and Fixed Truths in the Field of State and Social Sciences and Contemporary Political Economy) (Schmoller, [1897] 2018).

Böhm-Bawerk started by acknowledging the contemporary constitutional order and the fact that the organizational requirements for the modern economy had changed from before. He urged his fellow economists to understand that the current age urgently called for "new forms" (1892, 2). This specific task is an instantiation of the invariant task of economics: "to make the blessings of economic and technical progress serve the living standards of the broad masses of the population" (ibid). He expressed, in only mildly concealed terms, his frustration with the Methodenstreit, when he derided the "fashion" that has been plaguing the social sciences for some time "to rival contentiously" instead of "reaching out in a brotherly manner" (1892, 5–6). With the help of metaphors drawn from theater, he attempted to outline the division of labor between the practitioner, the historian, the statistician and the theorist.

On the final pages Böhm-Bawerk came to questions of practical policy. He distinguished between measures which were only short-lived because they counteracted the principles of supply and demand, such as higher wages, and sustainable measures such as unemployment, health and old-age insurances or the regulation of clean and technically safe workplaces with "normal" working hours (1892, 7–9). The key to social policy as he depicted it was the perpetual search for a set of institutions which allowed individuals to deal with the uncertainty of economic life and the problems of their day. Theory could provide essential lessons for this ongoing process of institutional reform.

Böhm-Bawerk's call for a big-tent approach of the new Zeitschrift shows how barely a decade after the heat of the Methodenstreit, there was a desire in Vienna

⁷ It is noteworthy how close the title of the Austrian journal was to the contemporaneous title of the journal edited by Schmoller, later renamed into *Schmollers Jahrbuch*, which in the 1890s had the title *Jahrbuch für Gesetzgebung, Verwaltung und Volkswirtschaft im Deutschen Reich*.

to leave the trenches and seek convergence. In Böhm-Bawerk's reunited economics there was a clear function and place for ethical and political considerations. In the invoked dialogue between theory and practice, theory "is not only a giver," it should also "take from the practice":

"It receives from practice on the small and on the large scale. On the small scale it benefits from the endless stream of experiences, observations and insights which enrich and correct its knowledge. On the large scale, it receives from life its subject matter, its moving impulses; its problems and simultaneously its genuine warmth without which one cannot and should not treat social problems. In other sciences it might be different. In the social sciences the heart precedes the head. The great theoretical problems of our science almost never arose out of cold theoretical interest, the desire for knowledge did not spring from the desire for scientific insight only. These problems pressed themselves upon us through practical need. This was the case centuries ago and it is the case today." (Böhm-Bawerk, 1892, 10)

These were no empty words. The first volumes of the *Zeitschrift* demonstrate clearly what this new, reunited economics would look like.⁸ This policy turn was not limited to the journal. Among the central topics discussed in the *Gesellschaft*, applied subjects dominated proceedings: banking, the stock exchange, finance, social policy, trade and businesses, agriculture, migration, foreign trade (Egger, 2001, 28–33).

The policy turn had also reached Vienna. The symbolic moment of convergence was the meeting of the *Verein* in Vienna in 1894. At first sight the protocols of the meeting dedicated to cartels and agricultural inheritance law look quite indistinguishable from the meetings of the preceding two decades (*Verein für Socialpolitik*, 1895). But vital details show how formative the meeting proved for the reunion towards applied economics. Philippovich's opening address emphasized that the "social question" had arrived in Austria. The joint chairing of the sessions by Philippovich, Schmoller as head of the *Verein*, and Inama-Sternegg as head of the *Gesellschaft* was a clear sign of the new institutional harmony between the economic societies in the two Empires. The Austro-Hungarian membership in the *Verein* rose from 10–12 before to 144 after the meeting, causing a surge in the overall membership of the *Verein* from 375 to 489 (Grimmer-Solem, 2003, 268–275). Among the new members were Böhm-Bawerk and Wieser as well as their contemporaries Philippovich, Sax and other Menger associates such as Rudolf Auspitz and Richard Lieben.

