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## Carl Menger still worth reading

It's the 171st birthday of the founder of the Austrian School of Economics, and his work is still relevant.



Carl Menger, born February 23, 1840, was the author of the book *Principles of Economics*. Guest blogger Mario Rizzo writes that the book is still one of the best texts on the importance of knowledge in economic development.

(Album/Oronoz/Newscom)

By Mario Rizzo

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Today is the birthday of Carl Menger, born February 23, 1840. Menger was, of course, the founder of the Austrian School of Economics. His *Principles of Economics*, a great achievement for its time, is still well worth reading. It conveys like no other book at the time (and unlike most basic texts today) the importance of mind, knowledge, ignorance, causal relationships between goods and wants, and of course marginal utility. I think we can still learn from Menger's book today, especially about the importance of knowledge in economic development. Austrians should be pleased to have such a great mind as the founder of their school.

Menger's work has garnered respect from even those who have not considered themselves Austrians. George Stigler, for example, wrote a very appreciative essay on Menger in his *Production and Distribution Theories*. For a long time Menger's contributions were not clearly distinguished from those of Jevons and Walras, the other leaders of the "marginalist revolution." We have William Jaffe to thank for his de-homogenization of the three great economists. But, really, a moment's perusal of the three books should make the differences obvious. Walras is concerned about mathematical elegance and Jevons is so enamored of hedonistic psychology that he gives the appearance, at least, of casting marginalism as an application of Jeremy Bentham's philosophy—thus unduly limiting it.

Menger also made contributions to the Scottish Enlightenment project of spontaneous order, especially with respect to the evolution of money and of common law. In this he shows himself a worthy successor to Adam Smith in a way that Walras and Jevons are not.

Personally, I find the legacy of his part in the *Methodenstreit* ("War of Methods") to be a mixed one. On the one hand, he was obviously correct in his criticism of the naive historicist method of Gustav von Schmoller and others of the "younger" German Historical School.

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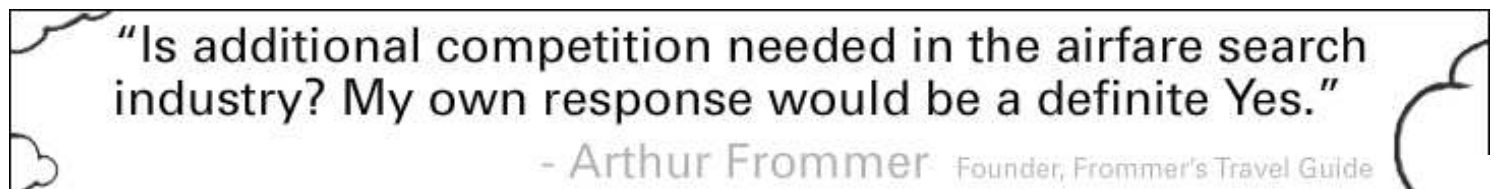
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On the other hand, much of his philosophy of science is a confusing mix of nineteenth-century scientific philosophy and Aristotelianism. I don't think this is a good approach to imitate in the twenty-first century. Nevertheless, Menger was right in believing that theory ("exact laws") was critical in understanding the economic world.

*Postscript:* When George Stigler won the Nobel Prize in economics in 1982, I sent him a letter congratulating him and said jokingly that I understood he received it in large part because of his essay praising Menger. He wrote back saying that I was incorrect. He received the prize for his essay criticizing Eugen von Boehm-Bawerk! (It should be noted that Menger himself did not like Boehm-Bawerk's capital theory.)

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