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**Between Philosophy and Economics.  
A Critical Re-examination of Carl Menger's Scientific Contribution**

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## Introduction

The aim of my dissertation is to offer an innovative revising of the methodological and economic contributions of the Austrian economist Carl Menger (1840-1921), and to shed light on the actual influence his work had in the history of the discipline of economics.

To do this, I will not *a priori* embrace any of the many (and contrasting) interpretations of his position, but will rather reconsider his contributions from his formative years. I will outline which problems Menger considered urgent for political economy, addressing both why they were urgent and the solutions he offered for them. At the same time, I will avoid the temptation to give too much weight to any possible influences on him by other scholars (both predecessors and contemporaries). In addressing epistemological, psychological, juridical and moral fields of research, my intention is to lend an interdisciplinary aspect to the research.

*But why Carl Menger?* Several reasons induced me to reconsider Menger's scientific production<sup>1</sup>. First of all, I was particularly interested in investigating the state of art of the economic discipline in the second half of the 19<sup>th</sup> century. While Adam Smith (1723-1790) inaugurated a new era by publishing one of the first systematic treatments of economic theory, i.e. *Inquiry into the Nature and Causes of the Wealth of Nations* (1776), it was only in the following century that the discipline would become a self-contained academic field. Menger's investigations perfectly portray this crucial transition and, through them, we can better understand the problematic issues that were at stake.

Further reasons for my research are related to the economic discoveries of the period. Carl Menger, William S. Jevons (1835-1882) and Léon Walras (1834-1910) are generally considered the major exponents of the "marginal revolution", which officially took place in the 1870s. For all of them, political economy was no longer the science of

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<sup>1</sup> I use expressions such as «*scientific production*» and «*scientific contribution*» in order to emphasize the special character of Menger's approach to the study of political economy (as it will emerge in this dissertation). At the same time, I prefer to speak of «*intellectual production*» and «*intellectual contribution*» while referring to some of his contemporaries, since they were certainly interested in investigating economic matters, but they used to treat them from a humanistic point of view.

the production and distribution of income and wealth, but rather the study of human economic behaviour. New notions were introduced in this connection, such as the principle of marginal utility, and the theory of value was subjectively interpreted. The marginalist economists conceived the value of any given commodity as the outcome the intertwined subjective dispositions within an inter-subjective process. Speaking of a “revolution” in this context is a mistake, since elements from marginal theories were already present in the earlier economic analyses of scholars such as Richard Whately (1787-1863), Francesco Ferrara (1810-1900), Hermann-Heinrich Gossen (1810-1858), who belonged to different countries and traditions. In any case, Menger, Jevons and Walras undoubtedly gave a decisive contribution to the subjectivist turn in political economy.

When I began my research project, I quickly noted strange discrepancies between interpretations of Menger’s work. Whereas Menger is still commonly considered an innovator for the economic field in economic handbooks (as well as Jevons and Walras), most critics (in particular philosophers) have attempted to show that, in opposition to his two colleagues, he was actually a very conservative thinker. The most popular arguments employed to sustain this thesis are the following: i) Menger was explicitly opposed to the introduction of mathematical tools for economic analysis; ii) he was highly influenced by Aristotelian philosophy, in particular regarding his conception of utility and his (alleged) essentialist point of view. Based on these initial considerations, an urgent question arose: how can there be two so contrasting interpretations of the same scholar? Which is correct?

In order to answer these complex questions, I will articulate my dissertation in five Chapters, each of them addressed to a specific issue. In the first three Chapters I will discuss relevant methodological and epistemological topics. The last two Chapters will instead have a historical nature. Each Chapter is conceived of as autonomous from the others.

In order to clarify Menger’s position, and provide a rational reconstruction of his thought, in Chapter 1 series of pivotal concepts, such as methodological individualism, subjectivism, atomism etc. will be outlined. Critics have often used these concepts indistinctively in their analyses, thus creating a particularly misleading reading of his

work. I will then elaborate a conceptual framework to be employed as an analytic tool not only for the current research project, but also for future critical analyses and comparisons of other economists' positions.

In Chapter 2, I will provide a rational reconstruction of Menger's position. By employing the conceptual framework elaborated in Chapter 1, I will attempt to clarify how he developed his economic research methodology, and how he concretely applied this methodology to the study of economic value and money. This survey will also allow us to understand which kind of "methodological individualism" he effectively adopted. Moreover, by analysing his writing, I will try to reconstruct his formulation of the "demarcation problem" and identify which theory of explanation he embraced. I will provide an interpretation of Menger's ontological approach towards economic entities, critically discussing the most popular realist reading.

Chapter 3 will be dedicated to the critical evaluation of certain widespread psychological readings of Menger. In order to verify their legitimacy (or not), I will start by providing a historical review of Menger's relationship to two early German-speaking psychologists, i.e. Franz Brentano (1838-1917) and Wilhelm Wundt (1832-1920). First, I will consider critics' popular parallelism between Brentano's concept of *intentionality* and Menger's subjectivist perspective. I will then compare the alleged similarity between the notions of *value* which they employed. In addition, I will address Menger and Wundt's methodological debate, also referring to unpublished materials consulted at the University of Vienna. Finally, I will hone in on Menger's approach to comprehend whether (and to what extent) he actually introduced psychological explanations in his economic theories. To accomplish this, I will also take cognitivist and behaviourist psychological models into account, establishing if Menger's perspective fits either one of them.

At the beginning of my research project, I also observed that most critics' attention to Menger's scientific contribution particularly addressed to the "debate on method" (*Methodenstreit*). This "debate", at the end of the 19<sup>th</sup> century, placed the Austrian economist against certain renown German scholars, such as Gustav von Schmoller (1838-1917). Because of that, the German and Austrian Schools of Political Economy are still generally considered as opposed to one another. However, in a closer

look, the debate on method constituted a limited aspect of a more articulated relationship between the German and Austrian environments. For this reason, Chapters 4 and 5 will be dedicated to reconstructing some neglected, but fundamental, intellectual exchanges that occurred between the Austrian economist and German scholars. I will intentionally avoid the vast quantity of literature on the *Methodenstreit*. I will instead suggest alternative readings based on the direct examination of original documents, which I had the opportunity to consult at the University of Vienna.

In Chapter 4, I will demonstrate the close ties between Menger and the most renowned member of the German School of Law, i.e. Friedrich Carl von Savigny (1779-1861). This scholar's positions decisively influenced Menger's education, as well as his later methodological reflections, in particular in reference to the spontaneous nature of social institutions. An analysis of Menger and Savigny's (underestimated) relationship will allow me to outline not only the relevance of the juridical tradition in the development of the economic studies in the 19<sup>th</sup> century, but also the cultural heterogeneity of the German environment. Finally, I will reveal, despite their similar denominations, the false similarities between the Historical School of Law and the Historical School of Political Economy. This fact will inevitably have some consequences on the interpretation of Menger and the German economist's relationship.

In Chapter 5, I will concentrate on the relationship between Menger and certain eminent 19<sup>th</sup> century German economists, such as Bruno Hildebrand (1812-1878), Karl Knies (1821-1898), Wilhelm Roscher (1817-1894), etc. In this case, my aim will consist in emphasizing not only the contrasting views, but also the often-omitted similarities among them. I will then address the debate on the alleged ethical consequences of Menger's subjectivist and individualistic perspective. In this regard, I will have two additional purposes: i) to demonstrate that this debate was derived by erroneously overlapping methodological and ethical issues; ii) to show that Menger cannot be considered an utilitarian thinker, as most critics do.

These chapters taken together will provide an original interpretation of Menger's contribution from many perspectives, as well as a clear overview of the 19<sup>th</sup> debate on economics in the German-speaking context.



# 1. A Conceptual Framework of Methodological Individualism(s)<sup>2</sup>

## 1.1 Introduction

The label “Methodological Individualism” (henceforth MI) can be originally attributed to the methodological approach of several economists and philosophers belonging to the Austrian School, including Carl Menger, Karl Popper, Ludwig von Mises and Friedrich von Hayek. However, a closer look at their perspectives shows how much their respective interpretations of an individualistic framework actually differ one from the other. A significant hurdle in correctly evaluating different types of individualistic perspectives is the widespread misunderstanding of the MI concept in general, which is still a debated topic. In particular, I am referring to disputes regarding individualism/holism (or collectivism) and reductionism/pluralism, which are important in social sciences.

My aim in this dissertation is to offer an alternative interpretation of Menger’s perspective on MI. It is well known that Menger did not directly use this concept to describe his methodological approach to theoretical economics, instead defining it an «atomistic method» (see Menger 1883/1985, Book I, Ch. 8). Nevertheless, Menger is still commonly considered one of the first scholars to have defended a strictly individualistic perspective. This reading is largely due to Hayek, who considers Menger «among the first in modern times consciously to revive the *methodical individualism* of Adam Smith and his school» (Hayek 1948, p. 13, fn. 3; italics added). According to Hayek, Menger’s approach to individualism is a good example of what Hayek defines «true individualism», namely a «theory of society» that attempts to understand the forces governing human social life. On the contrary, the idea of human beings as isolated atoms who oppose their society is typical of a «false» version of individualism, which Hayek identifies with the rationalist tendencies of French Enlightenment. In Hayek’s view, such latter interpretations of individualism should be rejected.

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<sup>2</sup> I would like to thank Professor Karl Milford (University of Vienna) and Professor Raffaella Campaner (University of Bologna) for the rich discussions and useful suggestions that contributed to the elaboration of Chapters 1, 2 and 3 of my dissertation.

While not dismissing the validity of Hayek's analysis, I do not believe it is complete and still consider the task of defining Menger's exact methodological position very important for both general and specific reasons. The *general reasons* regard the complexity of the methodological questions mentioned above. Conversely, the *specific reasons* are peculiar to Menger's case and regard: i) the fact that his approach was defined as an important proper example of MI only a posteriori; ii) the fact that Menger himself anticipates scientific reflections on the role of method(s) in the social sciences by decades.

In the current Chapter, I am going to focus on the general reasons, attempting to construct a conceptual framework that will allow better comprehension and a more adequate definition of Menger's own perspective (Chapter 2). This Chapter therefore represents a preparatory study that is necessary given the complexity of themes and interpretations at stake. I will address the following topics: i) the differences, if any, between individualism and other concepts that are often considered synonymous such as subjectivism, egoism, self-interest, and atomism (Section 1.2); ii) the meanings that individualism, when correctly conceived, may assume (Section 1.3); iii) the construction of a conceptual framework for MI, through a brief history of the expression and references to some of the most recent contributions (Section 1.4); iv) the relationship between MI and various theories of explanation (Section 1.5); v) the consequences of ontological commitments (Section 1.6); vi) the perspectives that arise from different combinations of MI and ontological individualism (Section 1.7).

As suggested by the structure of the Chapter, I am going to proceed from the general considerations of individualism towards a detailed survey of its methodological usages within the social sciences.

## **1.2 Individualism and its Similar**

“Individualism” is a modern term that can be traced to the extraordinary experience of the European Enlightenment. The way in which we generally think about this concept has been deeply influenced by that historical period. Individualism and other (only apparently) similar notions are often mixed together in philosophical and economic

literature, even though they refer to different ideas. This particularly happens when, in criticizing individualistic approaches, scholars use these concepts as if they were identical, thereby generating serious misunderstandings.

The first distinction to be made is between individualism and *subjectivism*. In economics, subjectivism usually refers to theories that explain price formation mechanisms by interpreting the value of commodities as the result of personal calculations, in a context of scarcity. These are the so-called «marginal theories», which coherently introduce an utility function. Conversely, objectivist theories maintain that the value of commodities is an intrinsic property of the commodities themselves, created by production and labour costs. It is worth emphasizing that a subjectivist theory does not imply an individualistic approach to methodology. Similarly, an objectivist theory does not entail a collectivist (or essentialist) view. For instance, Adam Smith employs an objective theory of value, while embracing a standpoint rooted in individual dispositions, beliefs and interactions.<sup>3</sup> On the contrary, German economists of 19<sup>th</sup> century basically introduce a sketched theory of subjective value, at the same time defending a holistic perspective. In this context, Milford (2010) suggests four possible combinations of economic theories of value and methodological approaches:

	<b>Subjectivist Theories</b>	<b>Objectivist Theories</b>
<b>Individualistic Approach</b>	Carl Menger <sup>4</sup>	Adam Smith
<b>Collectivist (or Essentialist) Approach</b>	German Historical economists	Karl Marx

**Figure 1.1:** Combinations between theories of value and methodological approaches (Milford 2010, p. 163).

<sup>3</sup> It should be emphasized that although Smith’s approach is rooted in individual dispositions, beliefs and interactions, he never explicitly addresses methodological issues. Generally speaking, discussions on method(s) were not perceived as urgent or relevant in the 18<sup>th</sup> century.

<sup>4</sup> Among examples of an individualistic perspective combined with a subjective theory of value, Milford (2010) also includes Gottlieb Hufeland’s approach, a German economist operating at the beginning of the 19<sup>th</sup> century and held to be a Menger’s predecessor. The strict theoretical connection between Menger and a German economist indicates the partial affinity, rather than contrast, between the two cultural contexts.

A second misunderstanding derives from the conception of individualism as simply a negative human behaviour. In particular, individualism used to defend and justify an *egoistic* and *self-interested behaviour*. In this case, an ethical aspect is attributed to the term. I will not deny that “individualism” is often utilized with reference to the moral field. However, I would like to emphasize that individualism does not necessarily involve specific assumptions about human nature and morality. Therefore, scholars should be aware of which level their criticisms and interpretations are addressed to<sup>5</sup>. Further considerations on this topic will be illustrated in Section 1.3.

The third misunderstanding is a bit more complex and regards the difference between individualism and *atomism*. The latter term is usually employed by referring to a negative solipsistic conception of human beings. When they use the term “atomism”, critics polemically utilize rationalistic and enlightened interpretations of the subject and focus on Cartesian and Kantian philosophies. According to critics, no one actually lives in isolation in the social world, and therefore, isolated thinking subjects cannot be the primary elements of social theories.

<i>Individualism interpreted as</i>	Economic subjectivism (theories of value)
	Negative human behaviour (egoism, self-interest)
	Atomism (rational solipsism)

**Figure 1.2:** Misunderstandings of the concept of “individualism”.

### **1.3 Meanings of Individualism**

Having clarified which notions are sometimes erroneously or superficially used as synonyms of individualism, in this Section I propose to distinguish the three primary meanings that the (properly understood) term could assume, while keeping their respective fields of application well separated. Individualism can be read as:

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<sup>5</sup> Detailed argumentations on misunderstanding of this kind are discussed in Chapter 5, where I examine to what extent the confusion about distinct levels of investigation and interpretation is at the basis of the dispute between German economists and Menger.

- i) a methodological concept;
- ii) an ontological concept;
- iii) a normative concept.

Each concept is independent from each other. Scholars may contemporarily embrace the three meanings, referring to different investigation fields. As an alternative, they could opt for two of them (with all combinations equally possible). Finally, they could employ individualism in only one of its meanings. Individualism as methodological and ontological concepts will be discussed in further detail later on. Here, I wish to focus on individualism as a normative concept, seeing as the methodological and moral levels have often been confused in the history of criticism of MI.

While addressing individualism as a normative concept, I intend to consider both political and moral perspectives, which take individuals as units of measure of their theories. In political philosophy, a good example of the individualistic approach can be found in the contract theories developed by Thomas Hobbes (1588-1679) and John Locke (1632-1704) respectively. Leaving aside the peculiarities of their specific positions, both Hobbes and Locke believe that the *individuals* accept to adhere to the social contract. On the contrary, for instance, Jean-Jacques Rousseau (1712-1778) maintains that the *people* is the real subject of the social contract.

From a moral viewpoint, individualism is usually interpreted as an anthropologically negative behaviour. In particular, it is maintained that individualism encourages egoistic and self-interested behaviours, which are considered dangerous for communities and society. Individualistic ethics are therefore accused of generating conflict between the individual and everyone else. In this context, a typical example is the utilitarian philosophy of Jeremy Bentham, which is undoubtedly a reference point for English economists of 19<sup>th</sup> century (even if only accidentally). Nevertheless, many versions of an individualistic positions can be found in moral philosophy. Not only utilitarianism and hedonism, but also epicureanism and existentialism may be included to this list. This means that moral individualists do not necessarily defend self-centred behaviours of human beings. Instead, it simply means that attention is focused on single individuals, and the way they may be inspired to reach their own personal realization.

Having provided clarifications about some confusion regarding individualism and morality, I will now to concentrate on MI.

#### **1.4 Definitions of Methodological Individualism**

Even though an individualistic approach to socio-economic sciences already existed, the term “methodological individualism” was officially coined by the Austrian economist Joseph Schumpeter in a 1909 article<sup>6</sup>, where he critically discusses the concept of social value in economic theories. Within this text, Schumpeter explicitly conceives of MI as a «scientific procedure», to be rigorously separated from any political meaning of individualism. Among Schumpeter’s achievements we find not only a precise delimitation of the field of application, but also an attempt to provide an articulated definition of the concept in reference to economic theory:

At the outset it is useful to emphasize the *individualistic character* of the methods of *pure theory*. Almost every modern writer starts with wants and their satisfaction, and takes utility more or less exclusively as the basis of his analysis. [...] This *modus procedendi* [...], as far as it is used, unavoidably implies considering *individuals as independent units or agencies*. (Schumpeter 1909, p. 214; italics added)

According to this passage, individualism characterizes a way of conducting *theoretical analyses* in the economic discipline. Considering individuals «independent units» becomes a necessary hypothesis with which to investigate fundamental economic relationships. This perspective does not address political, moral or ontological matters. Schumpeter confirms this by keeping *individual actions* separate from the *motivations* that lead to actions themselves:

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<sup>6</sup> In Schumpeter’s 1909 article the expression “methodological individualism” appears for the first time in English literature. However, Schumpeter had already introduced the notion in his German work *Das Wesen und der Hauptinhalt der theoretischen Nationalökonomie* the year before.

For theory it is irrelevant *why* people demand certain goods: the only important point is that all things are demanded, produced, and paid for because individuals want them. (Schumpeter 1908, p. 216)

There is more than one reason why this represents a crucial passage in Schumpeter's position. Every reference to social and psychological elements is indeed left aside. Pure theory just considers concrete facts and, according to Schumpeter, individual actions are the only observable phenomena through which socio-economic explanations can be provided. He maintains that neither external (sociological) nor internal (psychological) influences are decisive in the elaboration of individuals' choices. Quite the opposite, he rules these elements out as playing any explanatory role. Another aspect emerges from this perspective: it is not assumed that individuals act rationally or are exclusively driven by their own interest. Motivations leading to actions may be egoistic as well as altruistic, socially determined as well as individually determined. This is another demonstration that, in its original formulation, MI assumes neither a purely rationalistic perspective nor human egoistical behaviour as a standard for economic action.

While the individualistic approach was originally developed by Austrian philosophers and economists (before and after its "official birth"), their viewpoints often differ. There have been many positions surrounding MI even from outside of the Austrian tradition, that rarely coincide with one another. It could therefore appear particularly arduous to provide an unitary definition of MI, that gathers together all its different versions. In order to orient ourselves, I will first provide a general analysis of MI, by presenting certain recent contributions to the debate and then constructing a framework through which we can evaluate the perspectives at stake.

The first step consists in developing a sufficiently broad definition of MI. In this regard, we can look at Lars Udéhn's "wide" description, according to which «social phenomena must be explained in terms of *individuals*, their *physical* and *psychic states*, *actions*, *interactions*, *social situation* and *physical environment*» (Udéhn 2001, p. 354; italics added). As emphasized in the quotation, this definition of MI evidently involves a very large range of possible perspectives, some of them far one another. Depending on which elements we accept in our definition, we commit to a specific version of MI. We can then place the definition into one of two sub-categories, which I propose to label

respectively *Strong Methodological Individualism* (SMI) and *Weak Methodological Individualism* (WMI)<sup>7</sup>.

In SMI, socio-economic phenomena are *explained in terms of individuals alone*, since only individuals' physical and psychic states and actions can be investigated. We can note that SMI coincides with the first part of the broad definition previously introduced. It is worth noting that MI critics usually take this version as the standard one to be attacked.

As Hodgson (2007) rightly emphasizes, the adoption of the strong perspective implies an infinite regress problem. It becomes impossible to explain each emergent layer of a social institution without relying on previous institutions or, at least, on a set of "informally" accepted social codes or rules. It is therefore to be acknowledged that each «consideration of individuals without an institutional context is a non-starter», where the expression "institutional context" has to be broadly conceived (see Hodgson 2007, p. 219).

What emerges from the rich literature on the issue is the fact that only in a limited number of cases scholars that defend an individualistic position are ready to embrace such a binding commitment. It is extremely hard to explain how individuals act without taking any kind of social context, relationships or pre-existent social institution (more or less developed) into account. A handful of strong individualists can however be identified. Returning to "classical" philosophers, I believe John Stuart Mill's perspective should be read as a typical example of SMI, even though at the time the so-called individualism-holism debate was still far from being initiated. Mill defends the idea that social facts should be explained by reducing them to psychological phenomena. In the *System of Logic* he describes his standpoint as follows:

The laws of the phenomena of society are, and can be, nothing but the *laws of the actions and passions of human beings* united together in the social state. Men, however, in a state of society are still men; *their actions and passions are obedient to the laws of individual human nature*. [...] Human beings in society have no properties but those

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<sup>7</sup> The two labels are introduced by Udéhn (2001). Nevertheless, I am going to develop the following analysis independently. It is worth noting that other authors, like Hodgson (2007), also suggest reading MI as having different "degrees".



which are derived from, and may be resolved into, the laws of the nature of individual man. (Mill 1843-1872/1974, p. 879; italics added)

More recently, J.W.N Watkins developed a similar position, describing individuals as the «ultimate constituents of the social world». Particularly in writing from 1952 he claims that:

A social scientist can continue searching for explanations of social phenomena *until he has reduced it to psychological terms*. [...] *An understanding of complex social situation is always derived from a knowledge of the dispositions, beliefs, and relationships of individuals*. Its overt characteristics may be established empirically, but they are only explained by being shown to be the resultants of individual activities. (Watkins 1952, pp. 28-29; italics added)

In spite of the strong position defended in that article, it should be acknowledged that Watkins himself changes his mind in the following years. It can be claimed that his position becomes more flexible or, perhaps, more ambiguous. Proof of the change is provided by considerations like the following, where he adds “exogenous” elements as necessary to the explanations of social facts:

Every complex social situation, institution, or event is the result of a particular configuration of individuals, their dispositions, situations, beliefs, and *physical resources and environment*. (Watkins 1957, p. 106; italics added)

The ambiguity to which I alluded before emerges within the same paper, where he seems to defend his old position:

[...] Methodological individualism certainly does not prohibit attempts to explain the formation of psychological characteristics; it only requires that such explanations should in turn be individualistic, explaining the formation as the result of a series of conscious or

unconscious responses by an individual to his changing situation.  
(Watkins 1957, p. 110)

This suggests that Watkins' perspective could still be read as an example of SMI. However, it remains a problematic example.

I have provided two examples of SMI, yet identifying a genuine strong approach is not a simple task. At this point, further clarification is required. The versions of SMI presented above all refer to *psychological reductionism*. However, the starting definition refers to «physical and psychic states», which are somewhat different. A question therefore arises: is it possible to imagine a strong individualist position without a psychological one? Or do SMI and psychological individualism inevitably coincide? The matter perhaps remains open, but on the basis of the strong individualists' perspectives examined so far, I personally retain that a defence of SMI necessarily implies a defence of psychological reductionism (to a certain degree at least). Someone might go further, by reducing social explanations to psychic states that are in turn determined by physical factors, as recent research in neurosciences implies. But this could lead to further trouble, involving the issue of "free will". I do not believe it is a feasible way to tackle problems with SMI.

Addressing WMI is more complex, since a larger number of (only apparently) similar positions falls under its label. For this reason we could simply investigate the components in "the second half" of Udéhn's general proposition. According to his theory, social phenomena need to be explained in terms of individuals and their *interactions*, their *social relations* and *mutual influences with social institutions*. These features are not all necessary for each definition we address. Therefore, *degrees of WMI* should be introduced. In the following I propose a three-fold sub-partition, from the simplest to the most articulated version. I also provide an example for each case.

- *WMI of the 1<sup>st</sup> degree*: Social phenomena are explained in terms of individuals and their *interactions*, which are not, strictly speaking, social relations; individuals informally interact with other individuals; no social rules or codes are assumed to play any role:

By methodological individualism I mean the doctrine that all social phenomena (their structure and their change) are in principle explicable only in terms of individuals - their properties, goals, and beliefs. [...] *Many properties of individuals [...] are irreducibly relational, so that accurate description of one individual may require reference to other individual.* (Elster 1982, p. 453; italics added)

- *WMI of the 2<sup>nd</sup> degree*: Social phenomena are explained in terms of individuals and their interactions, which also involve *social relations*; nevertheless, it is maintained that institutions are exclusively a later result:

More generally, individual behaviour is *always mediated by social relations*. These are as much a part of the description of reality as is individual behaviour. (Arrow 1994, p. 5; italics added)

[...] *social variables*, not attached to particular individuals, *are essential in studying the economy* or any other social system and that, in particular, knowledge and technical information have an irremovably social component, of increasing importance over time. (Arrow 1994, p. 8; italics added)

- *WMI of the 3<sup>rd</sup> degree*: Social phenomena are explained in terms of individuals, but the influence that *in turn* even social (primitive or not) *institutions* play on individual actions and behaviours is acknowledged. Individuals cannot be thought of apart from interactions with their complex social environment. Nevertheless, individuals remain the primary unit of measure of social facts' explanations:

[...] *institutions* constitute a part of the individual's circumstances which together with his aims determine his behaviour. (Agassi 1960, p. 247; italics added).

[... ] followers of institutionalism declare that certain social entities exist, and are of primary importance to the social sciences.<sup>8</sup> (Agassi 1975, p. 148)

I have broken down the conception of MI in this manner so far, trying to grasp all its possible versions. This is a necessary step for comprehending the methodological positions at stake in a detailed and precise manner. In the following I propose developing a connection between the individualistic approach to methodology and theories of explanation.

### ***1.5 Methodological Individualism and Theories of Explanation***

MI is committed to *explanations* of social phenomena. It is however quite surprising that the relationship between MI and theories of explanation has rarely been addressed in social sciences. Not even in Udéhn's (2001) rich analysis of MI was this matter adequately developed. The only reflections on this subject in his work address the inconsistency of Hempel's models of explanations in the social sciences. Given the large number of theories of explanation available in the social sciences, the issue therefore consists in understanding which of these theories might be compatible with MI.

Daniel Steel provides an interesting and original analysis in his 2005 paper. Therefore, I will use his work as the main reference for this section. In particular, I will consider theories of explanation in their most broad versions. I will question whether or not each theory actually provides a good defence of the individualistic approach. I will begin with theories that involve the notion of «cause».

1. *Causal mechanical theory*<sup>9</sup>: Even when applied to the social sciences, this theory maintains that explaining a fact «consists in tracing the causal mechanisms that led up to it». (Salmon 1984, pp. 274-275). Therefore the notion of *process* becomes very

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<sup>8</sup> Agassi uses the label "Institutional Individualism" to refer to this version of MI.

<sup>9</sup> Here we are referencing Wesley Salmon (1984). This approach was later developed by several other scholars such as: Phil Dowe, Stuart Glennan, Peter Machamer, Lindley Darden and Carl Craver.

important. By comparing different perspectives, one can observe that a mechanism may be conceived of as either a theoretical construction or the expression of the causal forces in the real world that determine a complex (social) structure. In both cases, the basic idea is that explanations of macro-level phenomena are possible through the identification of mechanisms at lower-levels. Steel (2005) recognizes that CM approaches may be compatible with MI. At the same time he stresses the fact that these approaches do not specify the exact level in which mechanisms should be identified and described. Despite this, I believe that CM theories could be considered good candidates for describing explanations of social phenomena even by scholars that embrace an individualistic position. Of course, individualists should be required to justify the choice of the micro-level at which mechanisms are supposed to operate. Recognizing the possibility for mechanisms to operate at different levels (both higher and deeper levels, as discoveries in neuroscience seem to suggest) is not a strong enough reason to claim that CM approaches would not work well with MI.

2. *Counterfactual theory*: According to David Lewis, who is this theory's primary advocate, explaining a phenomenon consists in providing «some information about its causal history». (Lewis 1986, p. 217) More in detail, given two events *A* and *B*, it is said that *B* depends counterfactually on *A* if and only if had *A* not occurred, *B* would not occurred either. Steel (2005) argues that the counterfactual approach does not support MI, since causal chains can be identified even among macro-level events. Similarly to the previous example, I do not agree that this is a strong argument against the usefulness of counterfactual theory for MI. If a pluralistic approach to explanation is maintained, Steel's argument automatically fails; moreover, causal chains could be also grasped between micro- and macro-level phenomena.
3. *Manipulationist-counterfactual theory*<sup>10</sup>: In his 2005 article, Steel particularly focuses on this theory, according to which causal generalizations are distinguished from mere correlations, since the first are invariant under (some) interventions. Mechanisms are therefore recognized to play a crucial role in the explanation of social phenomena. If it were demonstrated that micro-levels mechanisms are more

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<sup>10</sup> The main advocate of this theory is James Woodward. See in particular Woodward (2003).

robustly invariant than macro-levels mechanisms, the manipulationist-counterfactual theory would be a valid defence for MI. But, as Steel himself acknowledges, it is difficult to identify this kind of robustness in social mechanisms. Steel considers examples from economic studies, focusing on preference reversal phenomena, which appears as a departure from the standard preference theory. In these examples individuals choose bets involving high probabilities of small gains (P-bets) rather than bets offering a smaller chance of richer prizes (\$-bets), even if a high monetary value is attached to \$-bets. Preference reversals seem to break the “choice mechanism” of individuals.

In the following I consider two perspectives that do not use the notion of cause in their explanations.