3.3 Menger and the social question

Menger did not join the *Verein*, but even he could no longer deny the policy turn. His extensive piece on money in the *Handwörterbuch der Staatswissenschaften*

⁸ All volumes are fully digitized on the website of the Austrian National Library: <https://anno.onb.ac.at/cgi-content/anno-plus?aid=zvs&size=45>

(Menger, 1892) was not only a theoretical contribution, it was also a practical impulse for the currency reform of 1892 (Chaloupek, 2003). But his most remarkable contribution to the social question was a lengthy essay in the leading Viennese liberal newspaper *Neue Freie Presse*, written 1891 at the occasion for the centenary of Smith's death (Menger, [1891] 2016; Dekker & Kolev, 2016). The article is an extensive reflection on the legacy of Smith, in particular his social policy agenda. The article seeks to defend Smith against the false accusations and misinterpretations by more recent German economists, but most of all Menger seeks to prove that Smith had a social policy agenda:

"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 interventions to abolish laws, or the execution of the laws, which oppress the poor and the weak in favor of the rich and the powerful." (Menger, [1891] 2016, 475)

In other words, Menger aimed to demonstrate that Sozialpolitik was not a recent German invention, but an integral part of economics (at least) since Smith.

The issue at the heart of the controversy, and the subsequent dissertation by Menger's student Richard Schüller *Die klassische Nationalökonomie und ihre Gegner: Zur Geschichte der Nationalökonomie und Socialpolitik seit A. Smith* (Classical Political Economy and Its Enemies: On the History of Political Economy and Social Policy since Adam Smith) (Schüller, 1895), was whether the social question required a new type of economics, and Menger's answer was a resounding "no." The article also demonstrates that Menger in no way believed that a break had taken place in political economy around 1870 between the marginalists and classical political economy. To the contrary, he sought to position his own intellectual project as an extension of the classical political economy of Smith, Ricardo, Say and the German subjectivists (although the latter were no longer explicitly mentioned). This interpretation aligns well with the picture which Streissler and Streissler have painted of Menger's lectures to Crown Prince Rudolf von Habsburg in 1876, which were also organized around Smithian political economy (Streissler & Streissler, 1994). The Smithian core of these lectures underscores our claim that while Menger the value theorist was working in the German tradition, Menger the political economist saw in Smith a crucial point of reference. This was not a late conversion, but had been present all along, including in the 1870s when he tutored the Crown Prince and took him to Edinburgh and Glasgow to visit the Scotland of Smith (Schumacher & Scheall, 2020, 175–176).

However correct Menger was in his defense of Smith, his intervention stands out for the absence of discussion of contemporary issues of social policy.⁹ The generation of Schmoller had crucially argued that the economic problems of the late nineteenth century were different in nature and therefore required a different and more specialized and historically sensitive approach. Even if Menger's argument that Smith also had an agenda for Sozialpolitik would have been unanimously accepted, it would have made little difference for the convictions of Schmoller's generation, since they believed that the present situation required a different type of policies than were required at the time in which Smith was writing. In their view, the social question of the late nineteenth century was a different one than the social question of the late eighteenth century.

Vienna and the Verein intersected one last time during Menger's lifetime, in September 1909. It was at this Vienna meeting when the famous dispute over judgments, the Werturteilsstreit (also called "the younger Methodenstreit"), exploded after several skirmishes at earlier meetings (Verein für Sozialpolitik, 1910). This meeting led to Menger's last publication: like the centenary on Smith, it was a contribution to *Neue Freie Presse* entitled "Neue Strömungen in der deutschen Sozialökonomie" ("New Directions in German Socio-Economics") (Menger, 1909). He reported on the meeting of the Verein in 1909, although it is not clear whether he attended the meeting or based his reflections on the program and accounts of friends. The tone was that of the sarcastic old scholar who ironically congratulated the Verein for dedicating sessions to economic theory for the first time in its 36 years of existence. After some self-congratulations for the fact that Menger had always defended the inclusion of theory, there were hopeful reflections about the "small beginnings" of the "return" towards theory – via the "methodological question." Menger declared the question of method "the most important task for Germany's scientific economics" which would be of great benefit to the "theoretically inclined part of the younger German economists" (Menger, 1909, 14–15). The "younger Methodenstreit" initiated by Max Weber and Werner Sombart centered around what we might call "subjectivism 2.0": the permissibility of the inclusion of the analyst's subjective values in political economy (Derman, 2012; Glaeser, 2014). In siding with Weber and Sombart's denial of this permissibility, Menger's public life ended where it had started about forty years earlier: in the subjectivist value tradition. Initially he dealt with subjective valuations in the economy, he now closed the circle by encouraging the younger generation of German scholars to deal with subjective valuations in the science of political economy – as contained in Menger's subjectivism as "individualist idealism" discussed in Section 2.

