

Kiel Institute for the World Economy | via Video, 22 May 2021
IfW Research Seminar

The Legacy of Menger's Principles after 150 Years

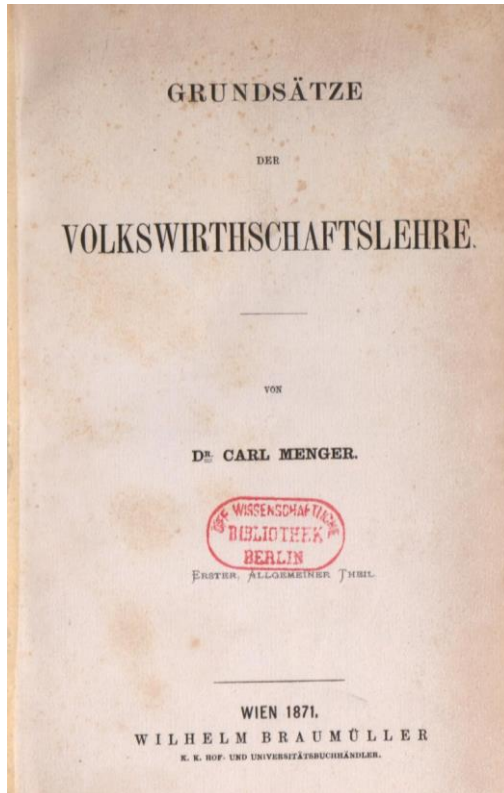
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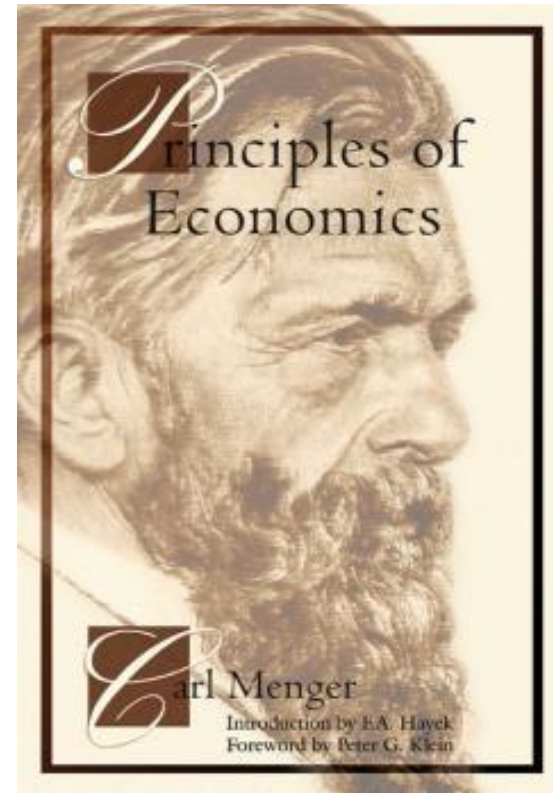


Menger's Principles of Economics („Grundsätze“)

1871
(1923)



1950
(2011)



<https://mises.org/library/principles-economics>

„It is difficult to think of a parallel case where a work such as the *Grundsätze* has exercised a **lasting and persistent influence** but has yet, as a result of purely accidental circumstances, had **so extremely restricted a circulation.**“

„... since Ricardo’s *Principles* there has been no book [...] which has exercised such **great influence on the development of economics** as Menger’s *Grundsätze*.“

“Menger's *Principles* are the **best introduction to the understanding of the theory of value** which we possess.”

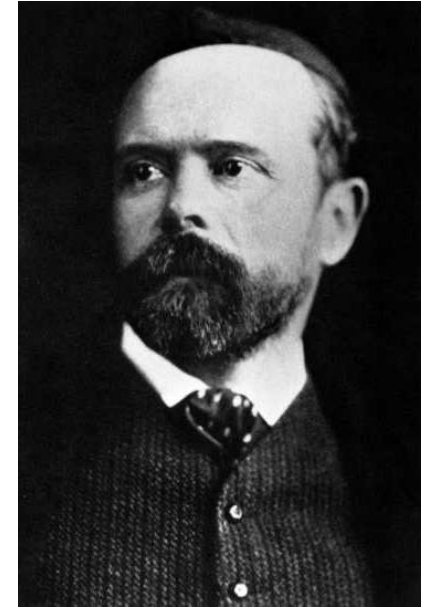
The Marginal Revolution of the 1870s



Carl Menger
(1840-1921)