4. *Unificationist theory*<sup>11</sup>: According to this theory, “explaining something” means «providing a unified account of a range of different phenomena» (cf. Woodward 2014). Typical examples of these types of explanatory models in the natural sciences are Newtonian physics and the evolutionary theory of Darwin. In more detail, cause is not taken as a founding concept, instead it is conceived as subsequently emerging from the unification process. Therefore, cause itself plays no explanatory role. Clearly, this is presented as a *top-down* explanatory strategy. For social sciences, an unificationist approach does not appear compatible with an individualistic perspective, while it could instead support a holistic view.

5. *Pragmatic approach*<sup>12</sup>: In this theory, the *context* in which explanations for a precise phenomenon are required is stressed. Psychological considerations of the people providing and receiving explanations are assumed to be relevant as well. Steel (2005) hastily claims the pragmatic approach does not provide any defence for MI.

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<sup>11</sup> For an example of an unificationist approach, see Kitcher (1989).

<sup>12</sup> In particular, see van Fraassen (1980).

Lastly, *functionalist theories* require a brief discussion, since some of its versions involve a notion of cause, whereas others do not<sup>13</sup>. Regardless, they do not represent good candidates for individualists in either case. Indeed, all functionalist theories share the idea that explanations of single phenomena reflect the specific function they carry out within a complex and organized system. It is therefore evident that functionalist perspectives are inevitably connected to holistic paradigms and, as a consequence, to the acknowledgment of necessary relationships between the whole system and its constituent parts.

We have shown that methodological individualists can embrace a number of different theories of explanation, without falling into contradiction. This holds even when they opt for a *pluralist approach*, hence, adopting one theory or another on the basis of the phenomena at stake. In any case, individualist should be required to justify how their perspective harmonizes with the chosen theory. Unfortunately, this task is rarely taken seriously.

I conclude this section with a criticism of Steel's analysis. Despite his undeniable skill in having emphasized the strict relationship between MI and explanation, he does not provide adequate space to the discussion of the single theories and usefulness in being employed within an individualistic or holistic methodology. With the exception of the manipulative-counterfactual theory, he treats each alternative too hurriedly, without attempting a sufficient analysis. Moreover, he seems to only reference MI in its strongest version, without explicitly stating it. In fact, his strong reading of MI justifies the rejection of some theories of explanation as functional for an individualistic approach. On this matters, there is still evidently much to be discussed.

## **1.6 Methodological Individualism and Ontological Commitments**

Whereas MI addresses explanations, ontological individualism is committed to addressing the *existence* of individuals in the social world. In more detail, «ontological individualism is the thesis that there is nothing to social facts “over and above” facts about individuals and certain relations between individuals» (Epstein 2014, p. 18). It is

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<sup>13</sup> It is especially Kincaid (1996) who defends the idea that the concept of function cannot avoid that of cause.

worth pointing out that in Epstein's perspective, MI embraces both explanatory individualism and ontological individualism. Conversely, I argue that MI converges with explanatory individualism, whereas ontological individualism is an independent position.

The commitment to only the existence of individuals in the social world leads to a number of problematic implications. The first concerns defining precisely what can reasonably be conceived of as an "individual". Even utilizing recent discoveries in neuroscience and other disciplines, the task is all but trivial. This might represent a challenge for ontological individualists. Secondly, according to Kincaid (1993), it must be recognized that ontological individualism inevitably implies two further claims:

- i) Social institutions or entities *do not exist separately* from individuals.
- ii) Social institutions or entities *do not exist independently* of individuals.

Despite their similarity, the two above propositions refer to distinct aspects of ontological individualism. In the first truism, it is maintained that no entities but individuals exist in the social world. To this regard, Kincaid affirms that «individuals *exhaust* what there is in the social realm» (p. 229; italics added). Differently, the second claim pinpoints the specific kind of relationship between individuals and social institutions/entities. Social facts *supervene on* (are determined by) individual facts. This means that «once the facts about individuals are set, then so, too are the facts about social entities» (Kincaid 1993, p. 229).

Ontological individualism hence provokes two sets of issues. First of all, which properties count as *individualistic properties* and which ones count as *social properties*<sup>14</sup> must be established, following Kincaid's first claim. Secondly, how the *dependence relationship* between the individualistic and social level is actually characterized and determined must be clarified, related to Kincaid's second claim.

With reference to the first item, three kinds of individualistic properties are usually identified:

- i) Psychological properties.

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<sup>14</sup> For outlining major aspects of ontological individualism, I mainly refer to Epstein (2009). Nevertheless, I am not fully addressing his criticism of it.



- ii) Physical properties.
- iii) Relational properties among individuals.

Ontological individualists could be committed to just one of those sets of properties or to all of them at the same time. Moreover, they maintain these properties to be exhaustive, i.e. social properties are *completely* determined by these three individualistic ones. Nevertheless, problems arise for each set of properties.

In the case of *psychological properties*, the main challenge consists in “externalism”, a thesis widely accepted by philosophers of the mind. According to the externalism construct, individual concepts depend on factors external to individuals.<sup>15</sup> As a consequence, a circularity takes place and psychological attitudes cannot be conceived as strictly individualistic properties anymore, as their independence is essentially denied.

*Physical properties* concern both bodies and their local environment. Contrary to some interpretations, according to which social facts never depend on physical properties<sup>16</sup>, in this case they are recognized as playing a role in social explanations. However, physical properties might also represent a problem for ontological individualists. Let’s consider, for instance, the property “being a hurricane victim”, which could be useful for getting some sort of governmental assistance. It is surely an objective condition with respect to an individual, nevertheless: i) “hurricane” cannot be exclusively explained within the circumscribed environment where an individual lives; ii) the condition of “being a hurricane victim” is also a social one, since it is socially established in relation to other social events and, in this example, a specific goal. Therefore, although physical properties can be involved in the explanation of social phenomena, it is actually difficult to consider them strictly individualistic properties.

Ontological individualists regard even *relational properties* among people to be individualistic properties. But yet again, relational properties might not be individualistic. There are at least two examples: first, there are relational properties which are not ascribable to any person; secondly, a relational property could involve a

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<sup>15</sup> Goldstein (1956) emphasized the dependence of psychological concepts on sociocultural factors. However, two clarifications are useful: i) he does not distinguish between methodological and ontological individualism; ii) he also conceives methodological individualism and psychologism as similar.

<sup>16</sup> See Watkins (1955).

socially determined property. In this regard, let's reference the example of "being the secretary of the Prime Minister", where "being Prime Minister" surely counts as an individualistic property, but is dependent on social factors.

The previous discussion leads to the following conclusion. Ontological individualism recognizes individual properties as decisive for explaining social facts, yet conceives them as *exhaustive*. No single one of the properties' categories examined above allows for the affirmation of individualistic properties as actually independent from social factors. Therefore, the first implication of ontological individualism, as illustrated by Kincaid, fails: it is undoubtedly too strong.

Ontological individualism's premise also requires an explanation regarding the relationship between the micro- and macro-level, given that this theory claims that the social world is dependent on individual entities. In order to provide a solution to this problem, the *thesis of supervenience* is usually introduced. According to this thesis, properties of individuals at the micro/physical-level determine properties at the higher-level (social properties). However, this thesis also carries several problems. For instance, "Obama being the U.S. President" is a social property not (only) dependant on Obama's individualistic/physical properties. Moreover, it should be demonstrated that social properties vary at the same time as other individualistic/physical properties. Ontological commitments involve several problems. These problems concern exclusively the ontological level, not the methodological one. Of course, there can be cases in which the two perspectives are contemporary embraced. I shall focus on this possibility in the next Section.

<i>Individualistic properties</i>		
	<b>Features</b>	<b>Failures</b>
<b>Psychological properties</b>	Internal psychological states are fully independent from external world.	i) Externalism
<b>Physical properties</b>	Bodies (Local) Environment	i) Circularity. ii) Difficulties in

		circumscribing the context.
<b>Relational properties</b>	Relational properties among individuals are individualistic.	<ul style="list-style-type: none"> <li>i) There could be relational properties not ascribable to anyone.</li> <li>ii) An individualistic relational property could in turn involve socially determined properties.</li> </ul>

**Figure 1.3:** Ontological individualism: analysis of the individualistic properties.

### 1.7 Concluding Remarks

The goal of this Chapter was to investigate the puzzling notion of MI from both an general and a specific point of view, since it still lacks a shared agreement on its meaning. The *general analysis* allowed us to point out the precise position of MI in respect to other philosophical concepts which involve the use of the term “individualism”, hence generating a certain confusion. Differently, the *specific survey* aimed at an analytical decomposition of the notion of MI itself, through the comparison with a number of alternative perspectives. This dual strategy made it possible to build a general framework, which is a useful tool for deeper and more precise investigation.

One significant aspect that I firmly defend is the mutual independence of methodological individualism and ontological individualism. Whereas MI deals with explanations, ontological individualism only addresses the existence of a precise kind of entities (individuals) in the social world. As emerged previously, the two theses encounter specific sets of problems.

The table below (Fig. 1.4) illustrates combinations between methodological approaches and ontological commitments. In this chart, I suggest examples of scholars that represent each intersection of theory:

	<b>Ontological Individualism</b>	<b>Ontological Collectivism</b>	<b>No Ontological Commitment</b>
<b>Methodological Individualism</b>	Mill (1843-1872) Watkins (1952)	---	Schumpeter (1909) Hayek (1948)
<b>Methodological Collectivism</b>	Weber & Van Bouwel (2002)	Hegel German economists of 19 <sup>th</sup> century	Goldstein (1956) Kincaid (1993)

**Figure 1.4:** Combinations between methodological approaches and ontological commitments.

I believe that some conclusions can be reached:

- i) MI and ontological individualism are certainly autonomous theses, but it is possible to combine them. When they are contemporarily embraced, the strong version of MI follows. It could be affirmed that SMI usually corresponds to psychological reductionism, but also that SMI necessarily implies an ontological commitment. SMI, ontological individualism and psychological reductionism cannot be conceptualized separately. Most criticisms of MI have been addressed to SMI, which however only represents one of the alternatives and, as emerged, is not the most popular version.
- ii) When MI is employed without any ontological commitment, the weak version of MI follows. WMI with no ontological commitments gathers the largest number of perspectives under its umbrella. The further partition is shown in Fig. 1.5 below, referring to the previous analysis of WMI.
- iii) That the combination of MI and ontological collectivism is implausible becomes evident.

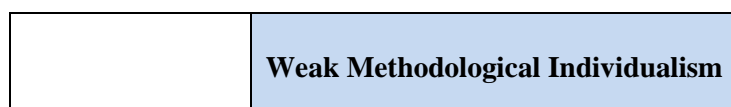
iv) MI does not entail ontological individualism. Likewise, ontological individualism does not entail MI. A proof is provided by Weber's and Van Bouwel's (2002), who argue in favour of a pluralist approach in the social sciences, even though they still privilege «structural explanations» (i.e. explanations at the macro-level). At the same time, they accept ontological individualism, by referring to *causal fundamentalism*:

[...] ontological individualism is right after all: not because there are no structural regularities, and not because intentional regularities override social-structural regularities. It is simply that, as causal fundamentalism tells us, physical powers fix the pattern of powers and regularities that rule at all levels, which means that there must be a harmony among levels. (Weber and Van Bouwel 2002, p. 272)

v) The remaining intersections between methodological collectivism and ontological commitments suggest interesting considerations as well. Methodological collectivists do not usually commit to the effective existence of social/collective entities nor completely reject the role that individualistic aspects could play in explanations. In this regard, Goldstein claims that:

Methodological collectivism does not deny that there is much to be usefully learned from the study of the individualistic aspects of human action, but it does insist that merely because all human cultures are first discovered through the activities of their individual members it does not follow that there are no possible problems for which the particular individuals are irrelevant (Goldstein 1965, p. 802).

It could be therefore questioned how far methodological individualism and methodological collectivism actually are from one another when considered in their respective weakest versions.



<b>1<sup>st</sup> degree</b>	Elster (1982)
<b>2<sup>nd</sup> degree</b>	Arrow (1994)
<b>3<sup>rd</sup> degree</b>	Agassi (1960, 1975)

**Figure 1.5:** Degrees of WMI.

According to the previous considerations, I think that the outlined conceptual framework leads to the following questions, when analysing scholars' methodological approaches:

- Which kind of individualism/s (methodological, normative, ontological) does the scholar employ?
- Which version of MI do they utilize within their perspective?
- Do MI and ontological individualism coexist in their view? If so, how?
- Which theory of explanation do they assume and how do they combine it with the individualistic approach?

This conceptual framework may be usefully employed for investigating the perspectives of a wide range of scholars. In Menger's case, I suggest a *rational reconstruction* of his position, since debates on methodological issues in the social sciences were developed only in a later period. I believe Menger to be a forerunner of methodological debates in social sciences, who grasped the necessity of tackling the methodological problems of and in socio-economical disciplines well ahead of his time. Of course, this implies that his standpoints are not always explicitly expressed, and interpretation is therefore required. yet such an interpretation must follow a rigorous path and the constructed conceptual framework is a useful tool for this aim. Through it, I also intend to show how narrow the readings that see a mere opposition to the German mainstream in Menger's writing are. The so-called *Methodenstreit* has captured a lot of attention across time, but there are reasons to claim that it represents a marginal aspect of a wider debate.

## 2. A Critical Analysis of Menger's Contributions to Methodological and Economic Research

### 2.1 Introduction

This Chapter aims at rationally reconstructing Menger's scientific approach to economics and, above all, to methodological research. It must first to be emphasized that, whereas Menger's contributions to the field of economics were not entirely innovative for the 19<sup>th</sup> century (several scholars had already developed a subjectivist approach to the theory of value<sup>17</sup>), his interest in methodology represents an original aspect of his scientific production.

Menger believed that if economics aspired to be properly treated as a scientific discipline, its subject matter, goals and methodology needed to be explicitly and precisely defined. He recognized that two very common mistakes impeded significant developments in economics. On one hand, there was a widespread tendency to mix strictly economic issues with non-economic ones. On the other, the importance of both theoretical research and the introduction of a coherent methodology was generally underestimated. I argue that Menger's primary contribution to the field consists in having joined three distinct elements:

- 1) The subjective theory of value, in opposition to classical economic theory.
- 2) A *systematic* employment of the principle of marginal utility, which German economists had previously only roughly sketched.
- 3) A methodological tool specifically designed for the economic discipline.

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<sup>17</sup> Not only Menger's contemporaries Jevons and Walras, but also other German economists developed (usually trivial) versions of the subjective theory of value. Among the Germans, the most significant results are attributed to Hermann Heinrich Gossen (1810-1858), who introduced an analysis of the principle of marginal utility in his volume *Entwicklung der Gesetze des menschlichen Verkehrs und der daraus fließenden Regeln für menschliches Handeln* (1854). Gossen's study anticipated marginal economists' theories by two decades. However, for a long time his work remained unknown, mainly due to the fact that he was foreigner in the German academic environment. Menger himself was unaware of Gossen's research at the time he wrote the *Grundsätze*.

In outlining Menger's perspective, therefore, several issues must be discussed. The first set of questions that arises concerns his individualistic approach. Building on previously constructed *framework*, we would like to pinpoint which version of MI the Austrian economist embraces and how its employment contributes to his explanation of economic phenomena. This investigation inevitably leads to another question: Is there a recognizable correspondence between Menger's methodological reflections and the way he actually investigated specific economic facts? Or, in other terms: Does he actually do what he claims to do? Menger's methodological interests do seem to follow in his economic research. This can be found not only by superficially considering the chronological order of his most significant publications, but, as the Archive documents testify, also by observing that no methodological concern seriously influences the very early phases of his economic investigations. For such a reason, a discrepancy cannot be excluded at this stage of my thesis (Section 2.2).

Secondly, we must question what the Austrian economist actually meant by *theoretical research* and how this contributed to the enhancement of the economic discipline. In this regard, Menger distinguishes between *exact laws* and *empirical laws*. The actual difference between these concepts, as well as their respective roles within his methodological system is extremely relevant to our discussion. An investigation of this topic also leads to further understanding of Menger's approach towards the external world and reality. Does he believe that exact and/or empirical laws refer to real social laws or are they only instrumental constructions guiding us in the social realm? It is worth remembering that the Austrian economist was a pioneer in addressing these themes, holding no strong and plausible benchmark, but aiming at rigorous procedures. Menger does not place his own approach within a specific tradition, since methods in the social sciences had yet to be seriously tackled at that time. These aspects undoubtedly make the interpretation of Menger's orientation particularly arduous (Section 2.3).

Based on the answers to the questions posed earlier, in Section 2.4 I will attempt to advance a hypothesis regarding Menger's theory (or theories) of explanation. To this aim, I will also consider his two most significant contributions to the field of economic, i.e. the theory of value and the theory of money. Yet again, we intend to investigate



whether, and how, Menger's methodological and theoretical positions coincide with the way in which he effectively provides explanations for economic phenomena.

Once again utilizing the *framework* developed in Chapter 1, I will finally tackle the issue of his ontological commitments. I will investigate several aspects that suggest that Menger cannot be conceived as an essentialist or a realist. Moreover, I will compare his perspective with the positions of other Austrian economists so that we will be able to fully grasp Menger's peculiarity. I will also refer to a series of articles by Uskali Mäki that attempt to demonstrate the inadequacy of the realist reading of Menger's perspective (Section 2.5).

In the concluding remarks of this Chapter, I will finally be able to provide a unitary picture of Menger's perspective, offering an original, complete and coherent reading of his contribution to the field.

## ***2.2 Methodological Individualism in Menger's Perspective***

The first step to appropriately identifying Menger's individualistic perspective consists in considering how the Austrian economist described his own approach. Beyond the well-known *Untersuchungen* (1883), there are also two methodological pieces where pivotal reflections on the matter emerge, namely *Die Irrthümer des Historicismus in der Deutschen Nationalökonomie* (1884) and *Grundzüge einer Klassifikation der Wirtschaftswissenschaften* (1889)<sup>18</sup>.

In the *Untersuchungen* Menger refers to his method by employing the term «Atomismus», which is associated with the *theoretical* treatment of economic facts. According to this atomistic approach, a complex phenomenon must be dismantled to the point where its constitutive and ultimate elements are observable. In economics, those ultimate components are human beings and their actions. *Atomism* and *individualism* therefore coincide, but only accidentally. This coincidence is due to the specific way in which Menger conceives of economic activity as the «the premeditative activity of

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<sup>18</sup> Of the two texts, the first one is undoubtedly the most well-known. Written as a reply to Gustav Schmoller's criticism of *Untersuchungen*, it constitutes a main piece of the *Methodenstreit*. Nevertheless, given its polemic tone, it turns out to be less useful for our discussion than the second one.

humans aimed at the indirect or direct satisfaction of their material needs». (Menger 1883/1985, p. 193)

As a consequence, it could be claimed that *atomism* properly refers to a general concept of scientific research methods, whereas *individualism* represents the specific version applied to economic investigations. In Menger's view, only human activities can be observed and therefore scientifically investigated. Conversely, national economies are the results of individual actions' and cannot be treated as individual object of research, since they do not exist as such. The atomistic approach therefore reflects a *top-down* strategy.

It is clear that in such a context both *atomism* and *individualism* abandon any sort of normative meaning. In particular, *atomism* is not to be meant to follow Kantian solipsism, as it does not draw on any assumptions about human beings as rational, isolated and self-sufficient subjects, since atomism consists in a mere *technique*. Similarly, *individualism*, as a specific application of atomism, refers neither to moral statements nor to political ones. Menger subscribes to this strategy once again in 1889, claiming that the task of scientific investigation in the economic discipline is:

[...] to analyse complex economic phenomena and to reduce them both to their ultimate constitutive factors, still accessible to our certain perception, and above all to their psychological motivations<sup>19</sup> [...].

(Menger 1889/1998, pp. 49-50)<sup>20</sup>

Menger provides a rather different description of methodological procedure in previous work from 1884. The expression «Isolierungsverfahren» (*isolation procedure*) is introduced there to describe his perspective, particularly emphasizing that a phenomenon is adequately investigated only when all of its casual elements have been recognized and removed:

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<sup>19</sup> The role of psychological motivations in Menger's theory is going to be discussed in further detail in Chapter 3. In the current Chapter, I do not intended to focus on this theme, even though I will touch on psychological elements.

<sup>20</sup> Our translation from the Italian version: «analizzare i fenomeni economici complessi, e a ricondurli sia ai fattori costitutivi ultimi ancora accessibili ad una nostra percezione certa, sia soprattutto alle loro motivazioni psicologiche».

Wer auch nur die Elemente der Logik kennt, weiß, dass man unter dem *Isolierungsverfahren* nur die Isolierung von den einer Erscheinung *akzidentiellen* Momenten versteht, und wer mein Buch gelesen hat, weiß, dass ich nirgends auch nur die entfernteste Veranlassung zu der unsinnigen Meinung gebe, dass unter dem Isolierungsverfahren die Isolierung von den einer Erscheinung essentiellen Momenten zu verstehen sei<sup>21</sup>. (Menger 1884, p. 7n; italics added)

Whether «Atomismus» and «Isolierung» assume the same meaning should be addressed. I believe that by using them, Menger actually is referring to distinct moments in the methodological procedure he has in mind. He believes the deconstruction of complex socio-economic phenomena into its constitutive parts is an important step. The second step, i.e. the isolation of the accidental moments of phenomena, specifically regards the analysis of the previous identified constitutive parts. When considering Menger's theory of the formation of prices, the following definition can be reconstructed:

1. *The atomistic (individualistic analysis)*: in a free-market economy, prices are not conventionally established by an authority. On the contrary, they are the unintended results of lower-level activities. The identification of individual economic performance is the goal of this *top-down* methodological strategy.

- 1.4.1 *The isolation analysis*: once it is established that individual economic activities constitute the basis for explaining the formation of prices, one must identify an ideal standard for economic actions to be set as hypothesis of the theory. The isolation technique evidently coincides with that of abstraction. It can be used to outline

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<sup>21</sup> «Who is just familiar with the elements of logic knows that “isolation process” means the isolation of casual moments of a phenomenon and, who read my book knows that I did not give any support to the unreasonable opinion that the isolation process should be conceived as the isolation of the essential moments of that phenomenon» (our translation).

a typical standard of economic behaviour, through the removal of misleading elements and influences.

1 <sup>st</sup> step	Atomistic (individualistic) technique	corresponds to	Deconstruction procedure
2 <sup>nd</sup> step	Isolation procedure	corresponds to	Abstraction procedure

**Figure 2.1:** Menger’s double technique.

Hence, I maintain it is possible to describe Menger’s individualistic approach. In his perspective MI indeed coincides with a precise component of his most general methodological technique, namely the atomistic one. Embracing this kind of individualism does not entail any assumptions about human nature, instead it stresses that in economic matters the ultimate component is in fact the individuals and their actions. The creation of a standard description of economic agents instead concerns the isolation or abstraction procedure and, as it will later be shown, involves both empirical data and pragmatic choices.

### ***2.3. Outlining Menger’s Theoretical System***

#### ***2.3.1 The Threefold Articulation of Political Economy***

The current Section consists of two parts. In the first part I will briefly sketch Menger’s reading of political economy. In the second one I will concentrate on the puzzling issue of the demarcation problem that emerges from his approach.

Let it first be noted that Menger’s theory develops on two separate levels. He is interested in identifying the components that actually constitute a political economy, hence aimed at delimiting their specific task. In detail, he describes political economy as including the following components:

- 1) A historical component.
- 2) A statistical component.
- 3) A theoretical component.

The historical and statistical components are neither independent disciplines from political economy nor auxiliary ones. These components represent different aspects that have both genuine descriptive tasks regarding social facts (*Taten*) and standard institutions. In historical research, facts and institutions are studied by looking at their changes and developments. Differently, statistical research addresses facts and institutions within a circumscribed situation (*Zuständlichkeit*). Theoretical research has instead no descriptive role at all, and is not interested in «concrete phenomena and concrete developments (*konkrete Erscheinungen und konkrete Entwicklungen*)» but in the laws and regularities of socio-economic phenomena.

The second-level analysis starts at this stage. Menger recognizes two distinct ways to conduct theoretical research: the *empirical way* and the *exact one*. According to the empirical address, regular phenomena are found through the immediate observation of the socio-economic realm. Given the complexity of phenomena and high number of variables at stake, in Menger's view empirical research cannot provide any deep comprehension. For this reason, he looks at the exact address, involving both atomistic and isolation techniques. Social laws and regularities established through these processes have the same reliability of the natural laws. Nevertheless, Menger is aware that even *exact* laws cannot be, strictly speaking, «rigorous». Far from reading this aspect as a typical “weakness” of the social sciences, he maintains that rigorous laws cannot be formulated within the natural sciences either, as exceptions are unavoidable. Between socio-economic exact laws and natural laws there is therefore only a difference of a *degree* of reliability, both being results of abstraction and not describing reality as it actually is. Therefore, both natural and social laws do not properly exhaust the description of the world.

Political Economy			
1 <sup>st</sup> level	Historical research	Statistical Research	Theoretical Research
2 <sup>nd</sup> level			<i>Empirical address</i> <i>Exact address</i>

**Figure 2.2:** The Political Economy Components.

### 2.3.2 The Demarcation Problem

In this section I question whether, and how, Menger provides a solution to what Popper defines as «the problem of demarcation», i.e. «[t]he problem of finding a criterion which would enable us to distinguish between the empirical sciences on the one hand, and mathematics and logic as well as “metaphysical” systems on the other [...]» (Popper 1935/2005, p. 11)

The reason why I am going to tackle this issue consists in the fact that Menger’s perspective is often held to be a classic example of the *deductive approach* to economics, which states: given a set of axioms held by definition to be true *a priori*, a theory follows. This technique is typical of the *exact orientation* of Menger’s research and leaves certain matters open to several interpretations. An inductivist approach would instead allow for a clear demarcation between science and metaphysics, i.e. by referring to an empirical criterion. However, on the other hand, problems arising from the unjustified passage from particular assertions to general ones would not be overcome. If a deductive position is embraced, the logical construction of arguments is guaranteed, but the problem shifts to finding a selection criterion for axioms and fundamental hypotheses.

As is well-known, Popper introduced the falsification criterion. Menger does not evidently utilize Popper’s solution, but is clearly interested in separating scientific assertions from assertions of a different nature. I therefore believe that an investigation of this aspect is urgent, since the justification of Menger’s approach itself is at stake.

As previously introduced, Menger keeps the exact and empirical fields distinct. As the two levels are definitively separated, he also rejects any attempt at empirically

testing exact economic theories as a methodological mistake (cf. Menger 1883/1985, pp. 69-70). As a consequence, we should first clarify how these axioms are selected, where they derive from. Moreover, the goal of economic theories constructed on the basis of a deductive approach must be defined, as well as the differences between empirical orientations. We will attempt to describe how Menger believes economic theories should be verified, given that the empirical level is said to have no connection to the exact one.

With reference to the first issue, it is worth stressing that these axioms are clearly established *a priori*, but stem from those atomistic and isolation techniques previously described. They are therefore principles, which present a partial relationship with the social world, being results of an analytical process that begins with the *observation* of complex phenomena<sup>22</sup>. At the same time, we must recognize that these axioms are also arbitrarily established, to a certain degree, as the variables considered or avoided are pragmatically chosen.

On this topic, I suggest compare Menger's position with Schumpeter's, who seems to reflect Menger's ideas, yet renders them more explicit and clear. In *Das Wesen und der Hauptinhalt der theoretischen Nationalökonomie* (1908), Schumpeter replies to objections regarding the employment of a deductive method in "pure" economics. In particular, he argues that assuming a deductive approach does not mean negating that the starting points of theoretical research are all to some extent «induced», hence indicating that it would be misleading to interpret the deductive method in a strict sense. From Schumpeter's position, fundamental hypotheses are *arbitrarily* constructed, but always *rationally*, i.e. by initially referring to observable facts. At the same time, he firmly maintains theories are not governed by facts. Theories are therefore acceptable only if they allow us to make predictions about socio-economic phenomena and, consequently, to control them. For an economic theorists, it does not matter whether theories are "true", or if they refer to "real" facts and objects, as there is no way to verify these aspects.

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<sup>22</sup> As will be discussed in more detail in the third Chapter, one aspect of Menger's approach consists in starting with the observation of social facts and events. For this reason, psychological motivations do not constitute reliable material for economical investigations. On this specific point, Schumpeter shares the same perspective.

I argue that Schumpeter effectively mirrors Menger's way of describing the deductive method applied to theoretical economics, even though his instrumentalist approach goes above and beyond his predecessor's. Despite their similarities, Schumpeter is not concerned at all about the peculiarities of economic activities, whereas Menger never distinguishes between the goals of elaborating theories and capturing the very "nature" of economic performance. Although arbitrary choices are required, Menger defends the idea that the issue is not controlling socio-economic phenomena and events, but *comprehending (Verstehen)* them.

The second issue has specifically to do with the aims of exact orientation. Menger does not retain that economic theories are aimed at describing social reality as it is. Similarly, he believes exact laws do not correspond to laws that actually exist in the extremely complex socio-economic realm. As already mentioned, he also considers the verification of exact theories in the empirical world as a methodological mistake. What is then the goal of the *exact research*? What are the advantages of referring to exact theories? Through this theoretical approach, Menger address the very basic causal relationships between economic facts, which are obtained through atomistic and isolation procedures. By pinpointing these relationships, he can then formulate general laws to be employed for the explanation of complex phenomena themselves, as will be later analysed.

A useful example that can help us understand Menger's position is provided by his employment of exact and empirical laws for distinguishing between «economic prices» and «real prices». Exact laws establish that «*with definite presuppositions an increase in need, definite by measure, must be followed by an increase in prices just as definite by measure*» (Menger 1883/1985, p. 72; original italics). Given a market economy, this law allows one to calculate *economic* prices, i.e. expected prices in an ideal situation, characterized by a definite set of variables without considering exogenous influences. The corresponding empirical law instead states that «an increase in need *as a rule* is actually followed by one in *real* prices, and, to be sure, an increase which as a rule stands in a certain relationship to the increase in need, even if this relationship by no means can be determined in an exact way» (*id.*). Empirical laws are the result of observations of mere correlation or regularities, not of universally valid causal relationships. They take into account extra-economic factors, which exercise



influence on economic facts themselves, thus allowing for a more complete description of the phenomenon at stake. However, the more precise such contextualized characterization is, the less general will be the obtained correlation, since for the empirical orientation exceptions are conceived of as essential aspects of the analysis.