Menger could claim victory that theoretical and methodological issues were finally back on the table. But for our contextualization of his work, it is of greater significance that political economy was returning to its mainline, after the divergence of the 1880s appeared to have separated institutional and theoretical analysis. Menger's 1891 piece on the policy agenda of the classical political economists

⁹ This assessment is different from the contextualization we provided in the introduction to our translation of Menger's appreciation of Smith.

corrected not merely the perception of his contemporaries on the indifference of liberal economists to social questions, but it also corrected an overly theoretical reading of Smith's work. It reestablished the continuity between the classical political economists and Menger's time, not merely in theoretical terms, but also in outlook.

4 Conclusion

Our goal in this paper has been to contextualize Menger's contributions within German-speaking political economy, both in the period leading up to his *Grundsätze* and in the period following it. This has allowed us to demonstrate that Menger's contributions were not revolutionary, either in their marginalism or subjectivism. They were, however, quickly growing out-of-sync with the direction that German political economy was taking during the 1870s. His *Grundsätze* was inspired and continued a theoretically oriented textbook tradition which had dominated German political economy around the middle of the nineteenth century and which was exemplified by the monographs of Wilhelm Roscher. And he provided a captivating and inspiring synthesis of this tradition, one which captured and inspired the minds of the next generations in what would become known as the Austrian School.

His analysis of the gradual emergence and evolution of social and economic phenomena was similarly in line with earlier approaches, although Menger added a distinctively individualist element to the analysis of the emergence of institutions. If his book had come out a decade earlier, it would have fitted right in with the both the direction of German political economy and the spirit of the time. But after founding the Verein für Socialpolitik by leading German economists in 1872, the direction of the discipline changed. The disconnect between Menger's theoretical subjectivist approach and the new type of socially and reform-oriented economics as developed by Schmoller and other leading economists of the Verein became more evident as the 1870s progressed, during which industrialization rapidly progressed in Germany and Social Democracy appeared firmly on the rise, based on the early introduction of universal male suffrage. The situation was radically different in the Habsburg Empire in which industrialization was at best a regional affair and in which nationalism and local autonomy dominated politics. This distinct set of social and economic issues fed the increasing divergence between the burgeoning Austrian marginalists and the reform-minded economists of the Verein.

Seen from this context, the defining issue during the Methodenstreit was as much political in nature as it was about methodology. The dispute centered on the sources of economic knowledge, but just as much on the possibility and desirability of social reform from above. The more conservative liberal Menger argued that institutional reform was an organic process which had to happen gradually and bottom-up, while the Verein economists sought to stave off the revolutionary demands of German Social Democrats through pro-active social reform. This aimed at a broad middle-class society, sometimes through voluntary bottom-up associations and, when required, through top-down state policies. It was in this context that Menger defended the Smithian and older German view of institutions as largely spontaneous in origin.

The second part of our paper has demonstrated that the divergence proved temporary. When Anglo-Saxon interest in the Austrian School provided renewed self-confidence, the second generation of the Austrian School grew increasingly oriented toward social and economic policy issues. Although an association of economists was founded in Vienna not long after the founding of the Verein in Germany, it had fallen dormant. In the 1890s this Gesellschaft and its associates became a platform for economic policy discussion not unlike that which the Verein provided in Germany. Böhm-Bawerk, Wieser, Sax, Philippovich and many other Menger students were active members of this new movement which reoriented economics in a comparable manner as had happened twenty years earlier in Germany.