William St. Jevons
(1835-1882)



Léon Walras
(1834-1910)

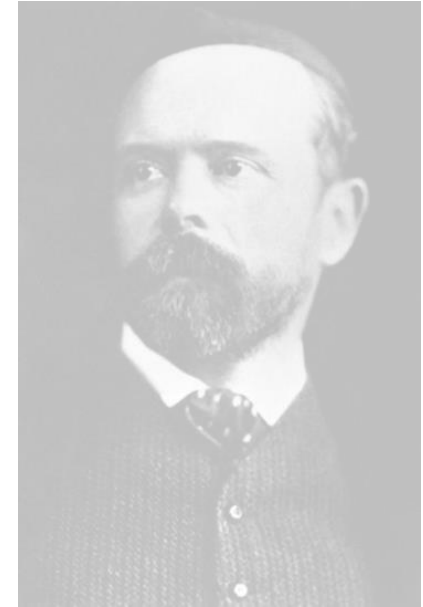
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Uniform theory of price
based on the driving forces of the economic process



Explaining all price phenomena by one leading idea

Transparent lucidity of exposition

- Human requirements
 - Theory of goods
 - Theory of value
 - Theory of exchange
 - Theory of price
 - Theory of the commodity
 - Theory of money
- ⇒ **Step-by-step economics**

Human nature (and economics)

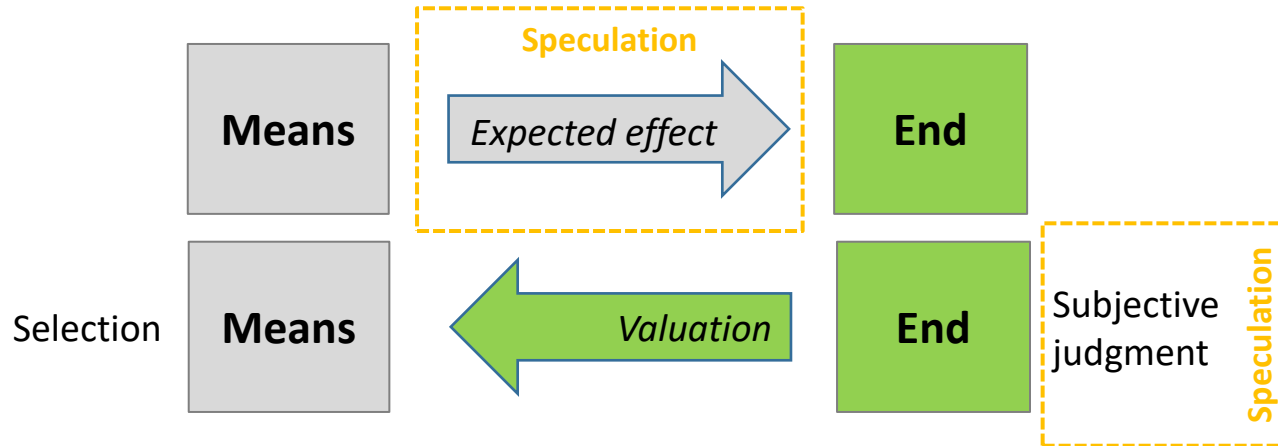
Not a “lightning calculator of pleasures and pain” (Veblen) ...
... but an “erring, ill-informed creature, plagued with uncertainty” (Jaffé)

Homo economicus
(general equilibrium analysis)



Homo agens
(disequilibrium economics)

Human action: Means, ends, and valuation



- Reverse value imputation
 - » Cost follow price (not the other way around)
- Element of time and limited knowledge
 - » Planning for the uncertain future (= speculation)
- Reasonable concept of rationality
 - » Humans do not purposefully act against their aims

Final purpose of economic activity:
Consumption goods

Subjective nature of goods

- Human need

+

- Causal connection to satisfy such a need
 - + Human perception of need satisfaction
- Human knowledge of this causal connection