In short, exact laws aim to capturing *economic* (ideal) facts, whereas empirical laws aim to capturing *real* (concrete) facts, which do not necessarily coincide. The following table briefly summarizes the main differences between empirical and exact orientations of the research:

<i>Empirical orientation</i>	<i>Exact orientation</i>
Observation	Observation + deductive technique (atomistic/individualistic and isolation/abstraction technique)
Considers even non-economic variables.	Considers only relevant economic variables.
Aims at capturing mere correlations.	Aims at capturing universally valid causal laws.

**Figure 2.2:** The empirical and exact laws.

At this stage, we can finally discuss whether Menger furnishes a convincing criterion of demarcation with reference to the exact orientation of his research, i.e. a criterion guaranteeing that his exact theories are scientific and not just metaphysical statements. Given that he embraces a deductive approach, three alternative methods for verification are to be considered:

- 1) falsification criterion;
- 2) experimental verification;
- 3) empirical verification.

The first can be immediately excluded. As already seen, Menger does not anticipate criterion later introduced by Popper. Similarly, he never takes the possibility of testing theories through experiments into consideration. The third option is therefore more plausible. Menger affirms more than once that exact theories' goals consist in allowing for the control of socio-economic phenomena. Therefore, empirical verifications play a crucial role. Without confirmation that exact theories "work", how could one employ them to control socio-economic phenomena? However, as previously emerged, Menger denies that exact theories can be empirically tested, given that the exact and empirical levels are distinct. This position remains undoubtedly problematic, as Menger does not provide any clear criterion of demarcation in the end.

#### ***2.4 Interpreting Menger's Approach to Explanation***

Earlier, I rapidly mentioned Menger's interest in capturing the fundamental causal relationships within economic phenomena. This interest is evidently strictly related to his investigation of the theory of explanation he finally adopts. In the current section I am therefore going to explore this topic, keeping the *framework* constructed in Chapter 1 as a reference. Let us keep in mind that outlining Menger's treatment of scientific explanation is not a trivial endeavour. His attempts anticipate more structured debates on the nature and role of explanation in the social sciences by several decades, and therefore have no relevant reference point. As a consequence, it is rather common to find claims in his writing that could be read as contrasting and incoherent. I therefore have a dual aim: reconstruct Menger's approach to explanation; and question whether his "solution" presents difficulties.

I will start this review by stressing what Menger *is not*. Menger is not a functionalist. This clearly emerges when he compares social sciences to natural sciences, particularly with reference to physiology and anatomy. He calls the parallelism, established by several of his contemporaries, between social and natural investigations into question. In his view, the employment of superficial and misleading *analogies* between distinct disciplines is literally an «unscientific aberration» and

therefore also the consequent application a specific field's methods to another. Menger indicates a few instances of this tendency: the comparison between the circulation of the blood and the circulation of money or the traffic in goods; between digestion and the consumption of goods; between the function of the individual organs of the human body and the function of the various social classes (cf. Menger 1883/1985, p. 137). The Austrian economist explicitly sees organic theories in the natural sciences as inadequate for the study of economic discipline. This means he rejects the idea that functionalist approaches are useful candidates for explaining facts in the social realm. Hence, socio-economic phenomena cannot be explained by the function they are supposed to play in a specific context. According to Menger, this would mean reasoning in terms of parts and wholes, and therefore introduce collectivist notions and suppose that social systems have well-defined goals.

I argue that Menger effectively assumes a causal perspective. The exact orientation of his research consists in looking for lower levels fundamental relationships and regularities, in order to explain macro-economic phenomena. In Menger's words:

Exact research reduces real phenomena to their simplest elements, thought of as strictly typical, and attempts to determine their strictly typical relationships, their "laws of nature". (Menger 1883/1985, p. 112)

In particular, those relationships pose human beings, their mutual actions, their needs and environments in relation. However, the relationships are not conceived of as mere correlations, but rather as *causal laws*. Let's consider the following quotations:

We are able [...] to observe without much difficulty certain relationships among [phenomena] recurring now with greater, now with lesser regularity (e.g., regularities in their succession, in their development, in their coexistence), relationships which we call *typical*. (Menger 1883/1985, p. 36; original italics)

The investigation of types and of typical relationships of phenomena is of really immeasurable significance for human life, of no less

significance than the cognition of concrete phenomena. Without the knowledge of empirical forms we would not be able to comprehend the myriads of phenomena surrounding us, nor to classify them in our minds; it is the presupposition for a more comprehensive cognition of the real world. Without cognition of the typical relationships we would be deprived not only of a deeper understanding of the real world, as we will show further on, but also, as may be easily seen, of all cognition extending beyond immediate observation, i.e., of any *prediction* and *control* of things. All human prediction and, indirectly, all arbitrary shaping of things is conditioned by that knowledge which we previously have called *general*. (Menger 1883/1985, p. 36; original italics)

Social sciences laws regarding typical phenomena are equivalent to natural sciences' «laws of nature», and both are conceived of as general causal laws. Menger is not interested in pinpointing causal mechanisms. He refers to «mechanism» only once in opposition to the concept of «organism», which he firmly rejects (cf. Menger 1883/1985, pp. 131-132). If one were to apply a mechanistic position, then Menger should commit not only to the identification of the causal factors determining social phenomena, but also to the description of their precise internal organization and mutual relationships. This would be hardly feasible, even taking into account that individuals and their interactions are the fundamental components of Menger's social explanations. The causal perspective is instead fully in accordance with the individualistic approach, allowing the atomistic technique to investigate typical relationships at the lower levels.

Menger provides further information that allows us to better reconstruct his position regarding socio-economic explanation. With reference to exact orientation, he repeatedly states that correctly understanding a concrete (observable) phenomenon actually means recognizing the general law under which that phenomenon falls:

We understand a concrete phenomenon in a *theoretical* way [...] by recognizing it to be a *special case of a certain regularity (conformity to law)* in the succession, or in the coexistence of phenomena. In other words, we become aware of the basis of the existence and the peculiarity of the nature of a concrete phenomenon *by learning to*

*recognize in it merely the exemplification of a conformity-to-law of phenomena in general.* (Menger 1883/1985, pp. 44-45; italics added)

We understand phenomena by means of theories as we become aware of them in each *concrete case merely as exemplifications of a general regularity.* (Menger 1883/1985, pp. 55-56; italics added)

Both quotations suggest a perspective that anticipates Hempel's D-N model. The explanation of the economic phenomenon (*explanandum*) is the logical conclusion inferred from a set of premises (*explanans*), utilizing both exemplary universal laws and specific contextual conditions. Explanation would therefore consist in describing precise phenomenon through a certain empirical regularity. Hempel's D-N model may represent a useful interpretation of Menger's position, since it allows one to combine the deductive approach, the employment of general causal laws and the idea that "explaining" consists in classifying phenomena under universal laws.

Of course, if this interpretation were assumed to be valid, Menger's theories would inevitably attract criticisms similar to those directed at Hempel's model applied to the social sciences. Two objections arise instantaneously:

- 1) the main problem just shifts, since how to obtain exemplary universal laws has still to be established;
- 2) inferring does not mean explaining.

Following Menger, the former issue is easily solved by using methodological procedures aimed at grasping the fundamental causal relationships previously considered. The matter remains open regarding the second item, as for Menger "explanation" consists in predicting and controlling phenomena and, in addition, comprehending what kind of phenomena they are.

Menger maintains that socio-economic exact laws are indeed *ceteris paribus* laws. Recognizing exact laws be valid only if other things are equal is a "law of thinking", independently true from experience:

There is one rule of cognition for the investigation of theoretical truths which as far as possible is verified beyond doubt not only by experience, but simply by our laws of thinking. This is the statement that *whatever was observed in even only one case must always put in an appearance again under exactly the same actual conditions*; or, what is in essence the same thing, that strictly typical phenomena of a definite kind must always, and, indeed in consideration of our laws of thinking, simply of necessity, be followed by strictly typical phenomena of just as definite and different a type. (Menger 1883/1985, p. 60; original italics)

At this stage of our analysis of Menger's position, these statements should not look surprising. As seen above, Menger's exact laws result from isolation/abstraction techniques, which aim at characterizing ideal situations and have a particularly restricted range of application. However, when a phenomenon requires explanation not only exact laws are utilized, but also the specification of the conditions under which that phenomenon itself had occurred. In this way, Menger is not concerned with the limited employment of general causal laws.

I am going to conclude this section by evaluating a final element. In Menger's perspective we can identify the belief that once economic theories are formulated, they provide a more complete comprehension of economic facts, only if they are conceived of as a whole:

Not just anyone theory of human phenomena, only *the totality of such theories*, when they are once pursued, will reveal to us in combination with the results of the realistic orientation of theoretical research the deepest theoretical understanding attainable by the human mind of social phenomena in their full empirical reality. (Menger 1883/1985, p. 63; italics added)

However, I believe this aspect of Menger's perspective is rather marginal and not sufficiently developed in his writings. In any case, this final consideration does not seem to contradict the previous analysed positions.

In this section how Menger *expresses* his theoretical approach has been illustrated, through selected quotations, aimed at corroborating a precise interpretation. In the following two sections, I will concentrate on the way Menger *applies* his perspective to concrete cases, attempting to figure out whether a correspondence between his theory and praxis actually exists.

#### **2.4.1 Method Applied I: Prices and Value**

While Menger specifically deals with methodology in his second work, within the *Principles* Menger already takes a precise methodological approach, especially when describing price formation mechanisms. In a free-market economy prices cannot be established by mere convention, as several renown predecessors had on the contrary hypnotized<sup>23</sup>. An alternative explanation is therefore required.

The first step of this type of research consists in recognizing that *real* prices are the *unintended* complex results of an articulated socio-economic process. According to Menger's analysis, the following descending path is outlined:

prices → exchange → value → (economic) goods → needs

This deconstruction recalls the previously described atomistic/individualistic technique, demonstrating Menger's early tendency towards a very specific way of treating observable socio-economic facts. A critical observation may be advanced at this stage, regarding the degree of complexity characterizing the levels involved. It should be questioned whether, and to what extent, each of them is actually simpler than its predecessor. I personally consider these phenomena as complex socio-economic facts in themselves. The deconstruction of these phenomena refers to finding ultimate *independent* elements in the chain, which are identified within human needs, conceived of as the very starting points of the entire economic process.

However, Menger's economic work immediately leads one to observe that the *Principles* are actually structured according to an ascending (hence, inverse) path. This

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<sup>23</sup> For a detailed criticism to the conventionalist approach see Section 2.4.2.

corresponds to the «compositive» part or, in other words, to the “reconstructive” part of his methodological strategy:

needs → (economic) goods → value → exchange → prices

It is worth stressing that, according to Menger, prices do not actually represent the crucial economic phenomena to be observed. They constitute the starting point of the investigation, since they are «the only phenomena of the process that are directly perceptible, since their magnitude can be measured exactly». (Menger 1871/2007, p. 191) Indeed, prices represent the only *objective moment* of the whole process. A further peculiarity consists in the idea that prices are to be properly conceived of as «incidental manifestations», which do not necessarily emerge from the strict economic actions. Every essentialist standpoint is consequently rejected.

<i>Prices are</i>	<i>Prices are not</i>
only incidental manifestations of economic activities;	the real essence of exchanges;
unintended results of economic actions.	conventionally established.

**Figure 2.3:** Prices.

The second step in Menger’s descending path is represented by *exchange*. Considered the fact that exchanges also take place in the absence of prices and money. Conversely, exchanges involving prices and money cannot be properly conceived as *economic* exchanges. On this topic, Menger clearly contrasts Smith’s position in *Inquiry*, in which the tendency to exchange would be a peculiar trait of the “human nature” (cf. Menger 1871/2007, pp. 175ff). In Menger’s view, this position would simply justify a psychological approach to economics, which not be able to explain the phenomenon itself. If this tendency was an innate behaviour of human beings, we would constantly feel the necessity to exchange goods, without any precise goal in mind.



These kind of compulsive exchanges may also take place, but are never expressions of economic behaviour.

A consideration of *economic value* is primary focus of Menger's contributions. Economic exchanges are based on improving the initial conditions of each partner, in relation to some sort of commodity. However, it is first required that the parts involved are aware of the value of their own commodities. This value is the result of a subjective calculation, which takes into account a series of elements such as needs, environment, availability of the commodities themselves, etc. Once these elements have been evaluated, the agent can proceed on exchanging and bargaining with the counterpart(s). The subjective value does not determine the final price, nor the exact quantity of commodities the agent might wish to trade in order to obtain a certain quantity of a different good. The price finally emerges from the negotiation during which each agent aims at maximizing his own utility, intending to avoid falling under the threshold representing his minimum gain:

The effort to satisfy their *needs* as completely as possible is therefore the cause of all the phenomena of economic life which we designate with the word "exchange". (Menger 1871/2007, pp. 179-180; italics added)

At this stage, in order to define the subjective economic value it is necessary to specify the distinction between *economic* and *non-economic* goods, and thereby identify the defining features of an economic good, particularly given that:

experience [...] teaches us that goods of the same kind do not show economic character in some places but are economic goods in other places, and that goods of the same kind and in the same place attain and lose their economic character with changing circumstances. (Menger 1871/2007, p. 102)

Goods are needed to satisfying human needs, but only some of them are directly available to the agent. In the case goods are unavailable, the agent is motivated to look for different economic subjects, who need the commodities they are going to sell and

trade the wares necessary to them. At this point, the agent is motivated to exchange, but not for psychological reasons as hypothesized by Smith. The scarce availability of quantities of a specific good finally determines if it really is an economic good. Consequently, changes in the availability of goods imply changes in their status as economic or non-economic:

there can be only two kinds of reasons why a non-economic good becomes an economic good: an increase in human requirements or a diminution of the available quantity. (Menger 1871/2007, p. 102)

Applying atomistic/individualistic methodology to the formation of prices allows one to differentiate the different steps of the process, but does not allow one to elaborate universally valid economic laws. However, it should be noted that the individualistic approach is particularly useful if the socio-economic facts to be explained are conceived of as *unintended results of intentional human actions*. A collectivist perspective instead would, at most, be able to provide explanations of the unintended outcomes by referring to “macro-agents’ actions”. However, problems would inevitably arise, since: i) only individuals act; ii) referring to macro-subjects requires utilizing categories that are difficult to define, to which essentialist features would be arbitrarily attributed.

Once the subjective path has been identified a posteriori, the isolation/abstraction technique comes into play. Menger outlines a standard and simplified definition of an economic agent by assuming a set of hypotheses: i) the subject’s rationality, consisting in their ability to maximize their own utility, i.e. their awareness of how to improve their initial conditions; ii) the information held by the agents themselves; iii) the lack of any kind of coercion. In “real life”, these conditions are hardly observable, but Menger consciously treats them as results of the abstraction technique. On this basis, he formulated the principle of marginal utility (though he never employed this term), affirming that:

[...] the satisfaction of any one specific need has, up to a certain degree of completeness, relatively the highest importance, and that further satisfaction has a progressively smaller importance, until

eventually a stage is reached at which a more complete satisfaction of that particular need is a matter of indifference. Ultimately a stage occurs at which every act having the external appearance of a satisfaction of this need not only has no further importance to the consumer but is rather a burden and a pain. (Menger 1871/2007, p. 125)

Menger's theory has been often defined the "Robinson Crusoe's theory" (Nozick 1977), emphasizing how the economic agent is seen as an isolated subject, acting in a very simplified and therefore unrealistic context, whose relationships and interactions with others are extremely limited. In fact, the economist himself uses this paradigmatic figure as a model for describing his theory. Nevertheless, I believe that Menger is fully aware of the theoretical level of his explicative proposal. Moreover, he does not describe reality as it is at all, neither he is interested in doing that. He begins with the observation of an economic phenomenon, aiming at obtaining universal laws through the application of precise procedures.

#### **2.4.2 Method Applied II: Money**

The elaboration of an original theory of money represents the Menger's second pivotal economic contribution. He particularly concentrates on this theme in the 1890s, even though references to the theme are already present in both of his early works. In the current subsection, I particularly refer to the article "On the Origins of Money" (1892) and the Chapter "The Theory of Money" as they appear in the second *Grundsätze's* edition edited by Menger's son, Karl, in 1923.

Menger's initial examination of the phenomenon of money considers three different aspects, namely its *origins*, its *function* and its *nature*. His aim is to overcome the still widespread conventionalist interpretation, which presupposes the pragmatic origin of money (by law or convention), and consequently to provide a more convincing explanation. Contrary to the conventionalist perspective, defended by several eminent philosophers such as Aristotle, Plato and Medieval thinkers, Menger especially stresses that money is, at its very origins, a *social* institution, that was *spontaneously* introduced by economic agents at a certain time, in order to avoid a specific series of difficulties

that arose from economic exchanges. Menger never rejects the role of the state(s) in the regulation of the phenomenon of money, but he firmly maintains it to be only a later step of the process:

Money has not been generated by law. In its origin it is a social, and not a state institution. Sanction by the authority of the state is a notion alien to it. On the other hand, however, by state recognition and state regulation, this social institution of money has been perfected and adjusted to the manifold and varying needs of an evolving commerce, just as customary rights have been perfected and adjusted by statute law. (Menger 1982/2009, p. 51).

In order to support his thesis, he once again applies the methodology employed for the analysis of prices and value, attempting to deconstruct the phenomenon of money into its simplest and most elementary aspects, establish the initial conditions of commodity exchange, and identify the exact moment when the introduction of money becomes necessary for economic activities.

This initial analysis immediately suggests a few critical considerations. It seems, in fact, fully unjustified to identify Menger as a conservative thinker, deeply indebted to the classical and Medieval philosophy, in particular to the Aristotelian tradition (cf. Kauder 1958, Smith 1990, Campagnolo 2010). In this regard, I especially emphasize not only that Menger rejected the idea of money as the result of mutual agreements, but also the essentialist interpretation of the phenomenon itself (this second item will be discussed in greater detail later). Nevertheless, the Austrian economist did not develop his theory of money in full isolation. In particular, a decisive contribution was undoubtedly provided by the German jurist Friedrich von Savigny<sup>24</sup>, whose reflections in *Das Obligationenrecht als Theil des heutigen römischen Rechts* (1853, § 40) are explicitly recalled by Menger. Savigny is concerned with that (inexplicable) economic phenomenon, according to which some commodities are destined to be medium of exchanges (*Tauschmedien*), regardless of the concrete forms they assume within specific contexts (coins, salt, tea, etc.).

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<sup>24</sup> For a detailed analysis of the relationship between Menger and the German Historical School of Law, see Chapter 4.

We have addresses the *origin* of money so far, underlining that as a *social* institution it represents a further example of unintended results of intentional human actions. According to Menger's reconstruction, only a restricted number of economic agents had the insight of introducing money as medium of exchange at the beginning, i.e. a useless commodity in itself, but which could allow them to exchange other objects at different times. Only at a later stage, coins were systematically and diffusely employed for economic activities. In such context, *practice* and *habit* would have evidently played a crucial role. Whereas the first subjects acted according to a conscious means-ends calculation, the others actually acted by imitation, and therefore not rationally (even though not properly "irrationally").

However, the recognition that the function of money actually consists in working as medium of exchange is not enough in Menger's view. The challenge is to understand why money, and not a different commodity, was chosen for this task. In order to answer to this question, Menger reduces the theory of money to the so-called "theory of saleableness (*Absatzfähigkeit*) of goods", according to which some wares are easier to exchange than others. Therefore, the function of money turns out to be strictly interwoven with its *nature*, which is not to be interpreted in an essentialist way<sup>25</sup>, but as the whole set of money's features, which are recognized as the following:

- i) great adaptability;
- ii) great divisibility;
- iii) unlimited durability;
- iv) easy preservation;
- v) unlimited saleableness in space and time;
- vi) easy transportability.

These peculiar traits spontaneously made money a privileged commodity. However, a further characteristic is to be taken into consideration, its recognisability. This feature determines its transformation from a social institution to a state institution. By coining money, the state finally controls and regulates its circulation.

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<sup>25</sup> An example of essentialist interpretation is provided by Knies (1858), who maintains that money has an intrinsic special value, not dependant on its degree of saleableness.

Let it be noted that whereas the inquiry on the *origin* of money is strictly related to the general problem of the kind of explanations employed in the social sciences, the analysis of the *function* and *nature* of money are specifically economic-oriented.

The atomistic method implies a theoretical reduction from the complex phenomenon of money to the very first initial phases of the economic exchanges, identifying the intentional actions of individuals generating the phenomenon, which however spontaneously develops and broadens, finally becoming an institutionalised fact. Different from how he addressed prices and value, Menger does not apply the isolation or abstraction to the analysis of money. He simply elaborates an alternative explanation of the origin and diffusion of a very special commodity, not looking for a law.

It is worth noting that the Menger's theoretical approach to the investigation of economic phenomena does not exclude the employment of the historical discipline as a supplemental tool. His reconstructions are in fact based on: i) an individualistic perspective (complex socio-economic facts are explicable in terms of individuals and their actions); ii) abstraction, that allows for artificially simplifying a precise phenomenon in order to formulate general laws; iii) the description of historical conditions in which those phenomena emerged.

## ***2.5 Menger's Ontological Commitments***

As previously emerged, explanation is not merely a matter of prediction, but of *comprehension* (*Verständnis*) according to Menger, which consists in identifying the micro-level *causal relations* leading to macro-level economic phenomena. This perspective generated a rift between him and other Austrian economists.

For example, Schumpeter embraces a genuine instrumentalist perspective, according to which economic statements are not aimed at affirming anything about facts and reality. Pure theory is therefore just a tool that allows us to control phenomena in view of our goals. Only what is useful for reaching given scopes has to be introduced in the theory, evidently leaving aside any ontological commitment. Even discussions regarding the most appropriate methodology to be employed are absolutely trivial in his view (cf. Schumpeter 1908/2010 and 1909). Similarly, Hayek claims that «[a]ll that the

theory of the social sciences attempts is to provide a technique of reasoning which assists us in connecting individual facts, but which, like logic or mathematics, is not about the facts. It can, therefore, [...] never be verified or falsified by reference to facts» (Hayek 1948, p. 73). In Hayek's perspective, explanation and prediction are the same and nothing more is expected (Hayek 1955, p. 215n).

I believe that the perspectives of Schumpeter and Hayek represent clear examples of anti-realist and anti-essentialist approaches within the Austrian environment.

Conversely, Mises embraces a different perspective. Referring to praxeology, i.e. his theory of action at the basis of economic investigations, he explicitly claims the discipline of economics to convey «exact and precise knowledge of *real things*». He also adds that «the end of science is to *know reality*» (Mises 1949, p. 39 and p. 63). Mises defends positions which would be hardly held by the previous authors, recognizing for instance that «[a] collective whole is a particular aspect of the actions of various individuals and *as such a real thing* determining the course of events» (Mises 1949, p. 43; italics added). In Mises' case, there is indeed an evident contrast between the *aprioristic* and deductive perspective he defends, as well as his constant references to the actual existence of theories' entities. Nevertheless, he remains firmly convinced that social entities are not to be conceived as elements arbitrarily introduced in theories for practical reasons.

From the relevant divergences between these authors, there inevitably follows the impossibility to take seriously the trivial interpretations that treat the "Austrian School" as a monolithic tradition, both from a scientific and a philosophical viewpoint. It is undoubtedly a matter of fact that Austrian scholars basically share an individualistic approach, but that individualistic element is differently articulated among them, not only in regard to methodological and theoretical matters, but also to ontological items and other philosophical implications.

This scenario should contribute to a more complete comprehension of Menger's precise position on ontological commitments, which at a first glance could be conceived as a middle point between Schumpeter-Hayek and Mises. However, several ambiguous issues are still present. Menger declares intent to discover the very «nature» (*Wesen*) of economic phenomena. Such an explicit purpose has led a number of scholars (like Kauder 1958, Mäki 1990a,b and 1997, Smith 1990, Campagnolo 2010) to read

Menger's perspective as typically essentialist. In opposition to them, I firmly retain that German terms such as «Wesen» and «wesentlich», which are commonly translated respectively as «essence» and «essential», assume a more complex meaning, which requires deeper investigation.

In Menger's view, "essential" are for instance those relationships between phenomena which can be described as *typical*, i.e. relationships that show a certain regularity. As previously seen, he is completely aware that those regular events can be identified only through "artificial" atomistic and isolation techniques. This aspect clearly emerges, among others, from investigations on the alleged egoistic behaviour of human beings, which is exemplified by the search for personal utility maximization. However, at a closer analysis Menger recognizes human beings to be constantly influenced by errors, ignorance and external constraints. Methodological procedures allow one to characterize a *standard* for human behaviour. This simplification is therefore instrumental, not descriptive. Whether phenomena and their mutual relationships are real is not a crucial point for theoretical inquiry. The *essential features* discussed by Menger are not to be read as either hidden metaphysical features or real features of the world. To this regard, he clearly affirms that the «[e]xact science does not examine the regularities in the succession of *real* phenomena either. It examines, rather, how more complicated phenomena develop from the simplest, in part even *unempirical elements* of the real world in their (likewise unempirical) isolation from all other influences [...]» (Menger 1883/1986, p. 61; original italics).

It must be admitted that Menger also makes statements, like the following two, which add credence to an essentialist interpretation:

The purpose of the theoretical sciences is *understanding of the real world, knowledge of it extending beyond immediate experience*, and control of it. (Menger 1883/1985, p. 55; italics added)

The theoretical sciences are [...] supposed to teach us the types (the empirical forms) and the typical relationships (the laws) of phenomena. By this they are to provide us with theoretical understanding, *a cognition going beyond immediate experience*, and,



wherever we have the conditions of a phenomenon within our control, control over it. (Menger 1883/1985, p. 56; italics added)

How can we reconcile Menger's apparently contrasting statements? I suggest that we can interpret "the real world" he is talking about as the whole of observable phenomena to be explained. «Going beyond immediate experience» would not mean grasping alleged hidden essences of the phenomena themselves, but simply to pinpoint causal relationships that emerge through observation and methodological investigation techniques. Causal relationships are not essential relationships, because they are partially due to arbitrary decisions. In this direction, further quotations can be considered:

We understand phenomena by means of theories as we become aware of them in each *concrete case merely as exemplifications of a general regularity*. (Menger 1883/1985, pp. 55-56)

*Whether* the individual constitutive factors of human phenomena, thought of in their isolation, *are real*; whether *these can in reality be measured exactly*; whether those complications, in the case of which (according to the nature of exact research) an abstraction must be made from the effect of a variety of factors of real human life, actually put in an appearance—all this is no less *irrelevant* for the exact orientation of theoretical research in the realm of social phenomena than in the realm of nature. (Menger 1883/1986, p. 62; italics added)

As I have illustrated earlier, the exact orientation of the theoretical research represents the crucial moment in Menger's scientific investigations. The second passage in particular suggests that whether entities postulated within the theories are real or not, whether they exist or not, is irrelevant. I think that in Menger's perspective *what exists is not important, but rather what is observable*. For the same reason, he also rejects any reference to psychological motivations in explaining economic phenomena. Psychological factors may also play a role, but scientists should only consider what is effectively observable in order to provide material for theoretical analysis.

A further objection to the essentialist reading, primarily advanced by Milford (1990), correctly emphasizes that it is inappropriate to consider someone an essentialist who, like Menger, fully rejects the idea that the value of commodities is an intrinsic property. He originally conceives of it as the result of a complex relation, as has been argued in detail in Section 2.4.1.

Among those that interpret Menger as an essentialist, or realist, I believe Uskali Mäki (1990a,b and 1997) has provided the strongest and most convincing arguments. Menger's position represents a version of Aristotelian *immanent realism*<sup>26</sup> for Mäki. Exact types (or empirical forms) coincide with economic universals, i.e. with features (properties, kinds, relations), shared by a variety of particular economic objects. Mäki suggests two examples. In the first, he considers the *homo oeconomicus* paradigm outlined by Menger, interpreting it as a complex universal (in turn composed of other universals like self-interest, maximizing and perfect information). He reads the *homo oeconomicus* not as an independent universal, but rather as a trait that coexists with other universal traits within single individuals. As a second example he addresses the "economic price". In Mäki's view, the economical price represents a common feature of specific real prices and cannot exist independently from other features that characterize prices themselves. In order to further support his thesis, Mäki compares Menger's and Max Weber's positions, especially emphasizing the fact that Weber does not describe his *ideal types* as universals, but as conceptual constructions, thus contrasting the Austrian economist's perspective. Therefore, according to Mäki, the very goal of Menger's exact research would consist in studying economic universals.

I intend to critically discuss more than one aspect of Mäki's analysis. It is correct to recognize that in Menger's view, explanation is not exhausted by predictions of future events, as we instead see in instrumentalist approaches *à la* Schumpeter. However, accepting this interpretation does not necessarily mean admitting that types (empirical forms) are universals; and, even though they were interpreted as universals, it would be wrong to claim that these entities are "real" in Menger's view.

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<sup>26</sup> Let it be noted that most Aristotelian interpretations of Menger's work (including Mäki's) insist on the centrality of Aristotle's works within the Austrian academy of those years. I maintain this argument is weak. Menger seldom quotes Aristotle except when criticizing his positions, for instance when the Greek philosopher defends a conventionalist explanation of the origin of money. As will be shown in Chapter 4, seeing as Menger was a jurist, other authors certainly play a more significant role in his education than Aristotle.

Types are conceived of as abstractions of concrete (i.e. observable) phenomena, attempting to capture their common features and their typical mutual relations. If Menger tries to pinpoint the lowest common denominator among phenomena of the same kind (regardless of their specific contextual conditions), he is also conscious of the arbitrary character of the formulation of his “working hypotheses”. Similarly, Menger maintains that a concrete phenomenon can never coincide with an “ideal” one as treated in the theory.