Menger demonstrated great reluctance toward this reorientation and did not participate in the Gesellschaft or the meeting of the Verein in Vienna in 1894. The one instance in which he did engage with the subject of social policy, he reinforced continuities with Smith and the social policy agenda of the classical political economists, which was aimed at removing legal barriers to economic freedom. This strengthens our view that his *Grundsätze* is best read from the perspective of German political economy from the 1850s – and not, as the Austrian founding myth suggests, through the lens of the work of Joseph Schumpeter, Ludwig von Mises and Friedrich A. Hayek of the inter-war period, or, as the neoclassical lens suggests, as a tract in marginal utility theory.

Our interpretation, on the other hand, provides support for the continuity which Boettke has suggested is characteristic of “mainline economics,” a strand of political economy spanning from Adam Smith to Vernon Smith – via Carl Menger, as we claim. This helps to make sense of the reintroduction of Smithian insights which characterized Menger’s contributions to the debates of his time, as well as the way in which he positioned his *Grundsätze* as a synthesis à la *Wealth of Nations*, as a continuation of all the best that German political economy and what came before had to offer. A result of this interpretation is that Menger was not an Austrian or a marginal revolutionary, but instead a counterrevolutionary who opposed the dominant stream of his age, the methodological and policy innovations of the Historical School.

Funding Open Access funding enabled and organized by Projekt DEAL.

Open Access This article is licensed under a Creative Commons Attribution 4.0 International License, which permits use, sharing, adaptation, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons licence, and indicate if changes were made. The images or other third party material in this article are included in the article’s Creative Commons licence, unless indicated otherwise in a credit line to the material. If material is not included in the article’s Creative Commons licence and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder. To view a copy of this licence, visit <http://creativecommons.org/licenses/by/4.0/>.

References

- Alter, M. (1990). *Carl Menger and the origins of Austrian economics*. Westview Press.
- Anderson, B. (1991). *Imagined communities: Reflections on the origin and spread of nationalism*. Verso.
- Balabkins, N. W. (1988). *Not by theory alone... The economics of Gustav von Schmoller and its legacy to America*. Duncker & Humblot.