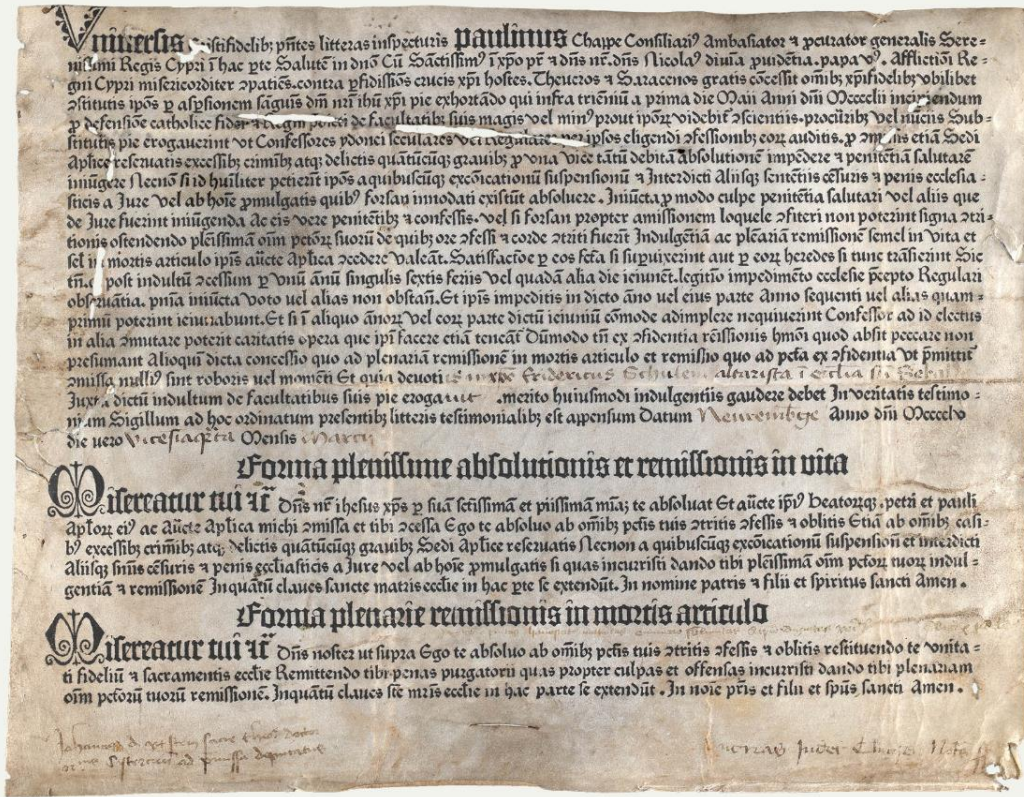
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- Sufficient command of the thing

⇒ **Good-character depends on human judgment**

⇒ **Quality/value not an objective property of the good**

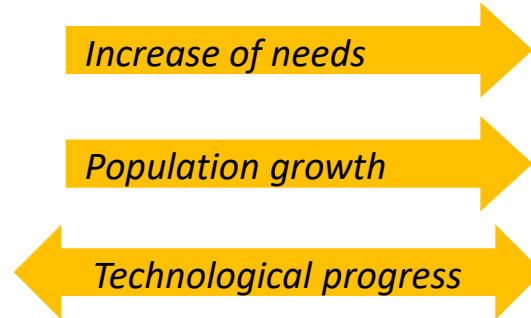
Letters of indulgence



“As soon as money in the coffer rings, the soul from purgatory’s fire springs.”

Free vs. economic goods: [Scarcity]