Let’s consider Mäki’s examples again. At this stage, it is possible to recognize that Menger does not maintain *homo oeconomicus*, a subject that maximizes its own utility function, exists in reality as such. Mäki would agree. However, in opposition to Mäki’s opinion, Menger does not imply it characterize individuals either. In concrete situations: individuals could act according to the *homo oeconomicus* standard (even though it is quite implausible); they could act by partially following that standard; they could not follow it at all. Indeed, the *homo oeconomicus* paradigm is not a common trait (immanent universal) of individuals, but a plausible hypothesis partially obtained by observing and partially by outlining an ideal situation. Even crucial aspects influencing actions must be arbitrarily left aside, in order to avoid the exponential increase of the number of variables at stake.

Similarly, economic prices are not conceived of as existing independent entities or as constitutive parts of the real prices. Economic prices are instead reference prices, which coincide with real ones only if the hypothesized conditions are verified. In the complex social realm, economic prices cannot be pinpointed, but rather represent ideal benchmarks for analysing the evolution of real prices.

If Menger’s types are not universals, the thesis that the goal of exact research is the knowledge of universals consequently fails. However, a question arises: Is it possible to reconcile Menger’s attempt to overcome the appearance of economic phenomena with the partially arbitrary strategy he actually employs? What is the real meaning of *comprehension* (not knowledge)? I believe that a useful suggestion is provided by Menger himself:

The investigation of types and of typical relationships of phenomena is of really immeasurable significance for human life, of no less significance than the cognition of concrete phenomena. Without the

knowledge of empirical forms we would not be able to comprehend the myriads of phenomena surrounding us, *nor to classify them in our minds*; [...] (Menger 1883/1985, p. 36; italics added)

Deeper comprehension of any given phenomenon would therefore mean classifying it through types and exact laws, i.e. to the ideal evolution of the phenomenon itself. Were this hypothesis correct, it would be possible to contemporarily accept: i) the arbitrary features within Menger’s system; ii) his attempt to create a methodology that looks beyond mere predictions; and iii) the rejection of any form of realism and essentialism.

The following schema summarizes both the main arguments of the realist/essentialist interpretation and their respective criticisms:

<b>Menger’s ontological commitments</b>	
<i>Essentialist/realist theses</i>	<i>Anti-essentialist/anti-realist theses</i>
Ontological individualism: only individuals and their actions exist.	Methodological individualism coincides with the atomistic technique.
Employment of terms like <i>Wesen</i> , <i>wesentlich</i> .	Both German terms actually assume a more complex meaning. Translations can be misleading.
Essences of economic phenomena are looked for.	Counterexamples are identifiable. For instance, value is not an essential property of commodities, but it is conceived of as the result of a relationship.
Types and typical relationships are <i>real</i> (economic) universals.	Types and typical relationships are results of observation, abstraction and arbitrary decisions.
Immanent (Aristotelian) realism is defended.	Types and typical relationships are abstractions, not universals shared by particular economic objects and

	phenomena.
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**Figure 2.4:** Essentialist and anti-essentialist arguments.

## 2.6 Concluding Remarks

In this Chapter I aimed at providing a re-examination of Menger’s scientific contributions by addressing specific themes.

The first critical analysis regarded the characterization of the individualistic perspective of the economist. I argued that Menger’s methodological individualism excludes any kind of ontological commitment and moral assumption. Although he never uses the expression “methodological individualism”, he undoubtedly introduces this innovative methodological approach, which in his view is intimately linked to the recognition that the socio-economic facts to be explained are actually manifestations of unintended outcomes. The individualistic theory is the only plausible approach for Menger, if the phenomena at stake are not “pragmatically” generated by human beings’ will. Moreover, the individualistic or atomistic technique is evidently an aspect of the general methodology employed by Menger, who also conceives an abstractive component. Taken together, the two concepts constitute the methodological strategy of the Austrian economist. At this stage, we can also identify the kind of methodological individualism employed. Referring to the *framework* in Chapter 1, we can now describe it as a second degree methodological individualism. In order to develop his own theories about prices, value and money, Menger utilizes a simplified context, where subjects of the theories are considered individuals and their very basic actions and mutual relationships.

The second purpose of my inquiry is the reconstruction of Menger’s perspective with reference to specific epistemological topics. By strictly referring to his two main works, I outlined his position on the so-called “demarcation problem”, and then tried to single out the exact theory of explanation assumed in his research. From both analyses, Menger’s intent to decisively reject metaphysical considerations emerges, aiming instead at a scientific treatment of economics and social sciences. His methodological contribution, together with his innovative economic results, are proof of the significant

role Menger played within the cultural context of 19<sup>th</sup> century. He was one of the first scholars to really comprehend the necessity of joining the economic and methodological aspects of research.

Finally, I considered interpretations of Menger's ontological commitment. The reason why I decided to direct my attention to this topic consisted in the fact that the position of the Austrian economist is usually described by the mainstream as a metaphysical and essentialist, defending the thesis that Menger was a traditional and conservative thinker. However, this position results as completely in opposition with the scientific approach to socio-economic facts that he actually inaugurated. Basing the review on Menger's texts, I rebutted the strongest theses of the conservation interpretation of Menger, primarily defended by Mäki. What emerges is an original description of Menger as an innovator in his research field.

Reconstructing Menger's thought was not easy. He worked at a time when concepts and categories for the social sciences were far from fully established. Nevertheless, a careful reading of his major and minor writings, a scrupulous comparison of passages which seemed to be contradictory and incoherent, a reference to theoretical frameworks, and the avoidance of privileged interpretations, finally allowed for a complete and articulated reconsideration of this pivotal figure in the history of economic thought.

### 3. Rethinking the Psychological Interpretations of Menger's Approach

#### 3.1 Introduction

In the current Chapter I will examine some of the psychological interpretations of Carl Menger's theories, which was somewhat successful in critical literature. Apparently, his subjective economic perspective and individualistic methodological approach could justify the hypothesis that Menger himself wished to provide a psychological foundation for his own theories. Authors like Barry Smith (1986, 1994), Reinhard Fabian and Peter M. Simons (1986) even suggest a direct connection between the Austrian School of economics and the Austrian psychological tradition (inaugurated in the same period by Franz Brentano and his colleagues). As we will see later, readings like this one are undoubtedly fascinating, yet remain questionable.

I am not specifically interested in identifying potential influences between these scientific research fields (if any). My actual purpose is rather to comprehend whether, and to what extent, Menger in effect *needed*, and consequently *introduced*, psychological elements to his system.

In order to provide an exhaustive analysis of this topic, I will structure this Chapter as follows: i) I will reconstruct the main psychological schools in the second half of 19<sup>th</sup> century within the German-speaking environment, focusing on the key issues that psychology scholars initially tackled and the (contrasting) solutions they advanced (Section 3.2). I will also clarify how these first psychologists actually employed terms like «psychological», «psychic», «mental»; which meanings they attributed to them; whether they referred to different kinds of facts and events; or if they used these labels as synonymous. This specification will be helpful when considering any potential relationship between Menger's and his contemporary psychologists' research (Section 3.2.1); ii) I will then present the most popular views embraced by defenders of the psychological reading of Menger's work (Section 3.3); I will compare Menger's perspectives with Brentano's and Wundt's, discussing whether similarities exist between their respective approaches (concerning both contents and methods) and whether the psychological interpretations of Menger's work are justified. In this regard, I will also address unpublished material from Menger's Archive (Sections 3.3.1 and

3.3.2); iii) finally, I will discuss two epistemological models from psychology, cognitive and behavioural models, examining whether Menger's perspective fits one of these models (Section 3.4). At this stage, it will be possible to provide an original and convincing interpretation of Menger's real purposes, conclusively dismissing each version of the widespread psychological reading (Section 3.5).

### **3.2 19<sup>th</sup> Century Psychological Traditions: Contextualization**

In the second half of the 19<sup>th</sup> century, political economics, and also psychology, were attempting to establish themselves as independent scientific research disciplines. Similarly to economics scholars<sup>27</sup>, early psychology scholars basically shared a philosophical background. At least at the beginning, the new discipline was conceived of as a branch of philosophy itself. It is worth noting that the first serious attempts to emancipate the field took place in the German-speaking context.

The German scholar Wilhelm W. Wundt (1832-1920) was one of these initial pioneers. Wundt wrote the first systematic work of modern scientific psychology, the *Grundzüge der physiologischen Psychologie* (first edition in 1873-74), and also developed an innovative experimental methodology specifically addressed to psychological research. However, we must keep in mind that Wundt's scientific production was particularly broad, and often internally incoherent. It is therefore difficult to provide a general overview of his position. Yet a few basic aspects can be outlined.

According to Wundt, inner phenomena that are immediately perceived at the conscious level are psychology's research objects. His view conveys materialistic influences, since he maintains that psychic events can be exclusively explained by their corresponding physiological input and stimuli. Access to the psychic realm is therefore only guaranteed by experience, which constitutes the genuine empirical aspect of the psychological investigation. Metaphysical concepts should be completely abandoned for describing human mental activities. It is obvious that such a perspective also entails the defence of mind-body dualism.

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<sup>27</sup> On the steps that brought political economy to become an autonomous discipline, see Chapter 4.



As mentioned above, Wundt's most original contribution is the introduction and elaboration of an *experimental methodology* for the investigation of psychic events, intending to identify the *laws* governing the relationships between these events. To this aim, he developed an analytical procedure that intended to deconstruct consciousness into its essential and indivisible components. This is the reason why his psychology is also defined «Elementenpsychologie» (*psychology of elements*). In critical literature on Wundt, the role that «introspection» plays in his experimental investigations remains controversial. On the one hand, he explicitly rejects it as an inadequate tool for scientific research, as introspection inevitably implies reflection and therefore a willing act, which cannot be conceived of as the proper object of psychological research. On the other, he actually employs introspection, in the sense of self-observation.

In the same period, the Austrian philosopher Franz Brentano (1838-1719) developed *act psychology*, publishing his significant work, *Psychologie vom empirischen Standpunkt* in 1874. He certainly shares a series of concepts with Wundt. Both assume an individualistic perspective and aim at transforming psychology into an empirical discipline through the introduction of a rigorous and exact method. However, Brentano took a very different path, as opposed to Wundt, he distinguished between the «mental» level, which is constituted by acts, and the «physical» one, which differently refers to states. In doing so, he breaks away from mind-body dualism, given that he described psychic events as totally independent from the physical ones and, therefore, not determined by them. In Brentano's view, empirical psychology is meant to describe the mental acts that address physical objects, not perceived objects provided by senses and perceptions:

The common feature of everything psychological [...] consists in a relation that we bear to an object. The relation has been called *intentional*; it is a relation to something which may not be actual but which is presented as an object. (Brentano 1889/1969, p. 14; italics added)

Within such a perspective, *intentionality* inevitably becomes the pivotal concept. In order to investigate intentionality, Brentano bases his approach on the idea that consciousness can only be described from the first-person. The description is the proper

task of what he defined *descriptive psychology*<sup>28</sup>. It is worth emphasizing that in Brentano's view there is no contradiction between first-person observation and empirical research.

The distinction between psychic and physical facts also drives Brentano to elaborate a specific vocabulary for the new discipline, and this represents a further merit of his contribution to the field. However, it must be recognized that, in the short term at least, Brentano's perspective had a more modest success than Wundt's, whose renowned experimental laboratory became a worldwide standard of excellence for 19<sup>th</sup> century scholars. In the long term instead, Brentano's concepts and perspectives constituted a significant body of work to draw on for the authors who would later develop innovative trends in the history of psychology. We find this in *Gestaltpsychologie* and functionalism, both arising from the clear rejection of the *elementalism* introduced by Wundt.

### **3.2.1 Meanings and Uses of “Psychological”, “Psychic” and “Mind”**

Before exploring the similarities and divergences between Menger and his contemporaries Brentano and Wundt in detail, a preliminary reflection on the meanings and uses of terms like «psychological», «psychic», and «mental» is required. Are these expressions employed in a synonymous manner in the literature, or do they mean distinct aspects of psychological investigation?

Brentano and Wundt most frequently use the expression «psychological» (*psychologisch* in German) to refer to the empirical research field that addressed «psychic» (*psychisch*) phenomena. As emerged previously, both of them aim at investigating human beings' inner activities, maintaining this phenomena to be intrinsically different from physical phenomena. Despite this, they had distinct ideas on what properly characterizes an empirically conceived psychic fact. Brentano states that *intentionality* (i.e. the conscious internal act towards an object) that defines psychic

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<sup>28</sup> Brentano distinguishes between *descriptive psychology* and *genetic psychology*, where the latter is maintained to study psychological phenomena from a third-person standpoint, also involving empirical experiments. Therefore, descriptive psychology does not properly fit with the contemporary scientific standards of psychological investigations.

phenomena. Wundt instead identifies psychic facts as *immediate perceptions* at the conscious level, deriving from external stimuli. The concept of consciousness is pivotal for both of them, however differently interpreted. Nevertheless, the way in which Brentano and Wundt employ «psychological» and «psychic» is basically the same. With the first term they identify a precise empirical research field, and with the second one they mean to characterize phenomena that are different from physical phenomena.

The word «mental» (whose literal translation into German is *geistig*) provides a different situation, referring to a spiritual or metaphysical sphere in German. It is most likely that this is the reason that early German-speaking psychologists avoid using that term in their texts. Their intent is to clearly demarcate the new scientific and empirical course for psychology, no longer coincides with the study of the soul. Different from German, the meaning of «mental» in languages like English and Italian is less subject to misunderstandings.

With regard to Menger, my attention is especially addressed to his three main works: *Grundsätze*, *Untersuchungen* and *Irrthümer des Historismus*. Within these works, he usually employs «psychology» and «psychological»; he never uses «mental» (*geistig*); and just once, in the *Untersuchungen*, he uses «psychic». However, even the occurrences of «psychological» are sporadic. In his methodological works it is possible to single out a pair of interesting passages in this regard. Menger opposes Gustav Schmoller's idea that «the science of political economy also investigate the 'psychological and ethical causes...systematically in their significance for economy' along with the 'technical-natural' causes»<sup>29</sup> (Menger 1883/1985, pp. 75ff; original italics). Menger argues that there is no real contrast between these two sets of causes, since:

[h]uman needs and the resulting desire to satisfy them, in any case by far the most important factors of the human sciences, are e.g., certainly just as much natural causes of economic phenomena as they are psychological ones. (*Ibid.*)

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<sup>29</sup> Menger is referring to Schmoller's *Über einige Grundfragen des Rechts und der Volkswirtschaft* (1875, p. 42f).

Let us now consider the single occurrence of the term «psychic». This time Menger explicitly separates the research fields that investigate socio-economic phenomena and mental events. Both are still considered empirical domains, which address distinct objects. If any connection between the two areas is possible, it is not specified here:

The “laws of phenomena” (in contrast to normative laws!) can be classified according to the empirical realm to which they refer (according to objects!) or else according to their formal nature. In the first connection *we distinguish* laws of nature in general and of inorganic and organic nature in particular, *laws of psychic life, laws of social phenomena in general and of economic phenomena in particular*, etc. (Menger 1883/1985, p. 201; italics added).

In the following, I compare Menger’s approach to Brentano’s and Wundt’s. On the basis of the terminological analysis just sketched, I employ the expression «psychological» for general references to the empirical research field, whereas I use «psychic» and «mental» as synonymous when considering the specific kind of facts and processes that early psychologists aimed at explaining.

### ***3.3 A Critical Inquiry: Does Menger Really Use Psychological Motivations in his Theory?***

Scholars that defend a psychological reading of Menger’s work elaborate arguments that are significantly different from one another. I will sketch the most frequent.

The first popular set of theories calls the notion of “value” into play. Interpretations that suggest that the two Austrian Schools had a parallel course of development usually insist on the fact that, for both of them, a good’s value is the result of a subjective process and does not correspond to an intrinsic quality of the commodity itself. This general assertion is not called into question. The issue consists in clarifying what the economic and psychological traditions meant by referring to “subjective

processes”. Let us take Grassl’s analysis into account, in which «value» is a product of *emotions* for Austrian economists, corresponding to «a relationship between a state of *consciousness* and an object in the world» (Grassl 1986, p. 150). It is suggested here that actions are driven by mental intents, and that economic subjects are *intentionally* oriented towards external objects. However, Menger’s perspective is much more complex, as in his view value certainly involves calculation on the part of the subject, yet this process originates from environmental aspects and therefore must also consider inter-subject relations. Whether, and to what extent, the «mental» actually does play a role for Menger is questionable.

Alternately, one could motivate a psychological interpretation by referring to feelings like pleasure and pain. The search for pleasure and the avoidance of pain can be seen as root justifications of human actions. It is not rare to find this sort of explanation in subjective economic theory. For instance, the English economist Stanley Jevons built his economic theory upon these assumptions. It is quite clear that, in this manner, he recognized economic matters as subordinated to the moral field. Menger, however, did not know Jevons’ works at the time, and would have completely rejected a similar approach as unscientific.

A third attempt to psychologically explain the origins of economic actions could consist in calling “human nature” into question. Adam Smith in *Inquiry*, suggests that human beings are *naturally* disposed to economic exchanges. Menger instead indicates that if human economic exchanges were actually the expression of an inevitable natural propensity, humans would exchange incessantly and this evidently does not happen.

The introduction of psychological motivations, however interpreted, represents a highly problematic topic for any economic theory. The aim of the following sections is to show how Menger treats the issue, and to deconstruct attempts to interpret his work as an example of the application of a cognitive approach to economics step by step.

### 3.3.1 *Austrian Economics and Austrian Psychology. Menger vs. Brentano*

A certain interest in psychological topics is actually present in the work of Menger's two major colleagues, Eugen von Böhm-Bawerk and Friedrich von Wieser. Both maintained relationships with Brentano's most renowned disciples in the Austrian academic environment, namely Christian von Ehrenfels (1859-1932) and Alexius Meinong (1853-1920). However, some critics insist in establishing a deeper connection between the two groups. Among others, Emil Kauder (1958) argues that both schools would have been profoundly influenced by the Aristotelian and Scholastic traditions, and that this would explain shared interest in mental human activities. To this regard, Kauder repeatedly quotes Böhm-Bawerk and von Wieser, stressing their frequent references to the «inner experience of our mind». Nevertheless, their effective recourse to psychological justifications is an open matter of discussion, and statements like the following evidently make interpretations of this kind partly inconsistent:

This investigation uses the method recently designated as the “psychological”. The name is applied because the theory takes its point of departure from within, from the mind of the economic man. I myself once spoke of economic theory in this sense as applied psychology. The designation, however, is not a fortunate one. It may lead to the misunderstanding that the “psychological” economic theory starts from scientific psychology. *This is by no means the case.* [...] The observations concerning the inner life of man, which our “psychological” theory of economics develops, have been made by it independently. They are entirely independent of the result which scientific psychology might reach with regard to the psychical elements, the analysis of which are within its province. [...] Economic theory would be benefited, had scientific psychology advanced further beyond its beginnings; but our discipline does not seek and could not find direct aid from this source. *The tasks of the two branches of knowledge are entirely distinct.* (von Wieser 1927, p. 3; italics added)

Current speech regards the concept of need in its most general form. It embraces a multitude of meanings that can never be the basis of

economic demand. Thus economic theory must fashion a narrower concept. It must discriminate the specific need, which leads to demand, from all other needs. *This refinement requires no more exact analysis of the psychological nature of human needs.*

This is the province of scientific psychology. *Economic theory has only to explain needs in their economic sense.* Briefly, they may be called economic needs. And even this explanation is sufficient if it distinguishes them from the most closely related phenomena. (von Wieser 1927, p. 21; italics added)

In the following, I argue that the relationship between Menger and the Austrian psychological tradition was weaker than that later claimed by scholars. This could depend, in part, on the fact that psychological studies were still developing when the Austrian economist started his own research. In particular, I focus on the comparison between Menger and Brentano, as they are the founders of their respective scientific traditions. To this aim, I will particularly examine three aspects:

- i. the effective role of the Aristotelian tradition;
- ii. the meaning that popular notions like *subjectivism, intentionality, rationality, etc.* assume for Menger and Brentano;
- iii. the similarities and differences in their methodological approaches.

The first issue can be addressed quickly. Menger's position regarding Aristotelian philosophy has been already illustrated in Chapter 2. Therefore, it is already possible to underline a preliminary distance from Brentano, who bases his entire research on traditional studies of the soul. Hence, although Brentano's intent is to provide an empirical foundation for his research, he actually starts with metaphysical considerations taken from the Greek tradition. Brentano acquires numerous concepts from Aristotle, such as: the threefold partition among presentations, judgments and phenomena of love and hate; the distinction between primary goods, which are ends in themselves and have a psychic status, and secondary goods, typically external and conceived as means; the introduction of the category of pleasure as principle of preference; the attribution of a moral meaning to the choice criteria, and so on. (cf.

Fabian and Simons 1990, pp. 45 ff.) As we have seen, these aspects are irrelevant for Menger, regarding both their purely speculative and ethical character. In spite of some primitive notions roughly sketched by Aristotle (for instance, utility, value in use, exchange value), we cannot consider the Greek philosopher the common reference for Brentano and Menger. Whereas the former constructs his psychological theory by reviving Aristotelian philosophical concepts, Menger moves independently from the influences of both Ancients and modern philosophers.

The second issue leads to several critical reflections. As emerged in the previous chapters, subjectivism, not to be confused with individualism, plays a pivotal role within the economic “marginal turn”. Early psychological studies were contemporarily addressing the investigation of subjective (and conscious) mind activity. Nevertheless, subjectivism is interpreted differently within those two scientific areas. Menger’s subjectivism is strictly connected to the detailed survey of the actual environment in which individuals act. This is the reason why I maintain that, in his theory, the actions performed by the economic subjects are determined by specific contextual situations. In this case, subjectivism is to be conceived as a *rational reaction* to a set of precise inputs. Conversely, in Brentano’s view, mental activities directed towards physical objects are primary activities: *the internal facts come before the external ones*.

As shown above, *intentionality* constitutes one of the main concepts of Brentano’s psychological theory. Through this concept, he stresses that proper mental acts are never unconscious. He justifies this position by arguing that each mental act is primarily directed towards an object, but *secondarily* towards itself. This makes the subject conscious of every mental act, even though Brentano himself admits the existence of different degrees of intensity of consciousness. Menger’s usage of the concept is very different. In his writings, two distinct meanings of the concept are identifiable, respectively with reference to:

- i. social institutions;
- ii. the decision-making process.

When addressing social institutions the Austrian economist explicitly employs terms like «intentionally/intended» or «unintentionally/unintended». More specifically,



Menger distinguishes between *pragmatic institutions*, which are intentional results of a common will, and *organic institutions*, which instead are unintentional consequences of intentional human actions. Some further considerations are required. First, the intended outcomes are those obtained at a collective level. In this case, people *intentionally* decide to create and develop an institution with specific socio-political targets. On the contrary, the emergence of organic institutions is due to a combination of human actions derived from different goals. The generation of organic institutions do not depend on the intentional behaviours of singular components of the society. Intentional actions of single agents do not produce any institutions of this sort. Collective intentionality creates pragmatic institutions; conversely, intentional acts, singularly taken, do not generate organic institutions. The asymmetry is evident. Menger's notion of *intentionality* thus appears very different from that employed by Brentano, especially when considering its collective character, which rejects any psychological reference.

As we have seen, another option for interpreting Menger's notion of intentionality exists. This time we have to address the subjective decision-making process, through which the economic agent evaluates the pros and cons of the available alternatives, and aims at maximizing their own utility function. Given that, in this case, Menger does not explicitly use the expressions «intentionality» or «intentional action», it is our task to reconstruct how he could have conceived of these concepts here. Intentionality could be read as the conscious decision of an economic agent that identifies the objects they should get in order to satisfy some specific needs. To clarify this issue, we must take two additional related topics into account: the intimate relationship between intentionality and (instrumental) rationality; and the discrepancy between the ideal standard of human action and the effective performance of individuals.

With reference to the first topic, I offer a preliminary observation. It can be easily noted that a rational action is intentional, yet, conversely, an intentional action is not necessarily a rational one. Hence, I argue that in Menger's investigations «intentionality» assumes the same meaning of rationality. An intentional action *is* a rational action, where rational holds an instrumentalist meaning. It is not just a matter of addressing attention to an object, but rather of *obtaining that object through the most efficient means*. This clearly shows that Menger is not concerned with either the

reconstruction of mental processes or the explanation of how the means-ends calculation works “internally”, since he exclusively relies on descriptions of external (i.e. observable) human performances. In addition, whereas Brentano sustains that all individuals act intentionally (consciously), Menger constantly refers to the *standard behaviour* of economic agents. He understands that, in daily life, human behaviours never fully coincide with his ideal paradigm of rationality:

Even individuals whose economic activity is conducted rationally, and who therefore certainly endeavour to recognize the true importance of satisfactions in order to gain an accurate foundation for their economic activity, are subject to error. Error is inseparable from all human knowledge. (Menger 1871/2007, p. 148)

Discrepancies between Menger’s and Brentano’s views on subjectivism, intentionality and rationality are schematically summed up in the table below:

	<b>Menger</b>	<b>Brentano</b>
<b>Subjectivism</b>	Subjects <i>rationally react</i> to a set of contextual inputs.	Subjects address their attention, desires etc. to external objects.
<b>Intentionality</b>	An intentional action <i>coincides with</i> a rational action.	The mental act directed at an object. It does not properly coincide with rationality.
<b>Rationality</b>	Subjective reasoning dually intended to: i) identify the sufficient goods that need to be acquired in order to satisfy precise needs; ii) conduct pros-cons calculation, through which the most efficient means to achieve a precise goal are established.  An ideal standard behaviour. Not investigated from a psychological point of view, but on the basis of external	Refers to the first-person <i>conscious</i> reflection on mental acts.  Individuals are <i>actually</i> aware of every occurring mental act, because every mental act is directed towards itself as a secondary object.  Investigations are addressed to internal activities and aim at explaining functioning of

	observations.	psychic processes.
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**Figure 3.1:** Menger's and Brentano's divergences on subjectivism, intentionality and rationality.

I will now focus on *methodological matters*. Both authors attribute a privileged function to *empirical investigation* in their respective research methods, but they conceive of the meaning of «empirical» in different ways. As previously sketched, Brentano maintains that first-person observation is a direct form of experience and thus a genuine empirical tool for investigating mental phenomena. Nevertheless, it should be noted that he explicitly rejects introspection as a research method for the survey of mental phenomena. In fact, Brentano distinguished between *inner perception* and *introspection*, arguing that only the former is useful for psychological research:

Psychology, like the natural sciences, has its basis in perception and experience. Above all, however, its source is to be found in the inner perception of our own mental phenomena. [...] Note, however, that we said that inner *perception* [*Wahrnehmung*] and not introspection, i.e. inner *observation* [*Beobachtung*], constitutes this primary and essential source of psychology. (Brentano 1874/1973, p. 29; original italics)

According to Brentano, *introspection* and *inner observation* are similar. The reason for rejecting their use in the psychological field is that observation can properly be addressed only to external objects. The observer is in fact able to direct his *full attention* to external objects. them. On the contrary, this cannot happen for objects of inner perception. The observer cannot focus on a mental phenomenon at the exact moment it occurs, but only at a later stage and independently from their own will, when it has already disappeared or diminished:

It is a universally valid psychological law that we can never focus our *attention* upon the object of inner perception. [...] It is only while our

attention is turned toward a different object that we are able to perceive, incidentally, the mental processes which are directed toward that object. (Brentano 1874/1973, p. 30; original italics)

Therefore, Brentano's psychological method is «empirical to the extent that it refers to a direct inner experience. Nevertheless, the meaning of «empirical» here is particularly weak, for at least two reasons:

- i. Brentano acknowledges the impossibility of real observation of mental phenomena;
- ii. Inner perception ultimately consists in first-person description (*descriptive psychology*).

The philosopher places psychology and natural sciences on the same level, stressing the fact that both are based on “perception and experience”. However, it appears quite evident that his explanations present serious limitations.

In Chapter 2, we broadly discussed Menger's methodological procedure. In the current section, I will just recall two aspects, aimed at establishing the actual boundaries between him and Brentano, with particular reference to the role of observation and, consequently, to the meaning attributed to the notion of «empirical». In Menger's perspective, observation constitutes the starting point for socio-economic investigations with reference to the empirical or realistic orientation of the research. The observation of the social realm allows one to capture regularities in socio-economic phenomena. However, these regularities are not universally valid, since they refer simply to concrete, and therefore not abstract, facts. According to Menger, observation is a third-person activity that allows one to select the phenomena to be investigated. Without observation, no scientific research is possible. In *Untersuchungen*, Menger clearly claims that «*the observation of the singular phenomena of human economy [...] is indispensable. [...] Without the observation of the singular phenomena of the human activity we cannot image a theory of them at all*» (Menger 1883/1985, p. 117; original italics). As emerged earlier, empirical observation alone is not enough, if one's aim is to treat political economics scientifically. Nevertheless, the meaning and role of observation in Menger's perspective is crucial and evidently divergent from Brentano's.

On the basis of these remarks, the reason why Menger decides not to introduce psychological motivations into the explanation of economic human actions is more comprehensible. Psychological phenomena and processes are not observable from a third-person perspective. Therefore, there is no place for these elements in his scientific system. I hold that Menger would not *a priori* exclude the useful contribution that psychological discoveries could provide to the economic field in the future, even taking the subjective turn he sustains into account. Nevertheless, in developing a rigorous method for economic research, he fully rejects any recourse to non-observable elements, including mental phenomena and events. If political economy is to be treated as a scientific discipline, only direct *shared observation* and *experience* can legitimately produce research data. Therefore, even when Menger explicitly refers to “psychological motivations” (actually, on just a pair of occasions), he does not intend to reduce the explanation of economic phenomena to the explanation of psychological facts.

Menger’s meaning of «empirical» follows from the previous analysis. However, trouble arises, since he alternatively uses the term with reference to two distinct connotations. In the first one, realistic-*empirical* theoretical research refers to the direct observation of both social and economic phenomena as well as their mutual relationships, spatially and temporally determined. As a consequence, the laws obtained in such context are *empirical laws*, characterized by an high degree of inexactness, given that they have to take a large number of variables into account contemporarily.