- Black, R. D. C., Coats, A. W., & Goodwin, C. D. W. (eds.). (1973). *The marginal revolution in economics: Interpretation and evaluation*. Duke University Press.
- Blumenthal, K. (2007). *Die Steuertheorien der Austrian economics: Von Menger zu Mises*. Metropolis.
- Boettke, P. J. (2012). *Living economics: Yesterday, today, and tomorrow*. The Independent Institute.
- Boettke, P. J., Fink, A., & Smith, D. J. (2012). The impact of nobel prize winners in economics: Mainline vs. mainstream. *American Journal of Economics and Sociology*, 71(5), 1219–1249.
- Böhm-Bawerk, E. (1881). *Rechte und Verhältnisse vom Standpunkte der volkswirtschaftlichen Güterlehre*. Innsbruck: Wagner. Translated in 1962 as: *Whether legal rights and relationships are economic goods*. Libertarian Press.
- Böhm-Bawerk, E. (1892). Unsere Aufgaben. *Zeitschrift für Volkswirtschaft, Sozialpolitik und Verwaltung*, 1(1), 1–10.
- Brentano, L. (1871–72). *Die Arbeitergilden der Gegenwart*, 2 vols. Duncker & Humblot.
- Chaloupek, G. (2003). Carl Menger's contributions to the Austrian currency reform debate (1892) and his theory of money. <http://www.chaloupek.eu/explorer/Mengeroncurrencyreform.doc>
- Clavin, P. (2015). *Securing the world economy: The reinvention of the League of Nations, 1920–1946*. Oxford University Press.
- Coen, D. R. (2007). *Vienna in the age of uncertainty: Science, liberalism, and private life*. University of Chicago Press.
- Cohen, G. B. (2007). Nationalist politics and the dynamics of state and civil society in the Habsburg Monarchy, 1867–1914. *Central European History*, 40(2), 241–278.
- Craver, E. (1986). The emigration of the Austrian economists. *History of Political Economy*, 18(1), 1–32.
- Dekker, E. (2016). *The Viennese students of civilization: The meaning and context of Austrian economics reconsidered*. Cambridge University Press.
- Dekker, E., & Kolev, S. (2016). Introduction to “The social theories of classical political economy and modern economic policy”. *Econ Journal Watch*, 13(3), 467–472.
- Derman, J. (2012). *Max Weber in politics and social thought: From charisma to canonization*. Cambridge University Press.
- Egger, H. C. (2001). *Die “Gesellschaft österreichischer Volkswirte” im Spiegel ihrer Publikationen*. Grin.
- Ely, R. T. (1936). The founding and early history of the American Economic Association. *American Economic Review*, 26(1), 141–150.
- Franz, G. (1955). *Liberalismus: Die deutschliberale Bewegung in der habsburgischen Monarchie*. G. D. W. Callwey.
- Frie, E. (2013). Verein für Socialpolitik, Kathedersozialisten und die Wirtschaftspolitik im Bismarckreich.” In U. v. Hehl & M. Epkenhans (eds.), *Otto von Bismarck und die Wirtschaft* (pp. 43–57). Brill.
- Glaeser, J. (2014). *Der Werturteilsstreit in der deutschen Nationalökonomie: Max Weber, Werner Sombart und die Ideale der Sozialpolitik*. Metropolis.
- Grimmer-Solem, E. (2003). *The rise of historical economics and social reform in Germany 1864–1894*. Oxford University Press.
- Hayek, F. A. (1927). Einleitung. In H. H. Gossen (ed.), *Entwicklung der Gesetze des menschlichen Verkehrs und der daraus fließenden Regeln für menschliches Handeln* (pp. ix–xxiii). R. L. Prager.
- Held, A. (1869). Die ländlichen Darlehenskassenvereine in der Rheinprovinz und ihre Beziehungen zur Arbeiterfrage. *Jahrbücher für Nationalökonomie und Statistik*, 13(1), 1–84.
- Hennings, K. (1997). *The Austrian theory of value and capital: Studies in the life and work of Eugen von Böhm-Bawerk*. E. Elgar.
- Hermann, F. B. W. (1832). *Staatswirtschaftliche Untersuchungen*. A. Weber.
- Hildebrand, B. (1848). *Die Nationalökonomie der Gegenwart und Zukunft*. J. Rütten.
- Hollander, S. (1982). On the substantive identity of the Ricardian and neo-classical conceptions of economic organization: The French connection in British classicism. *The Canadian Journal of Economics / Revue canadienne d'économie*, 15(4), 586–612.
- Horn, K., & Kolev, S. (2020). Dispute on method or dispute on institutional context? Foreword to the translation of Carl Menger's ‘Errors of Historicism’. *Econ Journal Watch*, 17(2), 442–507.
- Horwitz, S. (1994). Subjectivism. In *Elgar Companion to Austrian Economics* (pp. 17–23). E. Elgar.
- Hufeland, G. (1815). *Neue Grundlegung der Staatswirtschaftskunst, durch Prüfung und Berichtigung ihrer Hauptbegriffe von Gut, Werth, Preis, Geld und Volksvermögen, mit ununterbrochener Rücksicht auf die bisherigen Systeme*. B. Ph. Bauer.
- Jaffé, W. (1976). Menger, Jevons and Walras de-homogenized. *Economic Inquiry*, 14(4), 511–524.
- Judson, P. M. (1996). *Exclusive revolutionaries: Liberal politics, social experience, and national identity in the Austrian Empire 1848–1914*. University of Michigan Press.