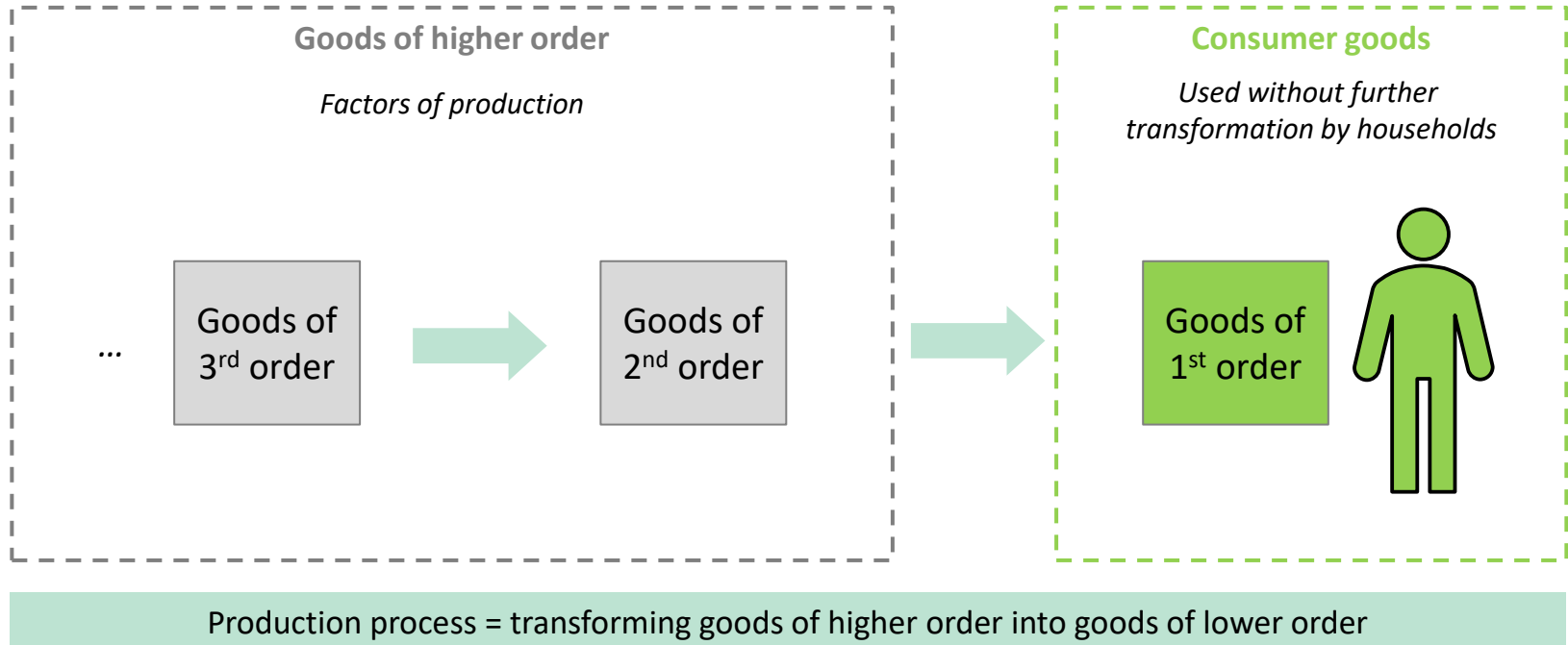
- Free goods
 - » Availability \geq requirements
 - » Abundance
- Economic goods
 - » Availability $<$ requirements
 - » Insufficient quantity (scarcity)



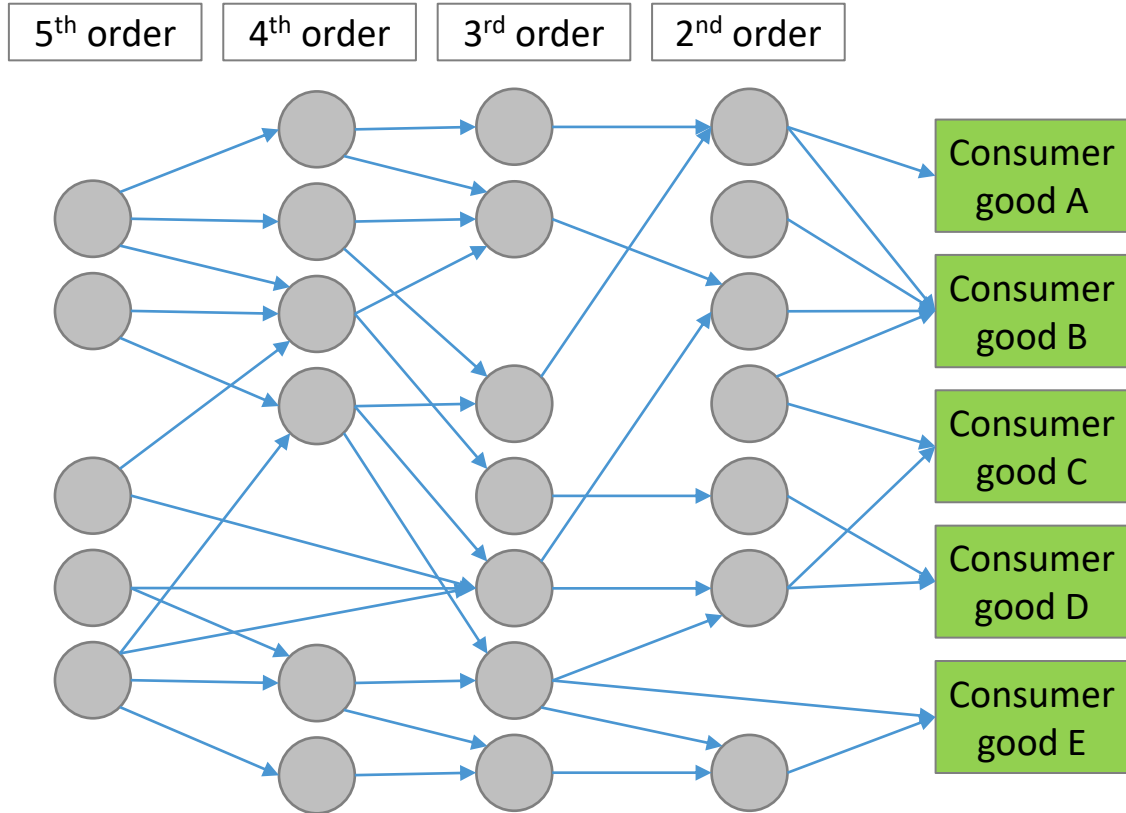
⇒ Distinction depends on circumstances and knowledge