However, Menger also refers to “*empirical forms*” (or “types”) in his writings, referring to the *exact orientation* of the theoretical research. Empirical forms are distinguished from concrete phenomena, and the relationships among them are conceived of as *real scientific laws*. A precise definition of empirical forms is never exactly provided in the *Untersuchungen*. Nevertheless, it is reasonable to interpret them as general idealized facts, which in turn allow us to classify singular observable socio-economic phenomena. Undoubtedly, the employment that Menger uses of this expression is quite unusual, and evidently generates a certain confusion. Why does he decide to utilize this phrase then? Most likely, in using «empirical forms» he just wishes to emphasize the dual nature of his research. On one hand, by referring to the “empirical” he recognizes the role played by observation and experience. On the other,

through the term «forms» he stresses the ideal components of the investigation, obtained by individualistic and abstraction techniques.

This analysis leads us to identify another element of opposition between the two scholars. Menger's theoretical system is based on the distinction between empirical and exact laws, respectively corresponding to the two articulations of his research. Brentano instead maintains that the «laws of succession» of mental phenomena is not universally valid, since psychological phenomena depend on a great number of psychological conditions, of which we never acquire a complete knowledge:

[...] the fundamental laws from which we can derive the phenomena of mental succession, now and probably for a long time to come, are *merely empirical laws*. What is more, these laws have a somewhat *indefinite and inexact character*. (Brentano 1874/1973, p. 65; italics added)

We must examine Brentano's positions on two further topics: the role of induction and deduction; and the proper methodology for psychological investigations. In his major works, the prominence of induction clearly emerges. This is particularly evident in his treatment of the *indirect knowledge* of others' mental phenomena. He argues that in addition to the knowledge of our own mental states, due to inner perception, we are also able to perceive others' mental states thanks to their "externally perceivable changes". Verbal and non-verbal communication, as well as involuntary behaviours provide precious information about other individuals' mental processes. *Intuition* provides the basis for this thesis, according to which subjective experiences are basically similar one to one another. Moreover, he is convinced that psychological laws can be extended from the single case to a wider set of situations:

[...] in the *induction* of the most general laws we naturally find the common characteristic first in individuals, then in specific groups, until it is finally established throughout its entire range. (Brentano 1874/1973, p. 44; italics added)

This is not the only issue on which he methodologically contrasts with Menger. In fact, Brentano also rejects the idea that an atomistic technique could be of any help in the investigation of mental states. He is especially critical of Wundt, who maintains that mental phenomena can be explained through the identification of basic elements of consciousness. Brentano severely affirms:

We are forced [...] into an analytic procedure which has been compared with that of chemist. [...] Just as the chemist separates the constituent elements of a compound, it seems that the psychologist, too, should try to separate out the elementary phenomena which make up the more complex phenomena. [...] Since, however, *mental life never ever reverts from a later to an earlier stage*, it seems absolutely impossible for us to relieve an elementary phenomenon in the purity and simplicity in which we originally experienced it. (Brentano 1874/1973, p. 45; italics added)

Brentano holds analytical methodology to be completely inappropriate, even while considering the fact that one is typically not conscious of those basic elements (cf. Feest 2014). Inner perception is in fact a reflexive and secondary activity, which would be unable to grasp the basic elements of consciousness (if any). Neither the atomistic technique nor the isolation procedure is useful in Brentano's perspective. As previously emerged, psychic events are characterized by a high number of variables which make it impossible to formulate exact psychological laws. No model of mental phenomena seems feasible for psychological activity.

I conclude the comparison of Menger's and Brentano's methodological perspectives by considering how they respectively conceive of *scientific explanation*. Even though this topic could have been discussed at the beginning of the current analysis, I believe that at this stage it is easier to catch the significant differences in their positions.

By distinguishing between *descriptive psychology* and *genetic psychology*, Brentano attributes the task of providing *descriptions* of mental phenomena to the former, and the task of providing *explanation* of them to the latter. In this case, the problematic aspect consists in the fact that, for him, genuine psychological research is

based on the description of mental acts and not on their explanation. There are many reasons for this. First, genetic psychology would inevitably extend beyond conscious mental acts (which constitute the only authentic psychological phenomena for Brentano), to unconscious and/or physiological elements. Moreover, Brentano is sceptical about the possibility of discovering laws that connect mental states. Providing descriptions of mental phenomena is therefore the real aim. Inner perception is conceived of as a descriptive method and not an explanatory one. Explanation is subordinated to description.

The meaning that Menger attributes to scientific explanation has been discussed in Chapter 2. What emerged there was an idea of explanation involving the possibility of both forecasting the future developments of socio-economic phenomena, and comprehending their very “nature” (i.e. classifying them). Explanation is the pivotal concept for research in the economic field. Hence, the two perspectives are quite different. However, Brentano’s need to keep psychology and physiology well-separated is proof of his recognition of the autonomy of psychology itself, more than we see in Wundt. Similarly to Menger, he maintains that in order to scientifically investigate a discipline, the first step is to clearly establish its boundaries with reference to other scientific fields.

At this stage, it also seems important to tackle a pair of issues regarding *ontological matters*. In Brentano’s early works, largely influenced by his study of Aristotle, psychology and metaphysics are conceived of as complementary research fields. At the time, Brentano still refers to «rational psychology» as the «doctrine of the soul». In the 1870s, Brentano begins to rethink the relationship between psychology and metaphysics. If psychology is to be transformed into an empirical discipline, it must be separated from traditional ontological conditioning and categories. However, in his view, this does not mean abandoning all metaphysical discourse. Instead, he intended to establish a study of metaphysics based on unquestionable empirical criterion (i.e. inner perception).

Apart from these manifest goals, the major difficulties finally arise in Brentano’s approach when interpreting the ontological status of objects towards which conscious mental acts are directed. In this regard, let us first recall the definition he provides:



Every mental phenomenon is characterized by what the Scholastic of the Middle Ages called the intentional (or mental) inexistence of an object, and what we might call, though not wholly unambiguously, reference to a content, direction toward an object (which is not to be understood here as meaning a thing), or immanent objectivity. Every mental phenomenon includes something as object within itself, although they do not all do in the same way. (Brentano 1874/1973, p. 88).

In fact, are intentional objects a kind of “duplication” of external physical objects? Moreover, how can we treat non-existent objects such as fictional characters? In the course of time, Brentano’s students attempted to provide solutions, often contrasting with one another. Some of them read his position as a form of “immanentism”, according to which objects exist exclusively in the mind of the subject. Scholars such as Alexios Meinong instead defended the idea that intentional relationships are always established between a mental act and an *external* object, even when the object does not properly “exist”. In fact, Brentano firmly rejected the immanentist reading of his approach to metaphysics, he rather suggested intentionality is a special kind of relationship (i.e. a «quasi-relation» (*Relativichles*), which subsists even though one of the objects of the relationship itself does not properly “exist”. It is therefore evident that the issue of the ontological status of these objects remains an open matter.

At this stage, it is clear that Menger’s and Brentano’s perspectives are divergent also on metaphysical questions and (above all) ontological commitments. With reference to the first item, Brentano is not particularly concerned with giving up the metaphysical implications of his research, even after his “turn” in the 1870s. Whereas on one side he intends to *empirically* found the new discipline of psychology, on the other inner perception is treated as the basis of a correspondent new metaphysics for psychology itself. Therefore, metaphysics is not overcome, but just conceptualized differently. Menger’s approach is quite different, in which scientific and metaphysical aspects are definitely distinguished, Treating political economy from a scientific perspective means avoiding any metaphysical notions. Menger does not retrieve those old concepts anywhere in his writing. Let us finally consider ontological commitments.

Brentano commits to the existence of a wide range of phenomena regarding humans' inner activities. Intentionality exists, as well as the objects to which it is oriented. This holds for both physical objects and for objects having an uncertain status. On the contrary, I have already argued against the rigid realist interpretation of Menger's perspective<sup>30</sup>. Despite basing investigations on observable facts, he is well aware that the elements and concepts of his theory have a significant degree of arbitrariness.

So far I have attempted to show to what extent Menger's and Brentano's methodological and epistemological perspectives differ from each other. I will now take a different level of the analysis into account, emotional and ethical issues. As mentioned above, emotions like pleasure and pain have been often introduced as explanations for (economic) actions, but it has been widely demonstrated that, in Menger's view, economic behaviours cannot be explained in these terms. Economic activities are driven by other aims:

[t]he propensity of men to trade must accordingly have *some other reason than enjoyment* of trading as such. If trading were a pleasure in itself, hence an end in itself, and not frequently a laborious activity associated with danger and economic sacrifice, there would be no reason why men should not engage in trade in the cases just considered and in thousands of others. There would, in fact, be no reason why they should not trade back and forth an unlimited number of times. But everywhere in practical life, we can observe that economizing men carefully consider every exchange in advance, and that a limit is finally reached beyond which two individuals will not continue to trade at any given time. (Menger 1871/2007, pp. 176-177)

In Brentano's philosophy, actions and action motivations are treated quite differently. In order to understand how, let us first consider certain concepts he develops. In particular, he outlines three kinds of mental phenomena, which are not conceived as separate categories classes:

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<sup>30</sup> See Section 2.5.

- i. *Presentations*: the very basic psychic acts; the image presentation of an external object is generated every time the subject orients himself towards that object.
- ii. *Judgments*: through them, the subject accepts or denies the existence of the object as it appears to them in the presentation.
- iii. *Phenomena of love and hate*: they comprehend emotions, desires, acts of will, etc. In this case, positive or negative feelings are associated with the presentation of the object. (Cf. Brentano 1889/1969, pp. 15ff.)

From these definitions, some considerations inevitably follow. First of all, Brentano and Menger evidently conceive of actions in a different manner. According to the Austrian psychologist presentations and judgments are already actions; they are inner acts, preceding any external performances. Instead, for Menger actions are exclusively external and observable. Secondly, Brentano attributes feelings and moral considerations to mental acts, thus intertwining distinct levels of analysis, while Menger would have firmly rejected this analysis.

A final aspect needs to be taken into account, if we want to fully dismiss the psychological reading of Menger's work, the treatment of *preferences*. In Brentano's view, a thing *A* is *better* than a thing *B*, when it is *correct to prefer A to B*. This principle, actually rather trivial for Brentano himself, implies a set of corollary issues. All the following preferences are maintained to be desirable:

- i. Preference of something good over something bad;
- ii. Preference of the existence of something good over its non-existence;
- iii. Preference of the non-existence of something bad over its existence;
- iv. Preference for more intense pleasure to less intense pleasure;
- v. Preference for less intense pain to more intense pain;
- vi. Preference for longer-lasting to shorter-lasting joy or pleasure;
- vii. Preference for shorter-lasting to longer-lasting pain<sup>31</sup>.

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<sup>31</sup> The full list is provided by Fabian and Simons (1986, p. 49).

The above list shows us that, according to Brentano, to prefer something over something else can be justified from different perspectives:

- i. From a strictly *psychological point of view*, since preferences are maintained to be determined by the quest for pleasure and the rejection of pain (and their respective intensity), where pleasure and pain are conceived of as feelings. An utilitarian perspective is evidently defended here;
- ii. From an *ethical point of view*, since Brentano introduces the concepts of good and bad as criteria for choosing;
- iii. From an *ontological point of view*, given that Brentano, by recalling Leibniz's philosophy, connects the ethical dimension to the existence (or non-existence) of the objects at stake.

All these considerations clearly demarcate the distance between Brentano and Menger. Indeed, Brentano's positions on preferences are explained through non-scientific factors, which confuses psychology too much compromised with other disciplines, which actually have different scopes.<sup>32</sup>

### **3.3.2 Austrian Economics and German Psychology. Menger vs. Wundt**

Generally speaking, it is quite surprising to note that most critics have exclusively concentrated on the (alleged) theoretical relationship between Menger and Brentano, while neglecting the polemic contrasts between Menger and Wundt, which are evident in their writing and notes.

A comparison of Menger's and Wundt's scientific research reveals two interesting issues. The first consists in examining whether, and to what extent, Wundt's «elementism» is similar to Menger's methodological individualism. Second, it seems appropriate here to address the debate they pursued regarding the relevance of theoretical economics.

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<sup>32</sup> A detailed discussion on the reasons why Menger cannot be considered an utilitarian is provided in Chapter 5.

In the introduction to this Chapter, the «psychology of elements» was preliminary presented. Wundt aims at decomposing consciousness into its indivisible components and attempts to render this possible through an experimental methodology. However, Menger questioned more than one aspect of the «psychology of elements».

First of all, it would be extremely hard to define *consciousness* from Menger's position. People do not observe inner life of others, but exclusively their external behaviours that are the result of a given set of conditions. Whether something actually happens “inside”, and what, cannot be described, at most assumed. Conversely, Wundt intends to analyse consciousness and its constitutive parts. As an empirical discipline, psychology can legitimately use the same methodological tools employed in other natural sciences, observation and experiments. However, in this case too, observation is meant as self-observation, i.e. a first-person observation. Instead, the Austrian economist believes that only a third-person observation, therefore only an external and shared observation can be accepted as scientific. This is valid for both the natural sciences and “new” disciplines like political economy and psychology, inspired from the natural sciences. Psychological motivations might exist, but cannot be objectively investigated. Moreover, psychological motivations and consciousness could mean very different things.

Given such premises, let us then consider the similarities and divergences between *Menger's atomism* and *Wundt's elementism* in more detail. Menger's atomistic method intends to capture the fundamental components of complex economic facts, which the Austrian economist identifies in individuals, and their personal and mutual actions. This is the first step before introducing the abstraction procedure, which allows one to formulate universal laws. Quite differently, Wundt believes that consciousness is reducible to sensations and feelings, these are the ultimate components of the psychological realm. In particular, the «psychological synthesis of sensations» generates representations, i.e. images of things and processes in the external world. Through an extremely codified experimental standard, Wundt's aims at establishing how physiological stimuli and changes affect psychic events, and which laws govern their relationships. Wundt's purpose in deconstructing a complex phenomenon like consciousness into its constitutive parts is clear. However, a few differences arise with respect to Menger's position. As previously exposed, Menger's basic concern is to

provide an explanation for unintended economic phenomena, and the introduction of methodological individualism has to be understood to serve this goal. Wundt's starting point is quite different, as he maintains psychic acts to always be conscious acts. There is therefore a remarkable asymmetry between the two scholars, since a theoretically similar deconstruction is applied to opposite kinds of complex phenomena.

In addition, the facts to be explained belong to very distinct research frameworks. Economic facts and processes are conceived of as exclusively social products. It is possible to identify trends and tendencies in the social realm, however these regularities and laws are not reducible to other scientific areas. Menger not only rejects the possibility of anchoring the explanation of social phenomena on unobservable (non-empirical) facts, but he also consciously avoids explaining facts from one scientific discipline by referring to another one. Economics is maintained as an autonomous science, in this sense too. On the contrary, Wundt investigates externally non-observable phenomena, and in order to do this he *needs* to refer to the physiological realm. Only by adequately manipulating physical inputs, modifications in psychic events can be grasped and consequently examined.

There are two practical reasons that most likely explain the insufficient attention of critics to the debate between Wundt and Menger:

- i. the lack of translation of Wundt's original German *Logik* into other languages, where he outlines his considerations of types of methodologies applied to different scientific areas;
- ii. Menger's critical notes on Wundt were never published<sup>33</sup>.

Before considering further divergences, let us noted that Menger's interest in Wundt's work was mostly *methodological*. The Austrian economist does not reference Wundt's work driven by the desire to psychologically ground his economic theory. As largely illustrated, "introspection" plays no role in identifying the origins of subjective decisions for Menger.

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<sup>33</sup> In the posthumous volume of the *Grundsätze*, edited by Menger's son Karl, the project of future publication of the Austrian economist's notes criticising Wundt is mentioned. However, they were never published.

The German psychologist dedicates a whole section of *Logik* to the examination of methodologies in economics. Let us preliminary observe that Wundt employs the labels «concrete approach» and «abstract approach» in referring respectively to what Menger defines «realistic-empirical orientation» and «exact orientation» in research. Wundt firmly rejects the idea that abstract research could be useful for identifying economic concepts and laws. More specifically, he pinpoints three theoretical Menger's assumptions (*Voraussetzungen*) as completely unfounded:

- i. The idea of society as the mere sum of individuals and their economic actions;
- ii. The presupposition that agents have perfect knowledge of their own interests;
- iii. The belief in free trade and the absence of economic privilege.

In his personal notes, Menger critically summarizes Wundt's position as follows:

Wundt wirft der abstrakten Theorie vor, dass sie die einzelnen der Güterbewegung, nicht nur von dem sozialen Tatsachen, mit denen sie in der Wirklichkeit stets verbunden sind, sondern auch von allen konkreten politischen und historischen Bedingungen losgelöst habe, und die Begriffe und Gesetze, zu denen man so gelangte, einen abstrakten Charakter zunehmen mussten. (Reel 29, Menger's Archive)

Similarly to other German economists, Wundt evidently maintains historical, political and social information as fundamental for economic analysis. However, Menger denies that economic theory is based on the assumptions listed above or, at least, he refuses to interpret them as Wundt does. These presuppositions are not conceived of as circumstances of the real world. In fact, theoretical research consists in grasping the «ultimate configuration of economic phenomena» (*die Gestaltung der Wirtschafterscheinung*).

Quite differently, Wundt believes abstract research to be incomplete. As Menger himself recognizes: «Wundt sucht im Verlaufe seiner Untersuchung die Wirtschaftsgeschichte als Vervollständigung, ja geradezu als Vertiefung und

Verbesserung der Theorie darzustellen» (Reel 23, Menger's Archive; underlined in the original text). According to the German psychologist, theory alone is not enough. The explanation of economic facts inevitably requires reference to precise historical events and conditions. In his notes, Menger argues against this perspective, economic history and economic theory are distinct areas of research, with specific goals. For this reason, historical investigation is not the criterion for theoretical research. Abstract economic theory does not require historical integration:

Die Geschichte ist keine Ergänzung oder gar Vertiefung der Wirtschaftstheorie; ihre Erkenntnisziele und ihre Bedeutung für das Erkenntnisstreben sind wesentlich andere, als jene der Nationalökonomie. Indem Wundt die "abstrakte Volkswirtschaftslehre" gleichsam als eine unvollkommene Geschichtsschreibung, die Geschichtsschreibung als eine vertiefte und vervollkommnete "abstrakte Volkswirtschaftslehre" darstellt, verwechselt er die Aufgaben der Wirtschaftstheorie und der Wirtschaftsgeschichte und erlebt die letztere zum Maßstabe für das Werturteil über die erstere. (Reel 23, Menger's Archive)

Later in his annotations, Menger further clarifies his ideas about the scope of economic theory. In so doing, he also takes other scientific fields into account. Generally speaking, the theoretical sciences do not provide explanations for phenomenon from every possible perspective, nor of concrete real life facts. Therefore, theoretical economics' only real interest is towards the strictly economic side of phenomenon. A lot of variables are excluded from the exact orientation of the economic analysis. If we took all of the variables into consideration, the survey would assume a «realistic-empirical» perspective. («An sich wird die Wirtschaftstheorie stets nur geeignet sein, uns die wirtschaftliche Seite des Volkslebens zu Verständnisse zu bringen»):

Ich glaube, dass die Wirtschaftstheorie für sich allein gar nicht die Aufgabe habe, uns das allseitige Verständnis komplexer Gesellschafterscheinungen zu verschaffen. Eine Aufgabe dieser Art



hat, wie mir scheint, überhaupt keine einzelne theoretische Wissenschaft. Weder die reine Chemie, noch auch die reine Mechanik, noch auch irgend eine andere theoretische Wissenschaft vermag beispielsweise für sich allein Tatsachenkomplex der Natur in der Weise zu erklären wie die Wundt der abstrakten Nationalökonomie verlangt. Man versuche z.B. die Erscheinung eines konkreten Erdlebens, die Erscheinung eines Staatfeldes oder gar die Erscheinung eines kranken Organismus durch eine einzelne theoretische Naturwissenschaft, etwa die Physik, die Chemie oder die Physiologie vollständig, das ist in ihren vollen empirischen Wirklichkeit. (Reel 29, Menger's Archive; underlined in the original text)

As opposed to Wundt, Menger also stresses the importance of keeping theoretical and practical sciences separate and, therefore, theoretical and practical economics. More specifically, in his notes he recognizes surgery, mechanical and chemical technology as examples of practical sciences. Similarly, private economy and economic policy are two of the practical articulations of the more general economic field. Indeed, these aspects of economics are not aimed at studying social world phenomena in their development. At the same time, they do not look for laws and regularities regarding facts and events. They have very precise goals in well-determined practical situations. (Cf. Reel 25)

This divergence sheds light on how the two scholars treat the scientific research. Menger disagrees with Wundt not only when he applies his method to non-observable phenomena, but the economist also accuses him of confusing the theoretical and practical level of research, similar to German economists.

### ***3.4 Epistemological Models in Psychology and Menger's Perspective***

So far I have illustrated the divergences between Menger and the most prominent psychological traditions of his time, respectively inaugurated by Brentano and Wundt. What has emerged is that Menger is far from sharing their perspectives, both regarding

content and methods. Psychological motivations for economic human actions are conceivable, but scholars cannot count on them for the elaboration of economic theories for two reasons:

- i. Psychological events have no empirical (observable) basis;
- ii. and, consequently, the methods employed for these investigations cannot be objectively (scientifically) shared.

Economists must initiate their investigations from observation of human behaviours. They are asked to provide explanations of these behaviours exclusively on the basis of empirical facts. According to Menger, needs and their satisfaction are independent from human will:

The most original factors of human economy are the needs, the goods offered directly to humans by nature (both the consumption goods and the means of production concerned), and the desire for the most complete satisfaction of needs possible (for the most complete covering of material needs possible). *All these factors are ultimately given by the particular situation, independent of human choice.* (Menger 1883/1985, p. 63; italics added)

He is not attempting to interpret if human attitudes are rigorously determined, but rather avoid reduction, or the implication of factors that do not have clear explanations. However, in Menger's view there exists a clear distinction between *assumptions*, like the self-interest principle, and elements that cannot be investigated. Assumptions or hypotheses, the basis on which economic theory is constructed, are always abstractions. Even if they do not properly describe the world as it really is, they are constructed from empirical observations. Psychological motivations, instead, cannot be assumed, given that scholars have no possibility of observing them.

Menger's position on the irrelevant role of psychological motivations in economic theory is not isolated within the Austrian tradition. Therefore, I consider it particularly astonishing that the Austrian School is usually interpreted as a psychological tradition as a whole. In this regard, let us think for instance about Joseph

Schumpeter's perspective, which seems to be perfectly in line with Menger's, except for being more explicit. In his essay on *The Nature and Essence of Economic Theory* (1908), Schumpeter investigates whether, and to what extent, economics should be in debt to psychology:

Which methods or results would we have adopted from [psychology]? Let us only distinguish between experimental and introspective psychology for our purposes; thus, we see that the methods and results of the first ones, which are primarily dedicated to the "perceptual analysis" and lie against psycho-psychics and physiology, are as far away from our area as possible; and we have seen well enough that introspection offers us nothing. [...] We can summarize our present argument by stating that *no* connection exists between economics and psychology, neither a methodological one, nor a material one of the type that we would have to follow the latter one in order to attain our results. (Schumpeter 1908/2010, p. 397; original italics)

Schumpeter's response is evidently negative for all points. Both experimental and introspective psychology are considered unable to provide useful content for economic research. The relationships between psychic and physiological phenomena does not contribute to the elaboration of an economic theory. How could the objective measurement (if feasible) of these relationships be of any utility in explaining the behaviour of an economic agent? In a similar manner, introspection has never provided information regarding the basic reasons why an individual acts. How could the observation of exclusively mental phenomena be objective and, therefore, reliable? Economists do not draw any special knowledge or content from these two branches of psychology. Moreover, by virtue of their peculiar object of study psychology has developed methodologies that are not suitable for study of the economic field. When terms such as «psychology» or «psychological» are employed by the economists, no specific meaning is attributed to them. They do not refer to an essential axiom, instead they are conventionally used in speaking of certain general concepts. "Psychological motivations" are used as mere labels:

The psychological manner of expression is only an attachment, does not touch the essence of the matter, and one easily sees that one can replace it with another, without affecting the value of the observations for our area in the least. It solely proceeds from the effort to *explain* the observations. However, this is a vain effort and if one knows to add nothing else to the simple presentation of a social phenomena than the mere indication of the psyche, and it is nothing more, then one has only produced a tautology [...]. (Schumpeter 1908/2010, p. 399; original italics)

In line with Menger, Schumpeter affirms that «only the *visible behaviour of man*, not his psychological processes are of interest for our purposes. In fact, those psychological statements are only statements about facts [...]» (*Ibid.*).

On the basis of the analysis conducted so far, we may wonder whether Menger embraced a specific psychological model (regardless of its application to economic research), keeping in mind that the psychological field was at its very beginning at the time. For this purpose we can take a brief look at two epistemological models, cognitivism and behaviourism.

According to the cognitive model, psychology is conceived as the science of the mind. Even though the first cognitive psychologists recognize that mental facts and processes are not investigable in the same manner as physical phenomena, they still shared the intent of looking for a rigorous scientific method. Both Brentano's and Wundt's perspectives evidently belong to this epistemological model. In Brentano's perspective, intentionality is maintained as an important feature of mental processes, which distinguishes it from the physical world. In Wundt's perspective, psychological facts are those immediately apperceived at the consciousness level. The introspective method, and self-observation, allow for the deconstruction of data derived from the conscious experience into constitutive elements. Both authors stress the role of consciousness, but from different points of view. It is one thing to consider the act of consciously addressing one's own attention to a precise object (or to its representation); it is another to relate external physical stimuli and inputs to a conscious perception of their intensity. In the first case, consciousness is conceived of as an active concept; in the second, a passive one. However, Brentano and Wundt agree on the idea that «mental

process» is actually something intrinsically different from the physical and that it deserves to be investigated as something beyond a metaphysical concept.

The behaviourist theory arose in reaction to cognitivism. According to behaviourism, psychic phenomena, like thoughts, emotions and beliefs, cannot be empirically observed and measured. These events are all internal and private facts, inaccessible to scientific examination. For this reason, it is a mistake to treat psychology as the science of the mind. What psychology legitimately studies is exclusively human behaviour, which can be explained by referring to its external and environmental origins. Therefore, behaviourists reject the cognitivist connection between the observer and the observed object, stressing the fundamental role of inter-subjectivity for any scientific challenge. Concepts like intentionality, and methodologies like introspection must be completely abandoned for the behaviourists. However, a part from a few extreme positions, behaviourists generally accept the idea that mental facts and events could exist. Their critique is rather addressed to the possibility of scientifically investigating them. Behaviourists' rejection of mental phenomena is not ontological, but methodological. Finally, it is worth stressing that although behaviourism was developed in the United States, it shares some important aspects with neo-positivism, geographically rooted in Vienna during the first decades of 20<sup>th</sup> century.

Both models are evidently outdated. However, this reconstruction is intended to help comprehend whether a psychological-epistemological paradigm may be integrated in the interpretation of Menger's perspective.

I consider particularly surprising that Menger's subjectivism has been usually read as an example of the application of a cognitive approach to economics. At this stage, we can establish a connection between Menger's method for investigating economic actions and the behaviourist paradigm. I do not intend to suggest that Menger *is* a behaviourist or that he is a pioneer of behaviourism. The Austrian economist was evidently not concerned with psychological research and does not use psychological methods or content. However, analogies between the starting points of these scientific endeavours are clear. Menger and behaviourists share the idea that nothing can be said about mental facts and processes, since these phenomena are neither empirically nor inter-subjectively investigable. Hence, the agreement lies in the axioms that construct the methodology.

Now, it may be legitimately asked whether this sort of comparison is justified, given that suggesting a correspondence between the theories involves several problematic aspects. As we know, Menger does not reduce human economic activities to their psychological foundations, whatever the meaning attributed to psychological facts and events. Moreover, the official birth of behaviourism was 1913, when John Watson published the article *Psychology as a Behaviourist View*, several decades after the diffusion of marginalism. The temporal gap between the developments of the two traditions is significant. Interpreting Menger's approach through a later paradigm is obviously inappropriate, as he wouldn't have known of it.

In spite of these valid objections, the similarities between the approaches are undeniable, so how can we address the matter? I am not proposing reading Menger's economic analysis through the filter of behaviourism. The Austrian economist does not reduce economic actions to psychologically based behaviour, neither in words nor deeds. Perhaps, this comparison could be sustained if, at his time, human external behaviour had been established as psychology's subject matter, yet this was not the case. Behaviour was not yet a psychological concept in Menger's era.

In my purposes, the reference to behaviourism here has a different goal. I have mentioned it in order to demonstrate the inconsistency of the cognitive reading of Menger's works. At this stage, it should be clear to anyone who is still inclined in pursuing a psychological interpretation of Menger's perspective, that they should at least abandon cognitive models.

### ***3.5 Concluding Remarks***

In the present Chapter, the independence of Menger's economic perspective from the psychological research of his time has been demonstrated. We have addressed all of the possible positions which have been used by critics that suggest a psychological reading of his work.

Menger's system is based on a clear distinction between the theoretical and practical levels of economic research. The identification of universal economic laws is the goal of theoretical research. However, he also affirms the importance of the

empirical observation of complex social phenomena, providing the rough material for the elaboration of theory. As has emerged, the general way in which he conceives of *empirical observation, theory* and *explanation* is decisively far from both Brentano's and Wundt's. Both psychologists resort to first-person observation, which does not hold up to any scientific standard according to Menger. Moreover, these psychologists are unable to formulate a universally valid law for their research field. This is true for both Brentano and Wundt, even though Wundt intended to discover how physiological stimuli and psychic perceptions are connected through experimentation. Despite of the rich amount of data collected in Wundt's laboratory, the formulation of a general theory was found unfeasible. In this context, even explanation is interpreted differently. While for Menger "explaining" also means classifying phenomena and forecasting their future developments, these roles are lost and the very idea of explanation is weakened in Brentano's and Wundt's work.

