Study Guide to
Carl Menger's

PRINCIPLES OF ECONOMICS

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FOREWORD

At a time when Marx pretended to deduce his "iron law" of wages and exploitation theory of profit from the classical labor theory of value, Menger's *Grundsätze der Volkswirtschaftslehre* marked no less than a *renaissance* of economic science.
For that reason, this masterpiece constitutes the best introduction to economics. Not only because Menger elucidates its fundamental principles, covering the theories of goods, value, exchange, price, production, money, etc.; but, more essentially, because he roots them all in the concrete actions of economizing individuals.

It is true that Menger had predecessors. Among them, Étienne Bonnot, abbé de Condillac, deserves particular attention as one of the Great-fathers of the Austrian school[1]. –In what follows, we indicate where Menger borrows from his *illustre ancêtre.*
It is also true that Menger's book needed developments, and even corrections. –In what follows, we also indicate such insufficiencies.
But, between those two limits, Menger's own genius is undeniably at work. Some of its products are common knowledge, nowadays—e.g., his theories of marginal value, or of the nature and origin of money. Others have unfortunately been forgotten—e.g., his theories of property, and of property rights. If it is a great intellectual pleasure to re-discover the latter; it is another one to rediscover the firsts, which come into new light, and take back their original colors, as soon as one comprehends the whole of Menger's book.

Such is the double objective of this study guide. It is intended to both newcomers and advanced readers. To the firsts, its summaries and comments following the divisions of *Principles of Economics* will serve as a digest and an explanation; to the latter, they will serve as an aid for a closest scrutiny of, and a constant reference to, Menger's work.

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[1] As J.G. Hülsmann remarks, "Menger quoted Condillac more than any foreign authority other than Adam Smith, and in contrast to Smith, he quoted him only favorably". Cf. Cf. J.G. Hülsmann, *Mises, The Last Knight of Liberalism*, The Ludwig von Mises Institue, Auburn, Alabama, 2007 (*MLKL*), II, 4, p. 113, note 23.

STUDY GUIDE TO CARL MENGER'S *PRINCIPLES OF ECONOMICS* :

PREFACE

SUMMARY

• Economic theory is concerned with the universal and necessary conditions under which men provide for the best possible satisfaction of their needs.

• In order to establish it as a true science, it is necessary to follow the method common to all fields of empirical knowledge—i.e., to analyze the complex phenomena of economic life into their simplest elements, and to explain the laws according to which these simplest economic phenomena compose more complex ones. Thus, economic theory explains under what conditions a thing is *useful* ; under what conditions it is a *good* ; under what conditions it is an *economic good* ; under what conditions it has—and has more or less *value* ; under what conditions it is *exchanged* ; etc.

• The field here treated comprises the most general principles of economics, and its treatment constitutes a fundamental reform of this science.

COMMENTS

▪ Menger's presentation of the field and method of economics is rather misleading. First, Menger compares the relation between economic theory and the practical activity of economizing individuals with the relation between chemistry and the activity of the practical chemist. This is, however, an unfortunate analogy. For the laws that condition the practical activity of economizing individuals are the laws of economic activity *itself*, while the laws that condition the activity of the practical chemist are the laws of the chemical activity of *natural elements*. Second, the laws of economic activity are *not* empirical. Therefore, economic theory is not an empirical knowledge, and its method cannot be an empirical one.
One has to distinguish, however, the method *actually* employed by Menger and his own comprehension and presentation of it. For instance, even though he neither comprehends, nor presents them as such, Menger actually treats the laws of economic activity for what they are, i.e., logical implications of scarcity, the excess of valuable ends over available means. Such a "delay" is all too common in the history of science and philosophy: very often, the revolution in the method of a theory precedes the theory of the revolutionary method itself. The latter has to be *discovered* before it can be theoretized.