- » Economic character nothing inherent in goods
- » Only the relationship between availability and requirements matters

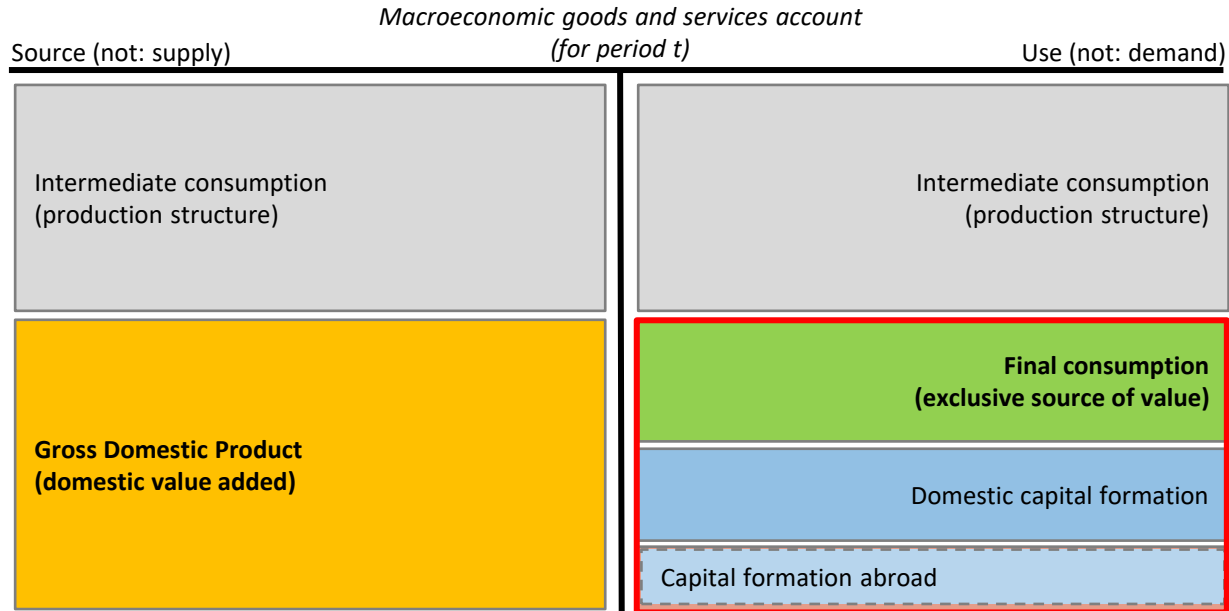
Order of goods (stages of production): Causal and temporal connections between goods