In addition to the deep divergences regarding the scientific treatment of their respective disciplines, why Menger's position cannot be interpreted as a psychological one has also been illustrated. In particular, he never reduces the explanation of economic facts to psychological motivations, since:

- i. Psychic motivations cannot be investigated, only behaviours;
- ii. Economic actions do not involve feelings, emotions, pleasure, pain etc., but rather needs and their satisfaction;
- iii. Economic actions are not expressions of "human nature", but rather reactions to external circumstances, given a set of human necessities for survival.

The misunderstandings found in older interpretations most likely depend on the alleged coincidence in meanings of subjectivism, individualism and psychological motivations. As seen in the previous Chapter, the concept of subjectivism is used in economic theory, and individualism is utilized in the methodology. Embracing either subjectivism or individualism does not imply the adoption of a psychological position or methodology. These earlier critics therefore display inconsistency in their analysis.

## 4. The Role of Law in the Development of Menger's Economic Thought<sup>34</sup>

### 4.1 Introduction

With the publication of Adam Smith's 1776 *Inquiry*, the process starts which leads political economy to become an autonomous discipline characterized by precise goals and research tools.

On the basis of the reception and re-elaboration of Smith's legacy, in the 19<sup>th</sup> century scholars in economics are engaged in solving the problem of circumscribing the economic field from other research areas, in particular from the moral, sociological and psychological fields. In addition, methodological matters, which had not been tackled by Smith, becomes urgent. Within this general context, two tendencies emerge in the Anglo-Saxon and German areas respectively. While the major Scottish and English scholars elaborate their theories by conceiving political economy as a sub-discipline of *moral philosophy*, their German-speaking colleagues approach it from a *juridical point of view*: during the 19<sup>th</sup> century the most renowned German-speaking scholars are in fact law experts who progressively address contemporary developments in economic matters. The same branch of knowledge is thus investigated from perspectives that are, although distinct, not in opposition to each other. This fact, usually underestimated, enlightens the initial difficulty in clearly framing the new subject matter. However, in this case alternative paths have in the end led to common results, as will emerge later on.

In this Chapter, I will show the relevance of the juridical tradition both in Carl Menger's education and in the elaboration of his economic theory. Even though he is considered the founder of an *economic tradition* in Austria, Menger is fully influenced by German studies in law. The investigation of this issue is also useful to identify the deep divergences between the *German Historical School of Law* and the *German Historical School of Political Economy*, which basically share only a similar denomination: while the exponents of the Historical School of Political Economy

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<sup>34</sup> I am particularly grateful to Professor Marina Lalatta Costerbosa for the precious suggestions on Chapter 4 and Chapter 5.



explicitly refer to the contributions of the Historical School of Law in order to legitimate their theoretical position, their core perspectives are actually divergent. This survey will clarify which aspects of the German tradition Menger does take and which of them he fully rejects.

I will therefore focus on the following topics: i) the reconstruction of the academic environment in which Menger received his education (Section 4.2); ii) the several meanings that the concept of «History» assumes within the German-speaking context (Section 4.3); iii) the influence that the major contributors to the juridical German thought exercised on Menger's scientific activity, with particular reference to the work by Friedrich C. von Savigny (Section 4.4.2).

#### ***4.2 The German-speaking Legal Tradition and Menger's Academic Education***

Generally speaking, it may be considered quite inadequate to introduce the 19<sup>th</sup> century scholars in political economy as “economists”, at least as if we use the term in its current meaning. At that time, the professional figure of the “economist” was not outlined and it was not possible for students to achieve a specialization in that field at the university: both in Germany and in Austria only sporadic chairs of political economy had been established, but no faculties and departments were committed to a complete and articulated study of the matter. The lack of institutional recognition characterizes political economy until the end of the 19<sup>th</sup> century. However, by analysing in detail the situation in Germany, we observe a precise tendency: at the beginning of the century, the works of the German economists consisted in the elaboration of general treatises that blended studies from different fields (from classical studies to philosophy and law); within these texts, political economy coincided with attempts at an historical reconstruction of national economic activities. Over time, the horizon of the economic research was progressively defined: more refined notions were introduced and there emerged the necessity of elaborating scientific theories devoted to the explanation of the economic facts and events of the real world.

In Germany, only university professors of political economy were properly considered “economists”. The chair of political economy had been established already

at the beginning of the 17<sup>th</sup> century, therefore several decades before the publication of Smith's main work. The attendance at the course was mandatory for law students, who could either be willing to acquire the formal requirement to teach political economy at university, or to get access to good positions in the state administration. However, in both cases no specific recognition for the study of the discipline was obtained: scholars generally became "doctors" (cf. Tribe 2003, p. 218).

Until Menger, the structure of Austrian academy had been largely influenced by the German one. In particular, lessons in political economy simply consisted in the reading of German handbooks, usually written by exponents of the first generation of the Historical School. The teaching of political economy was exercised within the Faculty of Law. In Vienna, the professors who preceded Menger on the chair of political economy were:

- Joseph F. von Sonnenfels (1732/1733-1817): jurist, among the leaders of the illuminati movement in Austria and advisor of the sovereign Maria Theresa. In 1763 he became professor of "Polizey-Kameralwissenschaft".<sup>35</sup> Sonnenfels is mainly known as one of the first intellectuals who opposed the use of torture, which in Austria was abolished in 1776.
- Joseph von Kudler (1786-1853): educated in Science of State (*Staatswissenschaften*) and Law; his major work, *Die Grundlehren der Volkswirtschaft*, was published in 1846.
- Lorenz von Stein (1815-1890): born and educated in Germany in Philosophy and Law; he taught at the University of Vienna since 1855.
- Albert E.F. Schäffle (1831-1903): German sociologist with an organic orientation; he obtained the chair in political economy at the University of Vienna in 1868.

These brief biographies show the centrality of the juridical education at the time. The awareness of the influence exercised by this tradition was explicitly recognized

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<sup>35</sup> The term "Polizey-Kameralwissenschaft" was a general label referring to a wide range of sub-disciplines: not only political economy (still in its embryonic form), but also public law, sciences of administration, city planning etc. It was introduced in the Thirties of the 18<sup>th</sup> century within the German academic context, but disappeared from the universities already in the second half of the 19<sup>th</sup> century.

even by Friedrich von Wieser, in the obituary the he wrote in 1921 in memory of his teacher Menger.

we arrived to the political economy through jurisprudence and we did always remember with gratitude the great stimulus which our knowledge of economics had received from the rigorous legal discipline. The private law, which is an unequalled model of theoretical elaboration, is property law, economic law [...]. We eagerly mastered the rich material [...]. We put the written codes aside and turned towards the unwritten laws which regulate the social life. (Hayek 1960/2007, introduction to the Italian edition, p. 32n; our translation)

Analogously to a large number of his colleagues, Menger's academic career started and developed within the juridical field. At the beginning of his education, Menger was not interested at all in economic matters and he had no specific competence in that research area. Menger studied «Science of State and Law» in Vienna in 1859 and continued in Prague the following year until 1863. In 1867 he got his PhD, which allowed him to begin the academic career at the Faculty of Law in Vienna, where he became full professor in 1879. Menger's interest in political economy arose outside the academic environment, in particular during his activities as journalist, which he conducted in parallel to his studies since 1863.<sup>36</sup> Menger worked for several newspapers, covering different roles. 1866 turns out to be the decisive year, since he became supervisor of the economic page of the *Wiener Zeitung*.<sup>37</sup> It is almost certain that Menger never wrote articles in the brief period during which he covered this position, from March to September of that year (at least, we know that no article was signed by him). However, this was Menger's very first occasion to get acquainted with economic issues: it was in this period that he began studying, as a an autodidact, not only the classic works of the economic thought, but also several contributions of his contemporaries. The Archive documents confirm the extremely scrupulous

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<sup>36</sup> For a detailed review of Menger's journalistic experiences, see Yagi (2011, pp. 20-22). For a complete reconstruction of Menger's biography, see Boos (1986).

<sup>37</sup> The *Wiener Zeitung* is one of the main Austrian newspapers. Founded in 1703, it is one of the oldest in Europe.

investigations conducted by Menger from 1867 to 1871 (when the *Grundsätze* were published): in the very first phase, he paid particular attention to the reconstruction of issues and the solutions offered by some eminent scholars.<sup>38</sup> Only later, he gradually elaborated a personal economic perspective. For our purposes, I will particularly concentrate on the role played by German philosophers and jurists such as Immanuel Kant, G.W. Friedrich Hegel and, above all, Friedrich C. von Savigny, in order to show how their approaches could have inspired Menger in his *economic* surveys.

### **4.3 On the Concept of “History” in German-speaking Thought**

As mentioned above, some remarkable divergences exist between the two Historical German Schools (of Law and Political Economy). The main one concerns the interpretation of the *historical* element, present in both denominations, but which actually assumes different meanings. As we know, the 19<sup>th</sup> century German thought is characterized by reflections of historical nature, which aim at identifying an interpretation key for reading and comprehending social reality. However, deeper investigations show the difficulty of outlining a univocal and unilateral significance of the concept of «History». This difficulty especially depends on the discrepancy between the research purposes of the two Schools.

The emphasis on the value of the historical inquiries stems from a reaction to the French rationalist thought of the previous century. The common intent of the 19<sup>th</sup> century German scholars was to take position against the abstract and absolute concept of «Reason». It was in opposition to the French tradition that they identified in history, which on the contrary refers to concrete and particular facts, the most adequate instrument for explaining social phenomena.

However, a further meaning was attributed to history: it was interpreted as *logos*, i.e. the immanent element providing rationality to reality, human and social life, even when the facts of the world would appear irrational. Despite the purpose of using History as opponent to Reason, it is apparent that this reading is similar to the interpretation of Reason common in the 18<sup>th</sup> century.

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<sup>38</sup> Among others, the Scottish economist John R. McCulloch (1789-1864), the English economist Nassau W. Senior (1790-1864) and the American economist Henry Charles Carey (1793-1879).

Among the supporters of the first interpretation of history, we find several renowned German jurists: not only Savigny, but also Karl Friedrich Eichhorn,<sup>39</sup> Barthold G. Niebuhr<sup>40</sup> and Leopold von Ranke.<sup>41</sup> The second reading was basically defended by philosophers, who were particularly influenced by Hegel's thought.

Unfortunately, the idea of history as a rigorous and "scientific" research method was soon abandoned for different reasons. In this regard, we must first consider a biographical aspect. Most of those German scholars belonged to the high and bureaucratic class and, more or less consciously, they adopted a particularly limited perspective in their investigations: for instance they did not engage in the comparative study of different societies. They were not interested in explaining social phenomena, but exclusively in historically reconstructing the events concerning their own social class. The criterion of objectivity was thus compromised, since history was employed as a tool to exclusively describe a circumscribed set of facts from a very specific perspective.

Embracing a historical perspective entailed several theoretical consequences. The first consisted in the acceptance of a relativistic point of view, according to which it was impossible to formulate universally valid laws about social phenomena. German scholars argued that each historical period would present peculiar tendencies, expressing the deep essence of the age (this is one of the aspects shared both by the juridical and the economic Historical School).<sup>42</sup>

This issue was connected to a second kind of reflections. German thinkers were also concerned with the demarcation between natural and social phenomena: whereas the first obeyed to the unchanging and universal laws of nature, the second did not display any regularity, given the high number of variables at stake. This distinction inevitably required the identification of an adequate methodology for the investigation in the social sciences. History was certainly maintained as an adequate tool, because it referred to specific facts. However, another tendency arose. New discoveries in biology allowed for the development of an organicist perspective that, progressively substituting

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<sup>39</sup> Karl Friedrich Eichhorn (1781-1854) was the founder, with Savigny, of the Historical School Law.

<sup>40</sup> Barthold G. Niebuhr (1776-1831) was a Danish historian. In 1810, he became professor of History of Rome at the University of Berlin. This allowed him to meet Savigny and his disciples.

<sup>41</sup> Leopold von Ranke (1795-1886) is considered as the most important 19<sup>th</sup> century German historian. He was the first to conduct research on the archives documents. In particular, he worked on Archives in Germany and Italy.

<sup>42</sup> This aspect had already emerged in 1748 Montesquieu's work *De l'Esprit des Lois*.

Hegel's holism<sup>43</sup> of the first half of the 19<sup>th</sup> century, defended the thesis of the correspondence between biological and social bodies. However, this theory presented two critical aspects: i) it was in contrast with the intention of keeping the natural and social realm separate; ii) it could not be harmonized with historical relativism.

Despite the widespread collectivist orientation concerning the interpretation of society, it should be remarked that to notice that the Germans considered themselves as liberals from both a political and an economic point of view. This aspect is particularly interesting when we consider the strong reaction of the German intellectuals to the French Revolution and its legacy, and their tendency to interpret the parts of society as mere functions of the whole. However, the German liberalism of that period was characterized by some peculiar traits. Contrarily to the most popular opinions, the concept of individuality did not disappear in German theories, but was only differently interpreted. More specifically, these scholars particularly disapproved the concept of natural law and human rights conceived as universal and unchanging. Because of the reference to an idealized concept of human being, eradicated from their historical, cultural and social context, German liberals deemed this interpretation of the human rights to be fully useless to grasp essential changes and challenges. However, it was not only a matter of offering a historical interpretation of human rights, which should focus on the role of the external context: it was also a matter of recognizing the opportunity for each human being to reach a higher "spiritual" level. Change was thus conceived of as a key element for this alternative interpretation of individualism.<sup>44</sup>

A further feature of German liberalism emerged in the way of treating individual liberties: according to it, only the traditional monarchic State would be able to guarantee personal liberties. On the contrary, such liberties would be jeopardized in a democratic form of government, because of the instability of public opinion. For German liberals, only the stability of the State could guarantee the defence of individual liberties and

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<sup>43</sup>Even though Hegel is the most important thinker defending the holistic approach, his perspective is quite peculiar. In particular, his emphasis of the role of the State breaks the dependence relationship between the whole and its constitutive parts which characterizes the holistic-organicist positions. This feature distinguishes Hegel's perspective from his contemporaries'.

<sup>44</sup> Wilhelm von Humboldt (1767-1835) was most likely the most influential liberal exponent in the first decades of the 19<sup>th</sup> century in Germany. In particular, he was a defender of individual autonomy and individual rights. In his view, institutions should be constructed on the basis of these two principles. However, he thought that only in the social collective, individuals could express their own essence. Humboldt's view is a perfect example of how German liberals tried to combine elements from both the individualistic and the collectivist approach (cf. Lalatta Costerbosa 2000).

rights. Conversely, an unstable political situation would break the intimate relationship between the community and the historical fulfilment of its own essence. Political uncertainty was thus interpreted as both an a-historical and anti-organic element, given that it was accused of interrupting the bond between individuals and their society. In this scenario, there was no guarantee that the citizens would be protected.

The aspects so far examined may appear contradictory: whereas change and historicity were interpreted as intrinsic traits of reality, the static nature of institutions was considered indispensable for the protection of the members of society. However, the liberties we are talking about are religious, economic liberties and so on. Participation liberties are excluded from such set: this means that individuals were free as long as they did not call into question the constituted order. It is precisely this factor that distinguishes the French and the German perspective on individualism: Germans did not contrast individualism as such (even when intertwined with personal interest). They rather fight the atomistic degeneration of individualism, which unnaturally opposes the citizens to their society.

A last consequence of the German historicist perspective concerns the normative level. Historical relativism inevitably impinges on the moral field: values and institutions, historically and culturally determined, cannot be judged through an external, universal and rational criterion. However, this anti-normative perspective is openly opposed to the positions defended by the members of the Historical School, who considered the moral issue as the main bone of contention with Menger (even though they confused the moral debate with the methodological one, as illustrated in detail in Chapter 5).

To conclude this analysis, we can now outline the three distinct meanings attributed to the concept of history in the 19<sup>th</sup> century German environment:

- i. History as a concrete fulfilment of a universal Spirit that has in itself its reason for being. This clearly is Hegel's philosophical interpretation, who conceived of History as a necessary and universal law, according to which each moment is synthesis and overcoming (*Aufhebung*) of the previous one; in particular, History is defined as «the process whereby the Spirit assumes the shape of events and of immediate natural actuality [...]» (Hegel 1821/2008, §346). History is thus

treated as an abstract concept and not as an investigative method; it is a purely philosophical notion that provides a rational justification of reality. It could be claimed that in Hegel's thought there is no trace yet of the reaction to 18<sup>th</sup> rationalism, which is on the contrary apparent in both Savigny's perspective and in the one developed by the German economists.

ii. History as a methodological tool for investigating the origins and the development of the social institutions and, consequently, for explaining the reasons of the present state of affairs. This is the meaning employed by the Historical School of Law. The historical element is maintained as necessary, but it is deemed not to be sufficient for the explanation of social facts. Moreover, the scholars who defend this viewpoint believe that the collectivistic approach is complementary (and not opposed) to the individualistic one.

iii. History as identification of the laws underlying the human relations in a specific period.

The German economists defending this notion of history do not actually reject the idea that history is a rational force operating in the world. Moreover, they do not introduce any distinction between historical investigation and theories; finally, they oppose (to varying degrees) the possibility of explaining social facts by employing individualistic aspects.

#### ***4.4 Law and the Philosophy of Law in Germany***

Kant's philosophy was the common background of the two competing 19<sup>th</sup> century Schools of Law in Germany: the philosophical School, whose main representative was Hegel, and the historical School, led by his colleague Savigny.

Hegel's *Rechtsphilosophie* belonged to the philosophical system of Idealism. In particular, he brought Kant's «Copernican revolution» to its extreme consequence: whereas Kant believed that perceptible reality was knowable only through the categories, Hegel reduced reality itself to the thought knowing it. Hegel's concept of



law was far from Kant's: in Hegel's perspective law not only comprehended the whole field of practical philosophy, but it also was a manifestation of free will.

In spite of his reaction to the 18<sup>th</sup> century rationalism, Savigny conceived of law as «an invisible border line surrounding each one of us within which our essential nature and effectiveness finds a secure and unconstrained space» (quoted and translated in Hayek 1960/2011, p. 216). In opposition to Hegel, his definition explicitly recalled Kant's perspective, according to which: «Das Recht ist also der Inbegriff der Bedingungen, unter denen die Willkür des einen mit der Willkür des andern nach einem allgemeinen Gesetze der Freiheit zusammen vereinigt werden kann» (Kant 1798, p. xxxiii).

Hegel and Savigny operated in the same cultural environment, but they had divergent views on some relevant topics like the so-called «problem of codification» and the interpretation of history. Nevertheless, they shared the idea that one of the philosophers' tasks was to provide a definition, and consequently a foundation, of the concept of law. Differently, jurists should have been engaged in solving concrete cases. A typical trait of the 19<sup>th</sup> century debate was in fact the subordination of law to philosophy. It is essential to keep this aspect in mind, especially when dealing with Hegel's contributions: even though Hegel admitted to being interested in the philosophy of law, he actually examined juridical matters with the intention of outlining an all-embracing system, which could integrate each kind of human institution and bring to light the deep meaning of history.

While reconstructing the debate over law and economics in the 19<sup>th</sup> century German-speaking context we must consider some disputes emerged in the juridical field.

#### **4.4.1 Hegel's Philosophy of Law**

Among Hegel's works, Menger was particularly interested in *Grundlinien der Philosophie des Rechts* (1821) at that time considered as fundamental text for the juridical education. Some topics which will be later recalled by the Austrian economist are clearly identifiable in it. We should observe that whereas Savigny's contributions

were of extreme importance for elaborating a methodology for the study of the social sciences, Hegel's writing captured Menger's attention from a strictly economic point of view. It would be inappropriate to consider Hegel an *ante litteram* economist; however, we are taking into account the articulated network of original concepts, definitions and ideas that finally brought about the decisive turn in political economy.

By Menger's original notes, it is possible to reconstruct the path he followed throughout Hegel's *Grundlinien*. The topic of «decision» (*Beschließen*) was treated in paragraphs 11 and 12 of the Introduction: according to him, decision determined the will of an individual with reference to impulses and needs that could be satisfied in different ways. The analysis of needs and their relation with other key-concepts appears more than once in Hegel's work. More specifically, he established a strict connection between needs (*Bedürfnisse*) and use (*Gebrauch*), defining the latter as the realization of my want through the change, destruction or consumption of the object [...]» (Hegel 1821/2008, §59). In Menger's subjective perspective, needs constituted the primary moment of the economic activity. However, the context plays a crucial role as well: needs that cannot be immediately satisfied, because of the condition of scarcity, induce the subject to undertake a strictly economic action, i.e. to exchange commodities with other agents. Hegel had explicitly pointed out the importance of this relationship:

The person [...] has an existence which is purely natural. This existence is something partly inalienable, partly akin in its nature to the external world. (Hegel 1821/2008, §43)

It is clear why Hegel's *Grundlinien* cannot be conceived of as a juridical contribution in a strict sense: that work represented the synthesis between his System and the dialectic process leading to the auto-determination of the Idea. Hegel's philosophical and metaphysical approach strongly contrasted with the contributions of the scholars of his time, tracing an independent path. Divergences between Hegel and Menger concerned not only the research field of interest, but also their respective approaches. Hegel conceived the law as the *Idea* of law, i.e. as a philosophical component constituting an essential moment of the dialectic process to be recognized and understood; conversely, Menger dealt with political economy from a scientific point of view, leaving aside any philosophical, speculative and moral implication. Hegel and

Menger were far from each other also with regard to the general approach employed: collectivist, essentialist and historicist the former, nominalist and individualistic the latter.

Despite these irreconcilable divergences, the continuity between the notions and definitions used by the two scholars is undeniable: I do not advocate the thesis of a direct influence, but I wish to emphasize the role of the juridical debates for the development of the subjective economic theories. In his notes, Menger quoted and commented other passages of Hegel's work: in particular, two paragraphs caught his attention, the first on the commodities value and the second one on the analysis of needs. In the first case, Hegel had identified a precise relationship among needs, usability and quantity of the object which should satisfy those needs. According to Hegel, different commodities which can similarly satisfy the same need are comparable and, thus replaceable:

In use the object is a single one, definite in quality and quantity, and answers to a special need. But its special usefulness (*Brauchbarkeit*), when fixed quantitatively, can be compared with other objects capable of being put to the same use, and a special want, served by the object, and indeed any want may be compared with other wants; and their corresponding objects may be also compared. This universal characteristic, which proceeds from the particular object and yet abstracts from its special qualities is the value. Value is the true essence or substance of the object, and the object by possessing value becomes an object of consciousness. As complete owner of the object, I am owner of the object, I am owner of its value as well as of its use.  
(Hegel 1821/2008, §63)

The quotation shows that while the definition of «exchange value» is sketched, the definition of «value» as such is still too vague. In any case, the last sentence clearly demonstrates that Hegel had already recognized that the value of commodities is subjectively determined and does not coincide with intrinsic properties of the commodities themselves. Despite this, there exists an essential difference with Menger's definition of value: according to Hegel, the economic value of a good is

unilaterally established by its owner; conversely, Menger considered value as the outcome of a process involving more than one agent.

Given that Hegel is generally considered as the major proponent of the German idealistic philosophy, it may appear curious that he embraced both a subjectivist and an individualistic approach when investigating economic questions. This clearly emerges in the «System of wants» which he interpreted as the basic step for the survey in «political economy».<sup>45</sup> According to Hegel, it is through satisfaction (*Befriedigung*) that a personal need acquires an objective character: it is the possession of external things and the performing of external activities that allow humans to concretely satisfy their needs.

However, Hegel thought that political economy also had to investigate the behaviour of the «social masses», by employing both quantitative and *qualitative* methods. This aspect further differentiates between the German philosopher and Menger: not only Hegel aimed at transforming collective entities into the macro-subjects of the economic discipline, but he also rejected any scientific approach to it when referring to the qualitative dimension of the economic investigation.

#### **4.4.2 Savigny and the Historical School of Law**

The intellectual production of the German jurist Friedrich C. von Savigny (1779-1861) played an essential role both in Menger's education and in his later methodological reflections. The Austrian economist recalled and examined some relevant topics touched upon by Savigny, particularly in his 1883 book. According to Menger, the crucial issue consisted in providing an adequate explanation of the origins and developments of the «social (and civic) institutions». It should be remarked that Menger employed the term «institutions» not only with reference to institutions which are “concrete” referent points for the members of a community, but also for institutions which we could hardly outline such as language and market. By taking inspiration from Savigny's contributions, Menger in particular concentrates on three topics:

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<sup>45</sup> Hegel explicitly referred to the economic contributions of Smith, Say and Ricardo.

- i. The meaning and, consequently, the task of historical investigation for disciplines such as law and economics;
- ii. The adequacy of the methods employed for the investigation in these research areas;
- iii. The continuity between the German Historical School of Law and the German Historical School of Economics.

By separately analysing these topics, Menger also wished to capture the divergences between the two Historical Schools that were too often juxtaposed. In fact, younger German economists thought that the reference to the Historical School of Law could help them in finding a further legitimization to their positions.

Among Savigny's most renowned works, *Vom Beruf unserer Zeit für Gesetzgebung und Rechtswissenschaft* (1814) was a fundamental piece that tackled the problem of the origins of the institutions. Although mainly known as a contribution to the so-called «debate on codification»,<sup>46</sup> in this writing Savigny also dealt with the «organic connection» between the law and a people: the jurist interpreted law as one of the multiple features of a people that emerges spontaneously. In the course of history, law is however subject to modifications in order to adapt to the needs and requirements of the citizens of that specific community. In Savigny's words:

The sum, therefore, of this theory is, that all law is originally formed in the manner, in which, in ordinary but not quite correct language, customary law is said to have been formed: i.e. that it is first developed by custom and popular faith, next by jurisprudence, - everywhere, therefore, by internal silently-operating powers, not by the arbitrary will of a law-giver. (Savigny 1814/1831, p. 30)

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<sup>46</sup> In the so-called «debate on codification», Savigny was opposed to Anton F.J. Thibaut (1772-1840), one of the most renowned German jurists at the time. In particular, Savigny contrasted the purpose of a national codification, by employing the arguments of the spontaneous origin of law and of the relevance of the historical contextualization. A written codification would have been in contradiction with the very nature of law. Savigny was also sceptical about the opportunity of reforming law. On the contrary, Thibaut was favourable to both codification and reforms. It is also interesting to consider the particular position of Hegel, who argued in favour of codification but not of reforms.

According to Savigny, the evolution of law is historically articulated into three phases. The first one corresponds to the achievement of a common law which is conceived as the immediate outcome of the “spirit” of a people or a nation. The second phase is characterized by the re-elaboration of customs and traditions: common law is thus transformed into “scientific” law and a juridical science (*Rechtswissenschaft*) develops. The last phase coincides with the period in which juridical culture is decadent: when this happens, the (positive) legislative power formulates and imposes to people laws that do not conform to its nature.

At this stage, we can better grasp some features of Savigny’s perspective. According to him, law is a product strictly related to the immanent character of a people, even if law is artificial, dynamic and, consequently, “relative”. Law is the instrument through which concrete responses to historical requirements of a people are provided. Savigny stressed two further aspects. First, he observed that law is a particularly articulated matter that cannot be merely identified with a set of rules: law also comprehends some characteristics which cannot be codified (this is one of the crucial points on which Savigny and Thibaut disagree).

Moreover, Savigny underlined the difference between the *political* and *technical* element of law. Whereas the first refers to the concept of law outlined above, the second indicates the birth and development of law as *science*: in this case, law requires to be simplified and exclusively treated as a systematic and coherent collection of laws. In this process, essential features of the law get inevitably lost, but this is the price to pay for facing theoretical and technical necessities.

We can now investigate the reasons why Menger employed Savigny’s reflections in his scientific production. In particular, the Austrian economist expressed his agreement with Savigny in some passages of the *Untersuchungen*, like the following:

[L]aw, like language, is at least originally not the product in general of an activity of public authorities aimed at producing it, nor in particular is it the product of positive legislation. It is, instead, the unintended result of a higher wisdom, of the historical development of the nations. [...] The *further development* of law, too, [...], like that of language, does not occur by arbitrary intention, but organically, by

inner historical necessity [...]. (Menger 1883/1985, pp. 174-175; original italics)

Later within the same text, Menger emphasized the role that the Historical School of Law had played in identifying the «organic» element which is present in the development of social institutions:

It was an undeniable merit of the historical school of jurists to have restrained those immature and precipitate reform efforts in the field of legislation and to have pointed out again the organic origin of common law and the *unintended wisdom* in it. (Menger 1883/1985, p. 232; italics added)

In this context, the real meaning of the term «organic» requires a clarification: in particular, it is employed to refer to the *origin* of the social formations which are not intentionally created by the common will, even when they are institutions of extreme relevance for the whole society. According to Menger, «organic» applies, therefore, to institutions which had an «*individual-teleological birth*»: in this cases, institutions are the results of individual behaviours oriented to personal goals. Therefore, «organic» means «non-voluntary», «spontaneous», «unintentional» and has nothing to do with the organicist theories of society. In fact, Menger rejects the analogy between social phenomena and natural organism: only in a few cases a similar comparison can be established, but most of the time it is just an «obscure sensation» with no scientific justification. This is true also for the popular tendency to identify a «mutual causation» between the whole and its constitutive parts both in social and biological organisms:

*Natural* organisms are composed of elements which serve the function of the unit in a thoroughly mechanical way. They are the result of purely causal processes, of the mechanical play of natural forces. The so-called social organisms, on the contrary, simply cannot be viewed and interpreted as the product of purely mechanical force effects. They are, rather, the result of human efforts, the efforts of thinking, feeling, acting human beings. (Menger 1883/1985, p. 133; original italics)

Unexpectedly, the German economist Wilhelm Roscher had already used a certain prudence in employing concepts like «organism» when discussing social and economic facts: according to him, comparisons between social and biological bodies should be just instrumental, without any scientific relevance:

The idea conveyed by the word *organism* is doubtless one of the most obscure of all ideas; and I am so far from desiring to explain by that idea the meaning of public or national economy, that I would only use the word organism as the shortest and most familiar expression of a number of problems [...]. (Roscher 1854/1878, p. 81)

Menger employed the adjective «organic» as opposed to «pragmatic». The latter was maintained to refer to the rational behaviours which produce some wished outcomes. In this case, the common will intentionally constructs institutions with precise goals for the public interest: in Menger's words, this kind of institutions have a «*social-teleological origin*».