- Kauder, E. (1953a). Genesis of the marginal utility theory: From Aristotle to the end of the eighteenth century. *Economic Journal*, 63(251), 638–650.
- Kauder, E. (1953b). The retarded acceptance of the marginal utility theory. *Quarterly Journal of Economics*, 67(4), 564–575.
- Klausinger, H. (2019). The Nationalökonomische Gesellschaft from its foundation to the postwar period: Prosperity and depression. *Empirica: Journal of European Economics*, 46(3), 487–503.
- Klooster, J. (2022). Marginalism and scope in the early Methodenstreit. *Journal of the History of Economic Thought*, forthcoming.
- Kogan, A. G. (1949). The social democrats and the conflict of nationalities in the Habsburg Monarchy. *Journal of Modern History*, 21(3), 204–217.
- Komorzynski, J. (1889). *Der Werth in der isolirten Wirthschaft*. Manz.
- Kolev, S. (2018). Early economic sociology and contextual economics: The Weber-Wieser connection. *Journal of Contextual Economics – Schmollers Jahrbuch*, 138(1), 1–30.
- Kolev, S. (2021). Ein Baltendeutscher bei den Preußen des Balkans: Oskar Anderson und das Sofioter Institut für Wirtschaftsforschung (SWIFO). HWWI Research Paper 198, Hamburg Institute of International Economics.
- Leipold, K. (2021). *Wissenswerte Erfahrung: Rekonstruktion von Erfahrung in der Entstehung und Entwicklung wirtschaftswissenschaftlichen Wissens (1871–1919)*. Baden-Baden: Nomos.
- Lenel, L. (2018). Mapping the future. Business forecasting and the dynamics of capitalism in the interwar period. *Economic History Yearbook*, 59(2), 377–413.
- Mataja, V. (1884). *Der Unternehmervergewinn, ein Beitrag zur Lehre von der Gütervertheilung in der Volkswirtschaft*. A. Hölder.-
- McAdam, M., Kolev, S., & Dekker, E. (2018). Methods for understanding economic change: Socio-economics and German political economy, 1896–1938. *Journal of Contextual Economics – Schmollers Jahrbuch*, 138(3–4), 185–198.
- Meinecke, F. (1936). *Die Entstehung des Historismus*. R. Oldenbourg.
- Menger, C. (1871). *Grundsätze der Volkswirtschaftslehre*. W. Braumüller. Translated in 1981 as: *Principles of economics*. New York University Press.
- Menger, C. (1883). *Untersuchungen über die Methode der Socialwissenschaften, und der Politischen Oekonomie insbesondere*. Duncker & Humblot. Translated in 1985 as: *Investigations into the method of the social sciences, with special reference to economics*. New York University Press.
- Menger, C. ([1891] 2016). The social theories of classical political economy and modern economic policy. *Econ Journal Watch*, 13(3), 467–489.
- Menger, C. (1892). Geld. In *Handwörterbuch der Staatswissenschaften* (pp. 730–757). G. Fischer.
- Menger, C. (1909). Neue Strömungen in der deutschen Sozialökonomie. *Neue Freie Presse*, October 23.
- Menger, C. (1923). *Grundsätze der Volkswirtschaftslehre*, 2nd edition. Hölder-Pichler-Tempsky.
- Nasse, E. (1861). *Bemerkungen über das preußische Steuersystem*. A. Marcus.
- Perrin, J. W. (1910). The German social democracy. *North American Review*, 192(659), 464–472.
- Philippovich, E. (1885). *Die Bank von England im Dienste der Finanzverwaltung des Staates*. Toeplitz & Deuticke.
- Priddat, B. P. (1998). Theory of subjective value in German national economics. *International Journal of Social Economics*, 25(10), 1509–1519.
- Rau, K. H. (1826). *Grundsätze der Volkswirtschaftslehre*. C. F. Winter.
- Roscher, W. (1874). *Geschichte der National-Ökonomik in Deutschland*. R. Oldenbourg.
- Sax, E. (1887). *Grundlegung der theoretischen Staatswirtschaft*. A. Hölder.
- Salazar, F. (2021). The early reception of Carl Menger's *Grundsätze*: A review and reassessment. *Journal of Contextual Economics – Schmollers Jahrbuch*, forthcoming.
- Schmoller, G. ([1883] 2021). On the methodology of state and social sciences. *Journal of Contextual Economics – Schmollers Jahrbuch*, forthcoming.
- Schmoller, G. ([1897] 2018). Changing theories and fixed truths in the field of state and social sciences and contemporary German political economy. *Journal of Contextual Economics – Schmollers Jahrbuch*, 138(3–4), 213–232.
- Schüller, R. (1895). *Die klassische Nationalökonomie und ihre Gegner: Zur Geschichte der Socialpolitik seit A. Smith*. C. Heymanns.
- Schumacher, R., & Scheall, S. (2020). Karl Menger's unfinished biography of his father: New insights into Carl Menger's life through 1889. *Research in the History of Economic Thought and Methodology*, 38B, 155–189.