Complementarity: Production as a directed network

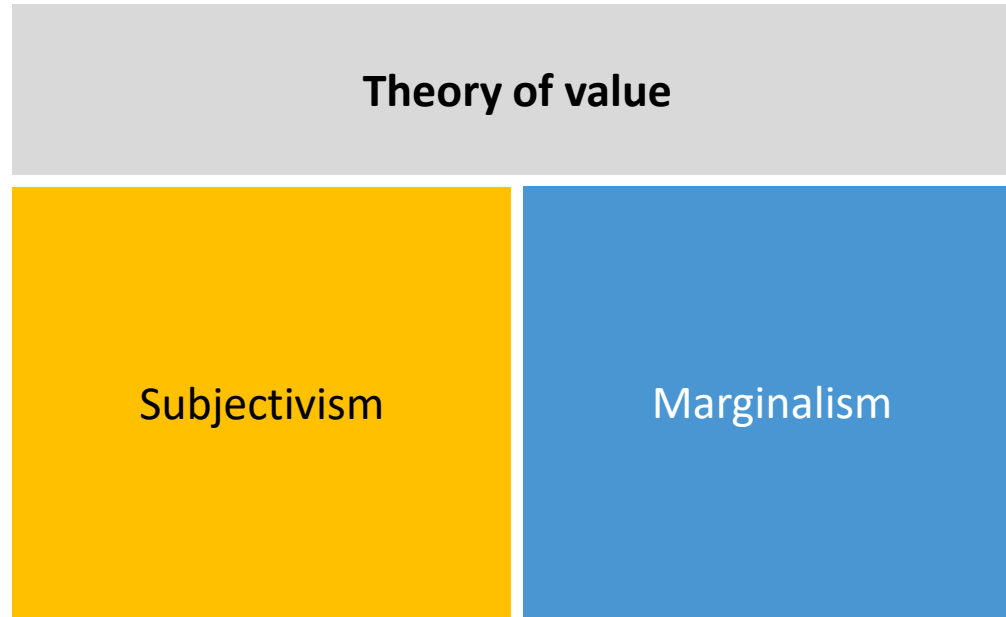


Pitfalls of hydraulic macro accounting



$$\text{GDP} = C + I + Ex - Im$$

Pioneering modern value theory



Marginalism (\neq infinitesimal calculus)