Some reflections are here required. The first concerns rationality: we observe that individual rationality indirectly causes the formation of institution with an organic origin; conversely, collective rationality causes the birth of institutions with a pragmatic origin. Secondly, we observe that two distinct kinds of human action generate two distinct kinds of institutions. To be sure we can easily explain the origin of some institutions as the result of a convention or agreement; nevertheless, we must recognize that most of them are actually the product of unintended actions. It is in this regard that Menger used Savigny's analysis of institutions with the aim of extending it to the economic field:

Law and economy in their concrete form are parts of the total life of a nation and can be understood historically only in connection with the entire history of the nation. [...] And the separation of the economic element from the total complex of the life of the state and the nation [...] would not be historical nor adequate to real life. (Menger 1883/1985, p. 76)



At this stage, we can better focus on the way Menger actually interpreted the historical element. He did accept that the investigation both of political economy and law could benefit from the study of history. According to him, both disciplines can be adequately studied only by taking into account the whole context, which clearly involves sociological, cultural and historical aspects. If we consider Menger's well-known criticism of the role of history in the methodological debate with the German economists (*Methodenstreit*), this position may appear contradictory and some passages in Menger's work appear rather confusing.

[Savigny] had no thought of interpreting law historically in its concrete formations by some definite propensity or in general by some one-sided point of view and at the same time of failing to recognize the influence of all the other cultural factors and all the other historical facts affecting it. He had no more thought of doing this than a historian of economy has the idea of wanting one-sidedly to explain its historical development exclusively by some definite propensity, e.g., the economic self-interest of the nations or of the members of a nation. (Menger 1883/1985, p. 76)

As we can see, Menger clearly argued that the studies in political economy cannot be based on a unilateral perspective. In particular, he rejected the idea that egoism is the real motivation of economic actions: on the contrary, egoism must be interpreted by also considering external influences acting on the economic subject. However, I do not retain Menger's position as internally incoherent: in fact, he just kept separate the concrete, historical situation and the theoretical study of economic laws. Hence, Menger agreed with Savigny on two points. First, although he recognized the contribution of the historical element to the study of political economy, he did not want to absolutize it. In this regard, Savigny maintained that:

All success in our science depends upon the joint working of various intellectual activities. The expression, historical School, was formerly used both by me and others simply to denote one of those activities and the scientific direction especially arising from it. At that time this

side of the science was made especially prominent, not for the purpose of denying or even of depreciating other activities and directions, but because that form of activity had, for a long time previously, been more neglected than others and thus, more than others, needed a zealous defence in order that it might again step into its natural rights. (Savigny 1840/1867, p. iii)

Moreover, both Savigny and Menger insisted in keeping separate the theoretical and practical parts of their respective disciplines. Theoretical and practical researches are both necessary, but social scientists must approach them differently.

At this stage, the divergences between the two Historical Schools are clearly identifiable. For both law and political economy the historical research is essential, as it allows to reconstruct the development of social phenomena and to provide concrete examples. Menger was eager to acknowledge the relevance of the historical research, but he also recognized the necessity of identifying the real nature of socio-economic phenomena and, therefore, to *comprehend* them.

The major mistake of the Historical School of Political Economy was to argue in favour of the full coincidence of the historical research and the identification of specific tendencies («unilateral points of view») which should explain the evolution of the discipline. However, in these terms, historical investigations are useless and misleading: not only they do not appropriately capture the complexity of social phenomena, but they also arbitrarily establish which perspectives should be used for interpreting social events and facts. On the contrary, the *historical* understanding of law and economics is feasible only if both disciplines are conceived as historical expressions of a people, according to the relationship which Savigny had defined «organic connection» (Savigny 1814/1831, p. 27).

In Savigny's considerations on law, some typical traits of the 19<sup>th</sup> century German thought are evident: the references to the *Volk* (particularly to its essence), the reference to the intimate relationship between a people and the development of some disciplines, the reference to the bond between a nation and its history. Generally speaking, Savigny interpreted history similarly to most German thinkers; but, at the same time, he introduced an original interpretation of *historical investigation*.

The reference to the *Volk*, and more generally to the collectivist approach in the social sciences, is crucial when we consider the debate on «atomism» between the Germans and Menger. In this context, there occurs a misunderstanding of the concepts at stake: from a strictly scientific point of view, Menger believed that considering collective entities as the object of social investigation was incorrect; he argued that, on the contrary, universal and exact laws could be derived from the analysis of individual economies. Hence, for Menger the term «atomism» had a methodological meaning, not a moral one as for German economists. According to the Austrian economist, entities like State, people, nation are necessarily abstract, whereas scientific research has to investigate concrete situations. Savigny's position was among the sources of the Historical School of Political Economy and this is the reason why Menger critically quoted a paragraph of a 1815 writing:

There is no completely separate and isolated human existence. Rather, whatever can be viewed as separate is, when considered from another side, a member of a larger unit. Thus each separate human is of necessity to be considered at the same time as a member of a family, of a nation, as the continuation and development of all previous time. (Savigny 1815, I, pp. 3ff; translated in Menger 1883/1985, p. 91)

However, in Savigny's works some aspects recalling Menger's individualistic approach are also present. The "concreteness" of Menger's investigation was not dissimilar from Savigny's one, who constantly focused on particular cases and, consequently, on individuality. In his case too, this is not a moral position, but a methodological one. Savigny emphasized a further aspect which showed the complementarity of the individualistic and collectivistic approach. In particular, this point is related to his idea of State. The State was not only the visible expression of the intimate character of a community, but also the instrument for the correct functioning of the community itself. This means that Savigny did not conceive of the State as emanation of popular sovereignty. At the same time, he thought that the State should guarantee the liberties of its citizens and, as a mediator, should avoid any abuse. Moreover, the State, conceived of as the lawmaker, was presented as an objective element: by virtue of this objectivity, its actions were considered legitimate. This was

clearly in contrast with the idea of law as the result of the personal beliefs of the judges:

Der Grad der Beschränkung des einzelnen muss von der Willkür des anderen unabhängig sein, ein Dritter müsste dann entscheiden, wie weit die Beschränkung gehen sollte. (Savigny 1802-1803/1951, p. 14)

Another example of how Savigny balanced the individualistic and collectivist approach is provided by the definition of the relationships among the members who constitute members of society. The defence of individual liberties must be safeguarded; however, if necessary, the same liberties can be legitimately limited, for instance when some behaviour threatens individual rights.

According to Savigny, societies are based on the relationships among their individuals, but these individuals are never considered as merely functional parts of larger entities. Savigny's individualistic approach clearly derived from Kant's philosophy, whose influence is also apparent in Savigny's formal and positive interpretation of law. On the contrary, the idea of State as an impartial entity which has the task of objectively regulating human actions and the employment of history in opposition to the abstract rationality of the previous century, are typical features of the 19<sup>th</sup> century thought.

However, the fact that Kant was one of one of the thinkers that most inspired Savigny is particularly relevant. Several exponents of the Historical School of Political Economy, in particular Bruno Hildebrand (1848), were firmly hostile to Kant's perspective, critically interpreted as solipsistic. Solipsism, not individualism, was considered morally and socially dangerous and useless for the sociological research. Other German scholars, like Roscher, attempted instead to somehow justify the individualistic approach. What is important is that Savigny, in opposition to most Germans, did not conceive of individualism as a negative or problematic component.

Savigny and Menger also shared the purpose of precisely identifying the subject matters of law and political economy. Both disciplines were involved in the examination of *human relations* in well-defined contexts (cf. Marini 1966, p. 81). Even though the general field of social sciences is concerned in the general field of social sciences, considering *relations among individuals* as the ultimate element of a social

discipline is not a trivial operation. The Historical School of Political Economy, for instance, did not undertake this path. According to Savigny, the relations among individuals are the basis of social life; this is the reason why the priority of law consists in regulating these such relations and guaranteeing individual liberties as well as the individuals' right of developing their life projects:

Die freie Existenz und Unabhängigkeit des einzelnen von Willen anderer muss in jedem Staate notwendig behauptet werden. (Savigny 1802-1803/1951, p. 14)

According to the German jurist, law is primarily private law (*Privat- or Zivilrecht*) and criminal law (*Kriminalrecht*), with public law (*Öffentliches Recht*) moved to the background. Therefore, the task of law is to identify standard behaviour and the adequate way of disciplining it. However, the laws must be formulated by taking into account also the common law, i.e. the set of customs and traditions which have been historically and organically produced.

It must be recognized that Menger's debt to Savigny, and more generally to the Historical School of Law, has a clear limit: despite the original character of Savigny's perspective within the German environment, the jurist never elaborated a methodology to investigate the spontaneous development of social institutions. In addition, he never considered the formulation of a rational strategy for «transforming and improving» the institutions themselves:

The historical school of jurists has, to be sure, emphasized the “organic origin” of common law, its “primeval nature” and “originality”, its genesis in the national mind, etc. But it has stopped here, as if the problem of the origin of common law were in some way solved by the above partly figurative, partly meaningless phrases. It has neglected to make us understand *theoretically* the nature and the course of that process, the result of which is common law. (Menger 1883/1985, pp. 232-233; italics added)

We can conclude that there are substantial differences between the approach of the Historical School of Political Economy and the one of the Historical School of Law. According to Savigny, research was not a mere collection of facts, but an inquiry aimed at reconstructing the articulated development which transforms law into a peculiar emanation of a people. In his interpretation, law was a historical, positive fact: it is partly the unintended result of human actions and partly the product of rational adjustments (an idea shared with Thibaut). Savigny took position against the 18<sup>th</sup> century natural law, by emphasizing the historical traits of human institutions and, consequently, their artificial character. However, Savigny never thought that historical investigations could be of any help neither in the identification of social universal laws nor in the discovery of specific trends in well-determined periods. Menger revealed the misappropriation operated by the German economists; in this case too, his main target is Roscher, who:

wants to attain for political science something similar to what the Savigny-Eichhorn method did for jurisprudence. But what he has designated as the nature of his method has scarcely a remote similarity to the Savigny-Eichhorn orientation. Neither Savigny nor Eichhorn designates as the main task of his research, nor in general as a major problem, the setting up of laws of the development of law itself, on the basis of comparison of the legal evolution of nations insofar as he can grasp it. And neither seeks to attain to a juridical science of “*objective truth*” in this way. What they seek is the *historical* understanding of concrete law codes [...]. (Menger 1883/1985, p. 186; original italics)

#### **4.5 Concluding Remarks**

Some final considerations arise from the analysis so far developed leads to some final considerations. I have identified Menger’s debt towards the German cultural environment. In my opinion, this wasn’t the result of an influence, be it direct or indirect, since this suggests partial and misleading interpretations. Both Menger and the

German scholars were interested in examining problematic aspects of their disciplines and tried to offer adequate solutions to them. However, the reconstruction of the rich intellectual scenario was necessary, which stimulated relevant reflections on the aims and research tools of political economy in the 19<sup>th</sup> century.

I wished to offer arguments against the popular interpretation which too easily describes Menger and the German scholars as opposed. For such purpose, I focused on some relevant topics and I have shown that the German milieu was all but unitary: it is not legitimate to trivially place Menger in opposition to Germans, as most critics do, rather, each case must be considered individually. The 19<sup>th</sup> century debate on the meaning and the use of «History» for social research is a perfect example of the fragmentation of the German thought. Exponents of the Historical School of Political Economy and of the Historical School of Law differently interpreted the concept of «History»; in addition, we have seen that there were distinct positions even among economists.

It is curious to note that German economists used the common denomination of «Historical School» in order to underline the continuity with a specific and prestigious tradition. However, behind the common labels deep divergences emerged. Critics did not adequately investigate these differences and they were not able to correctly evaluate the intellectual relationship between Menger and Germans.

The survey has also emphasized the link between juridical and economic studies in the German-speaking context. In particular, we stressed that in Germany and Austria the research in the economic field originated as an offshoot of the juridical studies. In this geographical context, political economy had no relationship with philosophy and moral sciences. This was a peculiar feature which characterized the development of continental and Anglo-Saxon political economy. Despite some divergences, German and Austrian economists basically shared the same perspective on political economy.

A further essential element has been captured in the analysis. Hayek (1948) argued that one of the main traits of the Austrian School, the idea that most social institutions are the unintended result of intentional human action, was a legacy of the Scottish Enlightenment. Hayek defended this thesis in particular by referring to Adam Ferguson's position which was reported in *The Constitution of Liberty* (1960):

[...] the establishments of men [...] are suggested by nature, and are the result of instinct, directed by the variety of situations in which mankind are placed. Those establishments arose from successive improvements that were made, without any sense of their general effect; and they bring human affairs to a state of complication, which the greatest reach of capacity with which the human nature was ever adorned, could not have projected; nor even when the whole is carried into execution, can it be comprehended in its full extent. (Ferguson 1767, quoted in Hayek 1960/2006, p. 370, note 1)

However, the analysis carried out in this Chapter has shown that concerning this way of conceiving the origin and development of human institutions, there was no leap from Scottish philosophy to Austrian economics: the German jurist Savigny was the real mediator between them.

I believe that this analysis has shed light on some underestimated elements which are actually essential for the reconstruction and comprehension of the Austrian economic tradition.



## **5. Self-interest and Egoism. The German and Austrian Reception of Adam Smith's Work in the 19th Century<sup>47</sup>**

### **5.1 Introduction**

This Chapter provides a critical analysis and interpretation of the debate on the relationship between political economy and ethics developed among 19<sup>th</sup> century scholars. The survey focuses on the German-speaking context, without omitting the decisive influence of English economists. It also aims at showing that such topic had been largely tackled already in the very first phases of the scientific discussion over political economy, even though it is often trivially attributed to a more recent debate, namely the one inspired by Amartya Sen's writings during the 1970s and the 1980s.

### **5.2 Topics and Unsolved Problems in Adam Smith's Legacy**

The 19<sup>th</sup> century has represented a pivotal stage in the history of economic thought: political economy, which at that time was turning into an autonomous discipline, had been set at the heart of a wide and articulated theoretical discussion within a number of European schools of thought. Several issues were actually at stake: i) which were the specific scope and object of the discipline; ii) which method was most adequate to investigate economic phenomena; iii) whether precise boundaries could be established, not only between economics and moral philosophy, but also with reference to other areas of research, such as psychology and sociology, which were progressively gaining relevance within the general scientific landscape.

Such debate began in the wake of the publication in 1776 of Adam Smith's main work, *An Inquiry into the Nature and Causes of the Wealth of Nations*, whose circulation among the European cultural environments had been almost immediate.<sup>48</sup> A

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<sup>47</sup> I presented this article at the Second International Conference on Economic Philosophy, held at the University of Strasbourg on 9-10 October 2013. The Italian version of the article appeared in *Dianoia* 19/2014, pp. 203-222.

<sup>48</sup> The first German translation, in two volumes and edited by Johann Friedrich Schiller, dates back to 1776-1778 and was therefore contemporary to the publication of Smith's book. Further and more accurate translations followed, but this shows the immediate impact of Smith's work. A detailed list of editions is

few topics touched upon by Smith had been earlier treated by other scholars; this makes the originality of his own analysis an open matter of discussion. Nevertheless, the systematic and uniform approach to the study of economic facts is undoubtedly to be acknowledged as one of Smith's merits and it inaugurated the modern conception of this research field. A further aspect concerned the (real or alleged) rift between the strictly economic investigation and Smith's following work of 1790, *The Theory of Moral Sentiments*. The two volumes seemed to be grounded on opposite and antithetical perspectives. In the first pages of the *Inquiry*, we can read one of the most famous sentences of Smith's work, apparently justifying the widespread opinion according to which self-interest is the main driving force of the whole economic action:

It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages. (Smith 1776/1993, p. 22)

In a different way, in *The Theory of Moral Sentiments* Smith posits as the basis of social relationships a feeling, the so-called «sympathy»: by this he mean that natural *empathy*, which human beings instinctively feel towards each other and which makes them capable of immediately understanding other people's positive and negative moods, before any kind of rational reflection. Such a deep and mutual comprehension would lead individuals to look for and mutually support each other, thus generating social life:

Pity and compassion are words appropriated to signify our fellow-feeling with the sorrow of others. Sympathy, though its meaning was, perhaps originally the same, may now, however, without much impropriety, be made use of to denote our fellow-feeling with any passion whatever.

Upon some occasions sympathy may seem to arise merely from the view of a certain emotion in another person. The passions, upon some occasions, may seem to be transfused from one man to another, instantaneously, and antecedent to any knowledge of what excited them in the person principally concerned. (Smith 1790/2010, Ch. 1)

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provided by Monika and Erich Streissler in the introductory part of their own edited and translated *Inquiry* published in 1999.

From an interpretative point of view, the question was how Smith's real position had to be considered: could his two works be integrated without contradictions within a unified system or, on the contrary, were they theoretically independent and incompatible?<sup>49</sup> As it will be shown later on, this constituted a delicate matter of discussion, particularly within the German-speaking environment, and generated a sharp distinction between scholars accusing Smith of intentionally making an *anti-moral* science of political economy and, conversely, those claiming that the Scottish philosopher's perspective guaranteed the scientific treatment of the discipline by properly conceiving it as *autonomous* from, even though never opposed to, moral.

More recently, it was the economist Amartya Sen, in his renowned text *On Ethics and Economics* (1987), who drew attention once again on this discussion, by suggesting a sort of "rehabilitation" of Smith, too long considered (erroneously, according to Sen) as the forerunner of an economic view based on a negative and reductionist anthropology. However, upon closer examination of the features of 19<sup>th</sup> century discussions, Sen's survey can be claimed not to provide any original or additional element if compared to such debate. At that time European economists were completely aware of the troubles deriving from the assumption of a specific reading of Smith's works (cf. § 5.3.1).

It is worth emphasizing that the 19<sup>th</sup> century criticism of Smith's approach was developed taking into account two further levels of explanation. The first one was strictly economical: German scholars immediately grasped the weakness of the objective theory of value assumed by Smith, since it was unable both to provide a satisfactory explanation of the mechanism underlying price formation and to solve some well-known paradoxes. German economists therefore provided a decisive contribution, too often ignored, to the elaboration of the subjective theory of value, constituting the first essential element of that "marginal revolution" which took place at the end of the century.

The second level concerned method. Despite the systematic approach, Smith's economic work does not develop any reflection about methodology nor does it

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<sup>49</sup> This is known in literature as «Das Adam Smiths Problem».

explicitly elaborate any tool to be employed in economic investigations. As a consequence an essential issue remained still unsettled and economists were strongly motivated to look for satisfactory solutions to it. In this connection radical theoretical contrasts about the nature and *status* of political economy as a scientific discipline progressively arose: should they borrow the method from other fields, for instance physics and biology? Or, given the peculiarity of socio-economic facts, was the elaboration of a *sui generis* approach more appropriate? Moreover, how to employ and combine inductive and deductive methods? Finally, which unit of measurement had to be settled for the study of economic phenomena: individuals or social groups?

The article emphasizes both affinities and dissimilarities among European Schools. All viewpoints under consideration share a subjective theory of value, even though differently articulated, in opposition to the objective standard defended by Smith. For this reason, the economic survey by Karl Marx, although playing a crucial role within that historical and political context, has not been taken into account here, since it belongs to that set of theories adopting an objective standpoint to the explanation of value.

### ***5.3 From the Objective Theory to the Subjective Theory of Value***

A primary aspect to be investigated is the radical change of perspective within the economic discipline that started with the beginning of the 19<sup>th</sup> century and concerned a strictly *technical* element, i.e. the elaboration of a theory of value, which should have been capable to provide a satisfactory explanation of the mechanism underlying the formation of commodities' prices. According to the classical theory of English economists (not only Smith, but also David Ricardo), the value of a commodity is obtained by adding the costs of production and the costs of the labour employed for the production itself: the value was thus conceived as an *intrinsic property* belonging to the object. However such a formulation could not explain the so-called «diamonds-water paradox», already outlined by Smith in his *Inquiry* when showing the distinction between «value in use» and «exchange value» (cf. Smith 1776/1993, pp. 34-35)<sup>50</sup>.

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<sup>50</sup> Smith defined the «value in use» as the utility of a specific object, while the «exchange value» as the capacity of a commodity to be employed for the purchase of other goods.

According to the new generation of economists, this remained a dilemma: how to explain the fact that water is an irreplaceable utility for humans but has no economic value at all, while it is exactly the opposite for commodities like diamonds?

German economists were among the first scholars who completely turned over the traditional perspective. In their viewpoint, the value was not to be considered as a property of commodities, but rather as a *threefold relation* among an economic subject, the goods he needs and the external conditions characterizing the context where the economic subject performs his actions. It is worthy to note that, despite such scientific insight, German economists were unable to elaborate a fully developed theory of value. Two essential elements were still missing in their subjective paradigm: the introduction of the principle of marginal utility and the development of an appropriate methodology. In addition, the subjective theory was not rigorously and systematically applied by those authors. In such a context, this would be attempted only later by Carl Menger, founder of the Austrian School of economics.

This paradigm change implied a number of consequences. The first one concerned the very definition of «Political Economy». While the discipline had previously been conceived as an investigation of the nature and the causes of *wealth*, in particular reference to national incomes, the new perspective had to tackle some original issues: i) explain how economic subjects could maximize their personal utility; ii) identify laws or regularities underlying economic phenomena, being implicitly accepted that their origin was to be looked for and found in individual behaviour.

Individual actions thus became the new object of economic research. However, the goal was not to consider the human action in its whole complexity; it rather was to isolate those specifically economic performances. It was at this level that troubles about the demarcation between the economic and moral field emerged. It was required to outline a standard of rational behaviour on which economic theories could be based: to what extent was it legitimate to take into account only a specific human attitude? Individuals are not exclusively provided with pure rationality; rather they are constantly influenced by several factors (moral, religious, social, personal), which make it impossible to boil down their behaviour to a single motivation. Doubts on the morality of the so-called *homo oeconomicus* had already arisen with regard to the classical approach. But within such a peculiar paradigm change, difficulties about the justification of a given action

standard inevitably increased, then influencing the general conception of political economy itself: a positive discipline or a normative one?

According to several 19<sup>th</sup> century scholars, especially John Stuart Mill (1844), an initial step to be taken to overcome the (alleged) ambiguity consisted of distinguishing two levels of interpretation. The first one coincided with the “economic science”, whose aim was the discovery of universal laws. The second level held economy as an “art” or a “practical science” or, again, an “applied science”. Both moral rules and precepts (offering a recommendation about the right behaviour to be kept in economic performances) and practical and political indications (e.g., which measures political and economic institutions should have taken under specific circumstances) belonged to the latter. Even though the distinction seemed to be an adequate solution in order to treat the positive and normative aspects of the discipline, it is correct to stress that a sort of confusion was still present in the debate: whereas a few economists, like Menger, identified political economy as the union of those two spheres, others, like Mill, maintained that political economy exclusively coincided with the positive aspect, being the normative one completely autonomous from it.

Regardless of how economists interpreted positive and normative features, the discussion of this topic undoubtedly represented a first attempt at consciously making political economy an independent area of research, to be acknowledged as a science. However, even if political economy was conceived as a positive (or “pure”) science looking for laws and regularities, it still remained an issue strictly connected to the moral field. The abstraction procedure, at the basis of the theoretical treatment of political economy, established, among other assumptions for the developments of theories and models, the self-interested behaviour of the economic agent, whose purpose was the maximization of his own utility within contexts characterized by the scarcity of resources. But was this behaviour the only one to be recalled for the construction of economic theories? Was its assumption misleading or legitimate?

### ***5.3.1 The Status of Debate in the German Cultural Environment***

Even if German economists were among the first ones to develop the new theory of value, they immediately had to tackle the issue of reconciling their own subjectivist

approach with a collectivist, essentialist and historical methodology. The Historical School members were committed to demonstrate that there was no contradiction in merging a subjective theory of value, built on the survey of individual actions, with a method endorsing a holistic conception of history and society. A justification of the self-interest principle was therefore required: if, on the one hand, its introduction was essential for the new theory, on the other hand there was the risk of undermining the (supposed) “moral” unity of society.

The criticism of Smith’s contribution was first rooted in the harsh reading by Adam Müller, a renowned Romantic exponent, whose works represented the benchmark for the main 19<sup>th</sup> century economists in Germany.<sup>51</sup> Müller strongly disagreed with what he believed to be a materialist and individualist conception of society and opposed to it an organic interpretation, which privileged the “whole” on the single component parts:

Der Staat ist „die innige Verbindung der gesamten physischen und geistigen Bedürfnisse [...] einer Nation, zu einem lebendig Ganzes“. (Quoted in Weber 1949, p. 12)<sup>52</sup>

Such view was to become an essential element in several contributions of later authors as well, but it is worthy to stress the radical meaning of Müller’s position, which did not take into account neither a serious examination of Smith’s writings nor any attempt at reconciling the emphasis on the individual and the holistic approach. From a strictly economical point of view, the theory of value had not assumed those subjective features yet, which the German scholars then shared: according to Müller, the value itself was a social phenomenon (*soziale Erscheinung*), specifically determined by bourgeois society (*bürgerliche Gesellschaft*). Müller’s perspective, rough and scientifically unambitious, also emerged from his own “theological” interpretation of the economic discipline. More precisely, he conceived political science as divided into two separate parts, «Law» (*Recht*) and «Wisdom» (*Weisheit*); political economy was believed to belong to the latter. In this view, both Law and Wisdom were emanations of

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<sup>51</sup> Adam Müller’s volumes on economic subjects are the following: *Die Elemente der Staatskunst* (1809); *Versuche einer neuen Theorie des Geldes mit besonderer Rücksicht aus Großbritannien* (1816); *Von der Notwendigkeit einer theologischen Grundlage der gesamten Staatswissenschaften und der Staatswirtschaft insbesondere* (1819).

<sup>52</sup> «The State consists of ‘that combination of close relationships, which tie together all physical and spiritual needs of a Nation...into a vital whole’» (our translation).

God, conceived as the supreme “judge” in the first case and as the supreme “father” in the second.

Going beyond Müller’s studies, economists like Friedrich B.W. Hermann (1832), Karl Knies (1853) and Wilhelm Roscher (1878)<sup>53</sup> undertook a more detailed anthropological investigation of human nature, with the purpose of somehow preserving the self-interest principle, given its undeniable role within the economic theory. All of them stressed this element to be not simply one of the distinctive features of human beings, but the only one actually essential to their own survival. According to this interpretation, no negative meaning could be ascribed to self-interest. In Hermann’s view, for instance, it was that principle that expressed the capability of single agents of managing and evaluating, both considered fundamental aspects of the economical practice oriented to the construction of the personal well-being (cf. Hermann 1832, pp. 14 ff.). However, Hermann also acknowledged the existence of a second force, which he considered to be «deeply rooted into the human nature» and capable of naturally inducing individuals not to look only for their own well-being, but also for the more general well-being of the various communities they belonged: from the close one, the family, to the most complex and articulated one, the State. On a more intimate level, Hermann defined as «mutual feeling»(*gegenseitige Anhänglichkeit*) the instinct driving a subject towards his mates, whereas the author employed the term «*Gemeinsinn*» when referring to the social field, defining it as follows:

Der *Gemeinsinn* ist eine Grundbedingung der wirtschaftlichen Entwicklung eines Volks, da man nur ihm die gemeinnützlichen Anstalten und Anordnungen zuschreiben kann, welche der Erwerb der Einzelnen voraussetzt, die aber der Eigennutz nicht herzustellen vermag.<sup>54</sup> (Hermann 1832, p. 15)

The self-interest principle and *Gemeinsinn* were maintained to be two complementary characteristics of the economic science, since only jointly they could

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<sup>53</sup> In this article, I refer to the English version of Roscher’s volume, which translates from the German the thirteenth edition of 1877. The first publication of his work is dated 1854.

<sup>54</sup> “The sense of responsibility towards the common good is a fundamental condition to the economic development: it is only by virtue of it that those institutions and organizations exist, which are essential to the personal gain of a subject, but which cannot be constructed on the basis of the self-interest” (our translation).



explain its phenomena. In Hermann's perspective, each of these elements thus became the object of investigation of a specific articulation of the field: the self-interest as the matter of research of the *Volkswirtschaftslehre* (theoretical investigation), whereas the *Gemeinsinn* of the *Lehre von der Volkswirthspflege* (practical investigation).

As emphasized by Knies later, the original mistake consisted of confusing the self-interest (*Privatinteresse*, *Privategoismus*, *Eigennutz*) with that typically egoistic feeling (*Selbstliebe*) which makes of each subject a dangerous and immoral individual for the social order. Knies acknowledged as fundamental the analysis of this misunderstood aspect, since:

[d]er Privategoismus, der Eigennutz, spielt in der Theorie der Nationalökonom eine so bedeutsame Rolle, er ist in eine so unmittelbare und tief eingreifende Verbindung zu der Methode, Gesetze der Volkswirtschaftslehre zu gewinnen, gebracht worden, er hat eine so bedingende Einwirkung auf die Ganze Stellung unseres Wissenschaft ausgeübt.<sup>55</sup> (Knies 1853, p. 147)

Even Roscher shared the purpose of keeping separated the self-interest principle from strictly egoistic human behaviour. In Roscher's analysis, which appears more developed and better structured than the previous ones, the origin of the incomprehension is precisely identified within some of the European Enlightenment trends. In detail, he defines the so-called "Kantian individualism" as the authentic danger for social life: the problematic aspect of the Kantian system did not consist of the central role attributed to the subject, but rather of the fact that the subject was conceived to be "complete" in itself: this generated a *solipsistic* attitude, according to which moral norms could be formulated apart from any kind of socializing approach and any feeling of belonging to a specific community or social organization.