- Sheehan, J. J. (1966). *The career of Lujo Brentano: A study of liberalism and social reform in Imperial Germany*. University of Chicago Press.
- Smith, A. (1776). *An inquiry into the nature and causes of the wealth of nations*. W. Strahan and T. Cadell.
- Sommer, L. (1932). Das geisteswissenschaftliche Phänomen des ‚Methodenstreits‘. Analogien und Präzedentien. In M. Adler et al. (eds.), *Festschrift für Carl Grünberg zum 70. Geburtstag* (pp. 487–537). C. L. Hirschfeld.
- Streissler, E. W. (1990). The influence of German economics on the work of Menger and Marshall. In B. J. Caldwell (ed.), *Carl Menger and his legacy in economics* (pp. 31–68). Duke University Press.
- Streissler, E. W., & Milford, K. (1993). Theoretical and methodological positions of German economics in the middle of the nineteenth century. *History of Economic Ideas*, 1(3), 43–79.
- Streissler, E. W., & Streissler, M. (1994). *Carl Menger's lectures to Crown Prince Rudolf of Austria*. E. Elgar.
- Tomo, S. (1994). *Eugen von Böhm-Bawerk: Ein großer österreichischer Nationalökonom zwischen Theorie und Praxis*. Metropolis.
- Tribe, K. (1995). *Strategies of economic order: German economic discourse, 1750–1950*. Cambridge University Press.
- Verein für Socialpolitik (ed.) (1895). *Verhandlungen der am 28. und 29. September 1894 in Wien abgehaltenen Generalversammlung des Vereins für Socialpolitik über die Kartelle und über das ländliche Erbrecht*. Duncker & Humblot.
- Verein für Socialpolitik (ed.) (1910). *Verhandlungen der Generalversammlung in Wien am 27., 28. und 29. September 1909: I. Zum Gedächtnis an Georg Hanssen II. Die wirtschaftlichen Unternehmungen der Gemeinden III. Die Produktivität der Volkswirtschaft*. Duncker & Humblot.
- Wasserman, J. (2019). *The marginal revolutionaries*. Yale University Press.
- Weber, M. ([1892] 1984). *Die Lage der Landarbeiter im Ostelbischen Deutschland. 1892. Max Weber Gesamtausgabe I/3*, edited by M. Riesebrodt. Mohr Siebeck.
- Wegner, G. (2020). Reassessing the dependence of capitalism on democracy – the case of Imperial Germany and the Weimar Republic. *Journal of Institutional Economics*, 16(3), 337–354.
- Wieser, F. (1889). *Der natürliche Werth*. Vienna: A. Hölder. Translated in 1893 as: *Natural value*. Macmillan.
- Wieser, F. (1910). *Recht und Macht: Sechs Vorträge*. Duncker & Humblot.
- Wieser, F. (1914). *Theorie der gesellschaftlichen Wirtschaft*. Tübingen: J.C.B. Mohr (P. Siebeck). Translated in 1927 as: *Social economics*. Adelphi.
- Yagi, K. (1997). Carl Menger and the historicism in economics. In P. Koslowski (ed.), *Methodology of the social sciences, ethics, and economics in the newer historical school* (pp. 231–258). Springer.

Publisher's note Springer Nature remains neutral with regard to jurisdictional claims in published maps and institutional affiliations.

Authors and Affiliations

Stefan Kolev¹ · Erwin Dekker²

Erwin Dekker
edekker@mercatus.gmu.edu

¹ University of Applied Sciences Zwickau, Zwickau, Germany

² Mercatus Center at George Mason University, Arlington, VA, USA