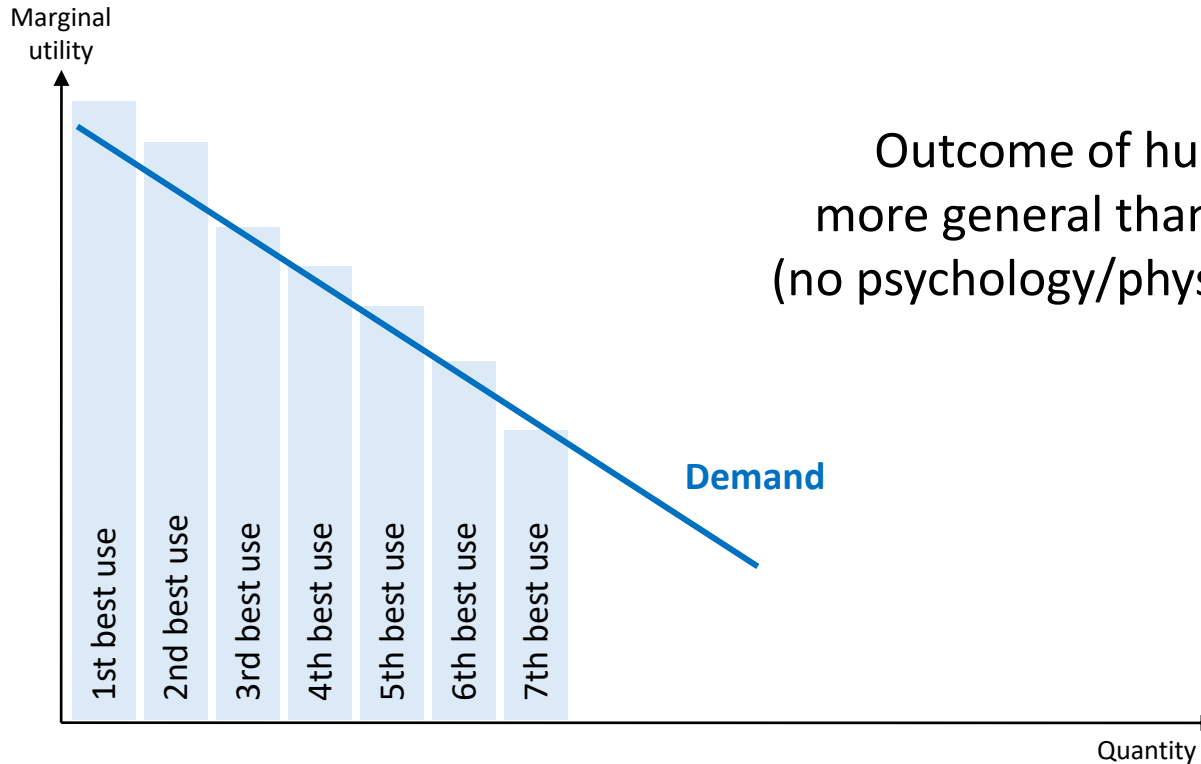
Value as

“the importance which **concrete quantities of goods** receive for us from the fact that we are conscious of being dependent on our disposal over them for the **satisfaction of our wants.**”



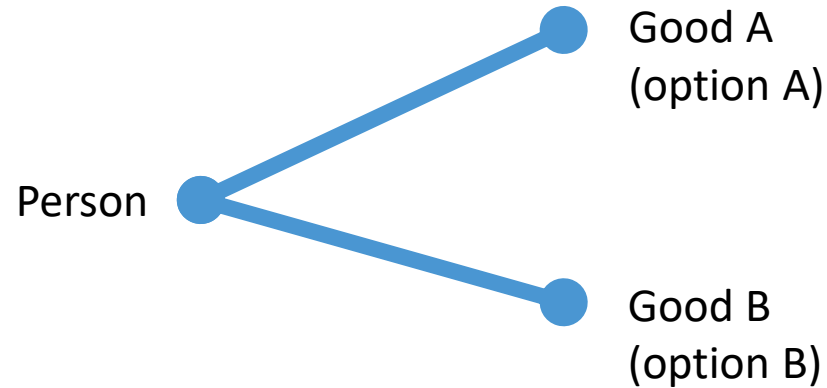
Paradox of value disappears

Law of decreasing marginal utility

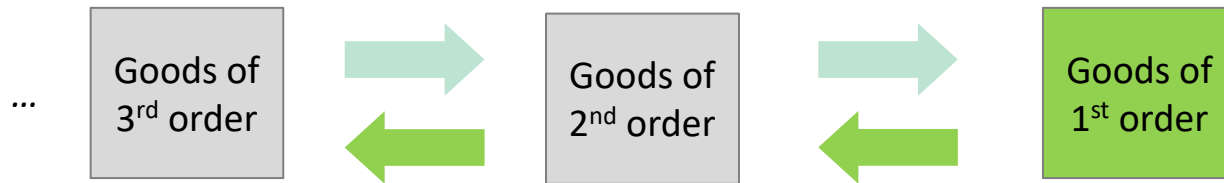


Outcome of human action,
more general than Gossen's Law
(no psychology/physiology required)

Ordinal utility: Value as a trilateral relation



Reverse value imputation



- ⇒ **Subjective valuation of all goods, including production factors**
- ⇒ **Next step: Principle of opportunity cost (Wieser's Law)**
- ⇒ **Step back: Marshallian scissors analysis**

Exchange and price

- Relative valuations of individual participants of exchange
 - » Isolated exchange (bilateral monopoly)
 - » Monopoly
 - » Competition
- ⇒ **Narrowing price ranges rather than unique equilibrium prices**

Evolution of money

- Commodities as goods held in readiness for sale
 - Different degrees of salability (liquidity)
 - Money
 - » Universal means of exchange
 - » Evolved as most salable (liquid) commodity
- ⇒ **Money as a product of the market**

Analytic-compositive method

tracing the complex phenomena of the social economy
to the underlying atomistic forces at work



Methodological individualism
(Schumpeter)

Social patterns prediction

- Critical of both mathematics and historicism in economics
- Social sciences
 - » Introspective knowledge (“Verstehen”, Max Weber)
 - » Capacity of understanding the intended meaning of human actions
- ⇒ No exact predictions of complex social systems as full information about the conduct of every single individual is unavailable
- ⇒ Predictions about changes of the complex structures into which the individual actions combine (stable vs. unstable types of social systems)

Q&A

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