Roscher formulated a further criticism: he took a strong position against the widespread tendency to justify individual egoism on the basis of alleged unintentional advantages, which it allegedly produced. In this regard, Bernard Mandeville's *Fable of the Bees* (1714) could be considered the most renowned contribution in the pre-

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<sup>55</sup> «Private egoism, i.e. self-interest, played a significant role within the economic theory, it is immediately and deeply connected to the method through which the economic laws are obtained, it has widely influenced our science's position» (our translation).

Enlightenment period; according to Roscher, his theses had been later recalled and elaborated by eminent scholars such as Helvetius, Voltaire, and De Rochefaucald (cf. Roscher 1878, p. 76, ft. 8). If we follow the first interpretation, the risk is that of generating a rift between the individual and society, even when the negative facet of individualism (or solipsism) does not openly emerge; differently, by assuming the second interpretation the trouble consists not only of justifying actions based on an selfish behaviour, but also in encouraging those very actions as bearers of social benefits.

Roscher also dealt with a third perspective, namely that of Scottish Enlightenment, which Smith himself had been part of. Scottish philosophers emphasized the necessity of considering human instincts in their reciprocal complementarity, hence neither as opposed nor as mutually exclusive. Only by taking into account such complexity, satisfactory explanations of the human behaviour could be achieved in its typical relationship with both the social context (more generally) and the economic one (more specifically). There are at least two reasons for viewing it as an important passage of Roscher's investigation. First, it is possible to grasp a distinctive evaluation of Smith's legacy: Roscher is aware that the juxtaposition between Smith's two main contributions is absolutely illusory, since each of them tackles a specific feature of human action. Secondly, the author seems to anticipate the special attention towards the Scottish approach to the explanations of social institutions, which will be one of the distinguishing traits of the Austrian School, and which had been perfectly summarized by Adam Ferguson when defining the institutions themselves as «the results of human actions, but not of human design» (1767/1969, p. 205).

It is thus worth underlining the common attempt by some major German economists at outlining a more refined definition of "self-interest". Despite acute awareness of the limits of Smith's approach, their treatment of such aspect shows a kind of benevolence to him, seen as the first scholar who tried to separate the various articulations of human activity. Nevertheless, the German economic landscape was actually quite fragmented, contrary to some popular readings which draw it as a monolithic one. In this regard an important argument is provided by another renowned exponent: Bruno Hildebrand. In his main work, *Die Nationalökonomie der Gegenwart und Zukunft* (1848), Smith was thoroughly criticised (cf. Rothschild's analysis 2013).

More specifically, he was accused of having transferred within the economic field three dangerous elements of rationalist-enlightened political thought<sup>56</sup>: i) cosmopolitanism; ii) atomism; iii) materialism. The criticism of the first point is a position generally shared in the German School, which maintained that the aim of political economy does not consist of identifying universal laws concerning phenomena, but rather of analysing economic facts within their historical context. In this sense too, political economy is a historical science and it cannot aim at formulating universally valid theories. The strong criticism to the second and third aspects is typical of Hildebrand's position and provides a proper overview of his viewpoint on the relationship between economics and ethics. Hildebrand faced the (apparent) Smithian "atomism", which in his view attributed to the individual agent a privileged role with respect to society, thus undermining the unity of the community to which the subject belongs. According to Hildebrand, such theoretical aspect fostered and justified an "immoral" behaviour, with consequences in both political and economic fields. In the first case, the State would simply have guaranteed individual liberties, therefore losing any ethical function; similarly, in the second one, the economic system would have become a mere conglomerate of individual economies aimed at the egoistic satisfaction of personal needs and generating a fight of everyone against everyone else. This last point also implied the condemnation of materialism, namely of what Hildebrand derogatorily defined «economic rationalism» (*oekonomischer Rationalismus*) (cf. Hildebrand 1848, pp. 29-31). Differently from the previous authors, Hildebrand's criticism was absolute and particularly influenced by Müller's contributions.

In Germany Smith's work had been objected to from the viewpoint of the theory of value. Nevertheless it has been generally defended (with a few exceptions) from attacks acknowledging in Smith's position the actual origin of the "political economy-ethics contradiction". The individualist stance could be preserved exclusively on condition that its real meaning was correctly clarified and balanced with a "communitarian" one. However, in this case, it would have been difficult to make political economy an autonomous discipline, thus renouncing to treat it as the other sciences.

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<sup>56</sup> Hildebrand considered Thomas Hobbes as the forerunner of such position with reference to the political thought.

### 5.3.2 *The Austrian Side: Carl Menger's Special Contribution*

Within the German-speaking environment, the publication of Carl Menger's *Grundsätze der Volkswirtschaftslehre* (1871) represented a turning point. Together with his two great contemporaries, the Englishman William S. Jevons and the Frenchman Léon Walras, Menger was among the pioneers of the so-called "marginal revolution", which influenced the discipline towards the end of the 19<sup>th</sup> century. Even if the three economists walked distinct and independent paths, their works largely shared an innovative and original combination between the assumption of a subjective theory of value and the introduction of a principle only later defined «principle of marginal utility».<sup>57</sup>

Menger's position appears quite special when compared with both the German School mainstream and the approaches of his foreign colleagues. Unfortunately many interpretations of his work are misleading and incomplete with reference to both cases: in the first one, contrasts between the German and Austrian Schools have been extremely emphasized and such opposition has been inappropriately reduced to the well-known *Methodenstreit*; in the second one, Menger's orientation has been incorrectly interpreted as very close to the utilitarian perspective especially undertaken by Jevons.

Concerning the first item, a stimulating contribution has been provided by a contemporary heir of the Austrian tradition, Erich Streissler, who in his 1990 article has attempted a reconstruction of the intricate network of influences between the German scholars and Menger, and shed light on the affinities between their respective views. Streissler claims the Austrian School to be greatly in debt to German authors, and not diametrically opposed to them, as too commonly has been claimed. In his analysis, the originality of Menger's contribution is therefore largely downplayed.<sup>58</sup> However, it needs to be considered that the readings of Menger's production usually move between two extremes: whereas a few interpreters consider him as a real "revolutionary" in the history of economic thought, others argue that he actually was a mere traditionalist, who

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<sup>57</sup> Menger did not personally coin the expression «principle of marginal utility» (*Prinzip des Grenznutzens*), which would be introduced by his disciple Friedrich von Wieser only later.

<sup>58</sup> It is interesting to notice that the reading of the relationship between German and Austrian scholars had alternate phases. For instance, Joseph Schumpeter tried to undermine the German scholars' influence on the Austrians, likely in order to stress the originality of the new School, which he belonged to.

simply rediscovered and combined previously elaborated viewpoints.<sup>59</sup> For this reason the first step consists of keeping well-separated the levels of the content of the economic theory and of the methodological approach employed. In the first case, Menger seemed fully aware of his debt towards the German Historical School. This emerges not only from the (superficial) fact of having dedicated the *Grundsätze* to an eminent German scholar such as Roscher, but in particular from a careful analysis of the very detailed footnote 23 of the volume, where he explicitly recognized that the ambition to «achieve the general concept of ‘value’ is typical of all the most recent German authors, who have elaborated the theory of value autonomously». Menger also added a meticulous exposition of different definitions through which Germans had tried to explain the notion of value but he considered them either too general or too limited. From such accurate study Menger developed his own position according to which «the value is thus the *importance* that *individual goods*, or *quantities of goods* attain for us because we are conscious of being dependent on command of them for the satisfaction of our needs.» (Menger 1871/2007, p. 115; italics added).

On the methodological side Menger decisively left the German tradition, having elaborated that “methodological individualism”<sup>60</sup> through which «economic phenomena theoretically are reduced ultimately to individual economic efforts or to their simplest constituent elements, and are thus explained» (Menger 1883/1985, pp. 90-91). He was primarily interested in identifying the universal laws underlying the economic phenomena and not in providing explanations regarding circumscribed historical

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<sup>59</sup> Starting with Emil Kauder (1958), who was among the main interpreters of the Mengerian scientific production, the belief has been supported that Menger had been strongly influenced by some of the main Aristotelian works. Menger surely knew well a number of those volumes (*De Anima*, *Nicomachean Ethics*, *Politics*) and Aristotle was a referent author in the Austrian academy of that period. Nevertheless, Menger’s investigations have been developed as a conscious research aimed at elaborating a theory capable of offering adequate explanations of economic facts. In Menger’s whole production, references to Aristotle are rare and not particularly relevant. Even the interpretation of Aristotle as an *ante litteram* marginalist seems therefore inappropriate. The copies of Menger’s archive, conserved at the University of Vienna, prove both that Menger elaborated his own theory after a wide and careful research of the publications of contemporary economists (Germans, Englishmen, Frenchmen and Americans) and that the knowledge of Aristotelian texts has not played any significant role in his scientific approach to political economy.

<sup>60</sup> Menger did not refer to his own methodology by using such expression, which would be introduced only later by Schumpeter (and not with reference to Menger’s work, but Max Weber’s). He rather defined his own method as “atomist” or “compositive”. Moreover, “methodological individualism” has not to be confused with “psychological individualism”, as it often happens. Menger did not reduce the explanation of social socio-economic facts to the psychology of the individuals as it was, for instance, in Mill’s case. An explanation of the development of social institutions on psychological basis should have been grounded on features like intentionality and motivation: but this could not be the right way, given that the institutions themselves were conceived as the results of *non-intentional* human actions.

periods, as was the goal of Germans. Moreover he believed the wide number of human institutions, including economic ones such as money and market, to be the unintentional result of intentional actions (thus agreeing with the Scottish tradition). Assuming this premise meant to reject any kind of collectivist explanation, both contractualist ones and those aimed at interpreting the essence of an institution as emergent from its own historical development. Only an individualist approach could then provide an incisive explanation of most human actions and their outcomes.

As it is well-known, Menger's standpoint has been firmly obstructed by the German School, which combined the criticism to the methodological "atomism" with that to the so-called "self-interest dogma", the latter read as the main feature of anti-historical researches (as in the case of Smith's investigations too). On the one hand individualism was conceived as a reductionist orientation, which did not take into account the innumerable (both internal and external) aspects influencing an agent and, consequently, not able of representing an adequate methodology for social sciences; on the other hand the self-interest principle was considered as a serious obstacle for social stability, according to the materialist and individualist reading of it.

Actually, Menger acknowledged every human action (not only economic ones) to be defined both by the complex network of external social conditioning and the always open possibility of making mistakes (a genetic feature of human nature). However, in order to construct a "rigorous theory", hypotheses had to avoid any unessential trait. If the economic discipline aspired to get the *status* of science, a series of mere methodological hypotheses had to be introduced: not only the self-interest principle, but also assumptions such as the complete information possessed by agents and their total freedom from any coercion. In this connection, it is correct to notice that the German School too was inclined to consider the freedom of economic agents as a simple methodological hypothesis, not necessarily having an objective confirmation in the real world. It was therefore unclear the reason why the self-interest principle could not be similarly treated within a theoretical investigation: the aim was not constructing a theory on precise anthropological assumptions, avoiding other ones, but only delimiting a research field. This approach allowed Menger to distinguish between strictly economic actions and actions of different nature, without the need of justifying the first

group from a moral point of view. In this way Menger partially recalled Smith's perspective, but integrating it with an explicit methodological analysis.

To better comprehend Menger's perspective with reference to the relationship between political economy and ethics, a helpful contribution is also provided by the comparison with Jevons' position. Two preliminary considerations are here required: i) several scholars have evaluated Menger's production not as rigorously "scientific", since he always intentionally avoided employing mathematical tools (differently from both Jevons and Walras); ii) others have maintained that Menger, similarly to Jevons, had developed his theory according to a utilitarian standpoint.

In Menger's view, political economy had to be divided into two areas, theoretical economics and practical science. The necessity of keeping clearly distinct these two fields for reasons of scientific opportunity makes Menger's position more advanced than Jevons'.<sup>61</sup> From the very beginning of his *Theory of Political Economy* (1871), Jevons claimed that political economy could become a science only if able to explain phenomena like wealth, utility, value, demand and supply through the employment of mathematical tools. Nevertheless, his analysis was grounded on strictly moral elements, explicitly referring to Jeremy Bentham's utilitarian philosophy. Indeed, according to Jevons, political economy was a sub-discipline of the moral field, but it required a mathematical treatment, having to deal with quantities and relations among them:

The theory which follows is entirely based on a calculus of pleasure and pain; and the object of economics is to maximize happiness by purchasing pleasure, as it were, at the lowest cost of pain. [...] According to [Bentham] whatever is of interest or importance to us must be the cause of pleasure or pain; [...] pleasure and pain include all the forces which drive to action. They are explicitly or implicitly the matter our all calculations, and form the ultimate quantities to be treated in all moral sciences. (Jevons 1871/1970, p. 91)

Unlike Jevons, Menger rejected the idea of grounding theoretical economy on both psychological motivations and on a precise moral theory. The economic action

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<sup>61</sup> It is worth remembering that Jevons often dealt with logic and methodology. However, he did not look interested in elaborating a specific methodology for the study of political economy.

consists of the relation between the agent subject and a specific need within a given context, usually characterized by scarcity conditions: all this concerned the subject-wealth relationship, primarily conceived as survival opportunity. Aspects like pleasure, pain, happiness, etc. were left apart from economic theory, as belonging to an independent area. Menger would certainly not have denied the influence of such elements for the concrete, real action of an individual, but the theory was required to make abstraction, i.e. only consider those parts essential to the economic research.

Nevertheless, the belief that Menger's production had a utilitarian orientation was rather widespread already at the end of the 19<sup>th</sup> century. Among others, it is worth remembering the case of the Italian economist Matteo Pantaleoni, who by virtue of his great prestige had a prominent role in the reception of Menger's work in Italy.<sup>62</sup> In his *Principii di economia pura* (1889), Pantaleoni attributed to Menger an "hedonist" approach, in line with Jevons. However, the Italian scholar went well beyond, accusing Menger of having plagiarized not only Jevons' investigations, but also Hermann Gossen's works, who had been among the very forerunners of the marginal theory (cf. Monceri 2001).

Even divergences between German scholars and Jevons can be grasped. Both considered the economic discipline and the moral field to be mutually dependent, but their perspectives were quite different. German economists believed the moral field to have not only a normative function (as social binding), but also an essential methodological role. On the contrary, in Jevons' view feelings like pleasure and pain simply constituted the bases of a calculation and, in his case, it is not adequate to interpret the "self-interest" neither as Germans criticized it as a dogma nor as a research hypothesis *à la* Menger. The latter point inevitably separates Jevons' approach from Smith's too.

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<sup>62</sup> Even though Pantaleoni's reading was decisive for the (negative) reception of Menger's thought in Italy, a number of eminent economists openly shared the analyses of the Austrian scholar, without expressing any kind of criticism in his regard. Among them, Luigi Cossa and Augusto Graziani.



#### **5.4 Concluding remarks**

From these investigations it emerges that in the course of the 19<sup>th</sup> century the controversies on the relationship between political economy and ethics have been developed in three main directions. First, the delimitation between the two fields became a crucial matter of discussion. The motivations of people requiring mutual independence of those disciplines were merely scientific: only by defining the own scopes of political economy and isolating its typical elements, the universal laws governing the socio-economic phenomena could be discovered. Ethics has to be exclusively included within the practical part of political economy and not in the theoretical one. On the contrary, opponents of such position emphasized the exclusion of any kind of connection between economics and ethics to be not only “dangerous”, as it opposed the individual to the society, but also counter-productive for the scientific study of political economy itself, as the actions of the economic subject appeared excessively simplified.

The second theme is strictly connected to the previous one and concerns the justification of the self-interest principle as research hypothesis. In this regard, it is now clear that expressions like “self-interest” and “egoism” have been indiscriminately employed, thus determining a serious misunderstanding. Assuming that, in given circumstances, the standard behaviour of an individual basically follows a determined trajectory is surely a simplification. Those scholars who introduced such principle in their theories were perfectly aware of that. It was therefore a mere research hypothesis, employed among others, and did not entail a negative view of human nature. For this reason, economists could not renounce that principle.

The last issues concerns methodology. In this regard, it is useful to approach the topic through the careful reading by Karl Popper in his *Open Society and Its Enemies* (1945/1995). In this text, it is stressed that the couple of concepts “individualism-collectivism” have not to be confused with the couple “egoism-altruism”. An individualist perspective does not imply any justification of egoism; similarly, the assumption of a collectivist point of view does not guarantee the generation and development of a society based on an altruistic attitude. Therefore individualism and egoism, on the one side, collectivism and altruism, on the other, refer to distinct levels and can be differently combined.

The dealt with issues show the discussions on the relationship between ethics and political economy to be particularly rich and articulated since the very beginning of the path leading the economic discipline to become an autonomous scientific one. Within such debate, the different interpretations of Smith's contribution played an instrumental role. If Smith's volume represented a first decisive step in the history of the economic thought, it was in the second half of the 19<sup>th</sup> century that a crucial turn determined those essential changes concerning both the strictly economic elements and the methodological ones.

## Conclusion

This multifaceted investigation allowed me to gather together several fundamental elements that help us reply to our initial question: Should we, in accordance with the mainstream philosophical interpretations of Menger's contribution, simply consider him as a conservative scholar, passively influenced by the Aristotelian and German traditions? Or alternatively, according to handbooks of political economy, should we consider him as a revolutionary thinker who originally contributed to the development of the economic research? Or should we keep a middle position between these two very contrasting readings? At this stage, I believe we can firmly defend the idea that the Austrian economist provided an innovative contribution to the study of economics. Menger was the first to really comprehend the necessity of combining strictly economic investigations with the elaboration of an appropriate methodology for political economy. In this regard, we have seen that Menger's contribution consists in three precise elements:

- i. The subjective theory of value;
- ii. The principle of marginal utility;
- iii. Methodological individualism as a research method.

However, the first two items are already present in the works of some of Menger's contemporaries, not only Jevons and Walras, but also (and unexpectedly) some German scholars writing in the first half of 19<sup>th</sup> century, such as Hufeland. Early Germans had sketched a subjective theory of value without systematically employing the principle of marginal utility. Menger's contemporaries provided more complete economic theories, but avoided explicitly addressing methodological issues. In the meantime, later Germans developed the collectivist methodology, ideologically influenced, that rejected the subjective theory of value. In this very complicated context, Menger drove the development of the three innovative aspects forward. In his view, the elaboration of an appropriate method of research was indispensable not only in itself, but above all to justify economic results as *scientific* results.

Menger's effort to make political economy a scientific discipline is also testified by his recurring attempts to separate political economy from other research areas such as moral philosophy, psychology, history, and so on. This approach was quite unusual at his time. Not only German authors, but also economists such as Jevons himself founded their whole theory on moral principles. In this aspect too, Menger can be considered a pioneer.

The portrayal of Menger's work that has emerged from my research is different from the most common interpretations. In particular, I offer alternative readings regarding the following topics:

- i. The Aristotelian influence on Menger's education and later reflections;
- ii. The psychological interpretation of his economic thought;
- iii. The relationship between Menger and the German cultural environment.

The first point was generally brought up due to the relevance of Aristotle's philosophy within the 19<sup>th</sup> century Austrian University, and because the Greek philosopher texts were found in Menger's library. In addition, we certainly find references to concepts such as "utility", "exchange value" etc., for example in *Nichomachean Ethics*. For many scholars, this is sufficient evidence to conclude that Menger was strongly influenced by Aristotelian thought. However, actual references to Aristotle are sporadic in Menger's manuscript, and never referred to in the elaboration of his economic theory. Moreover, as we have seen, the interpretation of Aristotle as an *ante-litteram* economist is not well founded. He was not concerned with economic matters, but with the evaluation of different kinds of relationships between humans. At the same time, the essentialist reading of Menger's position must be rejected. His definition of economic value as a *relationship* between several elements (agent's needs, beliefs, interactions), and not as an essential property of goods, perfectly shows the inaccuracy of the essentialist interpretation.

With regard to the second item, we have seen that the Austrian School has commonly been considered an example of the application of the psychological cognitive model to economics. However, I argue against this thesis for two distinct reasons. The

first is historical: Menger never established any intellectual relationships with early psychologists in his cultural context. Even though he was aware of both Brentano's and Wundt's research, he did not integrate the results of their investigations into his system, because he did not need them to ground his economic theory. The second reason is methodological: (economic) subjectivism and (methodological) individualism cannot be confused with the search for psychological motivations. In Menger's view, psychological motivations, if any, cannot be objectively investigated and, therefore, cannot play a role in socio-economic explanations.

Finally, I reconstructed the relationship between Menger and certain eminent German scholars. This allowed me to demonstrate that the German intellectual environment was much more heterogeneous than is usually described. This heterogeneity contrasts the interpretations that exclusively concentrate on the *Methodenstreit* and aim to counterpose Menger to his German colleagues. On the contrary, German research had great relevance for Menger's studies from different points of view. Not only had essential elements of the subjective theory of value been sketched by German economists, but also original methodological reflections for the analysis of social institutions had been developed, in particular within the Historical School of Law. Moreover, critics focussing on *Methodenstreit* particularly insisted on the (alleged) contrasting meaning of the concept of "History" as used by Menger and the Germans. However, as I have shown, the truth is that a certain continuity exists between the two traditions, and divergences in the readings of the role of History in social explanations is not always so clear.

*Future perspectives.* This research project has allowed me to use my philosophical background to pursue my interest in economics. In particular, this dissertation has provided an opportunity to investigate and clarify several issues that have characterized the economic discipline since its very beginnings. In this sense, this type of historically oriented research provides the foundations to further investigation at the interface between the epistemological and the historical reconstruction of economic theories.

As a philosopher, I am mainly interested in the methodological and epistemological aspects of economic theories. This is the reason why I devoted Chapter 1 to the construction of a conceptual framework through which Menger's position could be

better evaluated. Of course, methodology would only be systematically tackled later in the 20<sup>th</sup> century. This means that an analysis of early economic scholars must be based on what they actually did, not on what they said they intended to do.

My future research project consists in refining and enriching the conceptual framework that I have outlined, in order to apply it to the study of other economists and, consequently, to offer rational comparisons between their respective approaches. However, this “exercise” is not meant to be an end in itself, but rather as a gateway to contemporary epistemological issues regarding economic theories. This dissertation is a step in a work in progress.

## APPENDIX A

During my visiting period at the University of Vienna, I had the opportunity to consult copies of Menger's Archival documents. The original notes are now conserved at the Duke University, North Carolina (US). For more details, see the website:  
[http://library.duke.edu/rubenstein/findingaids/menger/#c01\\_9](http://library.duke.edu/rubenstein/findingaids/menger/#c01_9)

Below is the list of boxes/reels of Menger's Archive that I examined in Vienna.

### *1. Notebooks (Box 1 – Box 3)*

#### **Box 1**

Nos. 1-4 (Notebooks, 1867-1868)  
Nos. 5-9  
Nos. 10-14  
Nos. 15, A, B. 16, 17A  
Nos. 17B-20, 3 unmarked

#### **Box 2**

Geflandügelte Worte, ca. 1867-1868  
Excerpts to 1899  
Unmarked, 1870  
5 Notebooks  
6 Notebooks, c. 1909-1918  
4 Notebooks, 1917  
6 Notebooks, 1918-1920

#### **Box 3**

8 Notebooks, 1903, 1917-1919  
4 Notebooks, 1902-1919, 1919/1920

### *2. Notes on Economic Principles (Box 3 – Box 9)*

#### **Box 3**

Excerpts from English works; Sonnenfels and others  
Misc. Notes

#### **Box 4**

Excerpte  
Theoretisches Repertorium, 1867  
Grundsätze, table of contents, 1870

Einleitung. Zusammenhangende aber nicht abgeschlossene Darstellung der theor.  
1889

Einleitung I

Gandüter Wesen

Gandüter

Oekon. Gandüter

Arten der Gandüter

### **Box 5**

Ad Gut (Grundsätze, Ch. 2)

Gut

Wirtschaft, ca. 1888

Complicationen der menschlichen Wirtschaft

Gangbarkeit; Wirtschaft und Gandüter

Wirtschaft

Wirtschaft

Subjekte der Wirtschaft

Wirtschaft, 1907. Includes material on Bedürfnisse.

Wirtschaft, 1906-1907. Also, material for introduction to a 2nd edition. Dates from c.  
1899 (Reel 12)

### **Box 6**

Wirtschaft; includes material on etymology, Gandüter, and an introduction to a 2nd  
edition. (Reel 12)

Volkswirtschaft (Reel 12)

Vermögen (Reel 12)

Notes on goods and needs, includes material from 1st edition and Karl Menger's notes  
for 2nd edition. (Reel 12)

Notes on value, human demand, needs (Reel 12)

Bedürfnisse (Reel 13)

Misc. notes on needs, c. 1912-1916 (Reel 13)

Bedürfnisse, 1918 (Reel 13)

### **Box 7**

Bedürfnisse, 1907 [1898-1910] (Reel 13)

Bedürfnisse, 1907 (Reel 13)

Wert der: (1) Grundstücke und Bodennutzungen; (2) Arbeitsleistung (Reel 13)

Wert (Problemstellung der Productivität des Capitals) (Reel 13)

Ad subjektive Wertlehre (Reel 13)

Wert (Reel 14)

Wert; Tausch (Reel 14)

Tauschhandel (Reel 14)

Theorie der Preises (Reel 14)

### **Box 8**



Notes on monopoly (prices) (Reel 14)  
Freihandel und Schutzzoll, 1908 (Reel 14)  
Diverses [ad Preislehre], 1908 (Reel 14)  
Waare (Reel 14)  
Münze; Scheidemünze; Urkundengeld (Reel 14)  
[Einkommen]: Die Problemstellung (Reel 15)  
Einkommen (Reel 15)  
Einkommen/Wert (Reel 15)  
Erwerbswirtschaft und Aufwandswirtschaft (Reel 15)  
Kritik der Smith'schen Einkommens Analyse (Reel 15)  
Capitalseinkommen (Reel 15)  
Capitalbegriffe (Reel 15)  
On Capital (Reel 15)  
Capital: Ersparnes Einkommen (Reel 15)  
Misc. notes on etymology of terms, capital and interest (Reel 15)  
Notes on exchange, capital, etc. [on back of R.R. map of Central Europe] (Reel 15)  
On: Vermögen, Capital, Einkommen (Reel 15)  
On origin of term, capital; Wert; Vermögen (Reel 15)  
Capital: Gegen Böhm (Reel 15)  
On Böhm-Bawerk's theories: transcripts by A. Zlabinger (Reel 15)  
Typescript on capital (Reel 15)  
On Capital

### **Box 9**

Capital  
Böhms Capitalzinstheorie  
Material on Böhm, including a draft obituary notice  
Material on Zinslehre, 1879  
Notes on interest  
Notes on production and interest  
Theorie des Vermögenertrages, 1901  
On property and ownership  
Gemein-Eigentum  
Besitz-Eigentum  
Grund Eigentum  
Kritik ad Lotz, c. 1890s-1910s

### ***3. Notes on Money (Box 9 – Box 13)***

### ***4. Teaching Materials (Box 13)***

### ***5. Notes on Methodology (Box 15 – Box 20)***

### **Box 14**

Material on Irrthümer (Reel 22)  
Schmoller (Reel 22)  
Franz. Nationaloekonomie (Reel 22)

Notes on Classical Economics (Reel 22)  
Untersuchungen, 1 p. (Reel 22)  
Die Frage über die Methode... from Juridicheski Westrik No. 12 (1884) (Reel 23)  
Methode, 1876 (Reel 23)  
Methode Material (Reel 23)  
Diverses ad Methode pt. 1 (Reel 23)

### **Box 15**

Diverses [ad] Methode pt. 2 (Reel 23)  
Typed transcript of plan for work on method and other notes (Reel 23)  
Ad Methode (Reel 23)  
Misc. Notes (Reel 23)  
Grundrichtungen der Forschung (Reel 24)  
Etymologie/Philosophie (Reel 24)  
Schema für eine Classification der Wissenschaften überhaupt (Reel 24)  
Notes on Classification der Wissenschaften (Reel 24)  
Classification der Wirtschaft. Wissenschaften includes material on Erkenntnisziele der Forschung and die realistische Richtung der Forschung (Reel 24)  
Classification der Wissenschaften, c. 1892-1894 (Reel 24)

### **Box 16**

Printed work on plants, 11 pp., concerned with classification  
Verständnis und Voraussicht (Reel 25)  
Gegen Wundts Auffassung der Wissenschaft (Reel 25)  
Mathematik: Ideeale Richtung, c. 1898 (Reel 25)  
Erkenntnisziele/Richtungen der Forschung (Reel 25)  
Material on directions of research, with special attention to Deduction, 1890s

### **Box 17**

On Induction  
Induction, ca. 1899 (Reel 26)  
Ueber Wesen der Methoden... [Induction/Deduction]  
Empirismus in der deutschen Nationaloekonomie [late 1890s]  
1. Empirische Gesetze; 2. Arten (Reel 27)  
Material ad Unzulänglichkeit des Empirismus (Reel 27)  
Empirismus, Realismus, Positivismus in deutscher Nat. Oek. (Reel 28)

### **Box 18**

Realistische Richtung... (Reel 28)  
Ob exacte realistische Theorien auf Geb. d. Tat. Erscheinungen mögl? [c. 1890s] (Reel 28)  
Realismus (Reel 28)  
Realistische auch idealistische Richtung der ideologischen Forschung (Reel 28)  
Theorie...Realismus... On Logic (Reel 29)

### **Box 19**

Kritik von Wundts Logik (Reel 29)  
Causalität, c. 1905-1914 (Reel 29)

Willensfreiheit; Ethik, c. 1904-1910 (Reel 29)  
Notes on free will; self-consciousness, c. 1912- 1914 (Reel 29)  
Notes on role of value judgments in Wissenschaft (Reel 30)  
Moral im Handel, scattered pp. and notes (Reel 30)  
Notes on philosophical topics, c. 1907-1913 (Reel 30)  
Notes on philosophical topics, c. 1910s (Reel 30)

**Box 20**

Notes on philosophical topics, c. 1910s

***6. Correspondence (Box 20)***

***7 Biographical Materials (Box 21)***

***8. Related Family Materials (Box 22-23)***

***9. Miscellaneous (Box 24)***

***10. Printed Matter (Box 24- Box 26)***

***11. Oversize Material (Box Sec. A OV12)***

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