▪ The Mengerian—or Austrian revolution is one in the proper field and method of economic theory. First, as Menger puts it "*man*, with his needs and his command of the means to satisfy them, is himself the point at which

economic life both *begins* and *ends*"[2]. Second, the corresponding method can only be a logical analysis of the universal and necessary aspects of this relationship. Indeed, even though he conceived and presented it awkwardly, this is Menger's *actual* method. It avoids two opposite pitfalls:
(i) relying on observed complex phenomena, such as historical market prices—only "symptoms" and "incidental manifestations" of the *real* economic activity of individuals[3];
(ii) relying on arbitrary postulates and aggregates—which necessarily leads to error, "even if [one] makes superior use of mathematics"[4].
Hence, rather than "empirical", Menger's revolutionary method is best described as *realistic*.

[2] Cf. Carl Menger, *Principles of Economics*, The Ludwig von Mises Institute, Auburn, Alabama, tr. by James Dingwall & Bert F. Hoselitz, 2007 (*PE*), II,3,D.
[3] Cf. *MLKL*, II, 4, pp.104-108.
[4] Menger's February 1884 letter to Léon Walras, quoted in *MLK*, p.107.

CHAPTER ONE

THE GENERAL THEORY OF THE GOOD

1—The General Theory of the Good

SUMMARY

• Their goods-character is a specific relationship between certain things and men. Something is a "good" if and only if:
(i) it has such properties as could be brought into causal connection with the satisfaction of a human need,
and
(ii) there exists such a human need,
and
(iii) there is a human knowledge of this possible causal connection,
and
(iv) there is a human power sufficient to direct the thing to the satisfaction of the need.

• As a consequence, a good looses its goods-character as soon as:
(i) the need disappears that it is capable of satisfying,
or
(ii) it loses its capacity to satisfy it,
or
(iii) the knowledge of this causal connection disappears,
or
(iv) the power to enact it disappears.

• All good belong to one of two classes:
(i) material goods
(ii) useful human actions.

COMMENTS

▪ Menger's analysis of goods-character offers, from the very start, an example of the advance of his *actual* method over his own theoretization of it. If goods-character is a simple element of economic theory, it is not, Menger states, an empirical property of certain things—but *neither* is it, one can add, an empirical phenomenon, a simple element that could be ascertained through observation. Goods-character is a category of human action: it is equivalent to the *means*-character of certain things with respect to the endeavor of men to satisfy their needs as completely as possible. Menger's actual method, here, is Aristotelian-like—i.e., it is a realistic approach and a *formalization* of experience, rather than a positivist "empirical" method.

■ Menger's definition of goods-character lacks two important precisions. Goods-character is a always relationship between
(i) a certain *type* of things
(ii) and *one man*.

■ The four conditions of the goods-character relationship are necessary, but only their conjunction is sufficient—i.e., the conjunction signs between them stand for a *fifth* necessary condition: something is a good if and only if the four Mengerian conditions can be brought into causal connection—which is not necessarily the case if the need, the knowledge, and the power belong to different individuals.

■ Goods, Menger states, can be either "true", or "imaginary",
(i) whether they derive their goods-character from properties they truly possess, or are merely imagined to possess; and
(ii) whether they derive their goods-character from true, or merely imagined needs.
Though (ii) may seem unfortunate, it *is* possible, under certain conditions, to distinguish "true" needs from "merely imagined" ones—e.g., one can merely imagine *another one's* needs, or his own *future* needs[5].

■ The scope of "useful actions", Menger states, is much broader than the scope of labor services. In fact, *all* actions (including *abstentions* from acting) of other persons have goods-character which are :
(i) useful
and
(ii) of such kind that they can be disposed of.
Such are, e.g., capital services—which are productive, and can be disposed of through the payment of interest[6].

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[5] Cf. *infra*, I,3,B.
[6] Cf. *infra*, III,3,B.

2—The causal connections between goods

SUMMARY

• The requirement for goods-character is the existence of *some* causal connection, but not necessarily a direct one, between things and the satisfaction of human needs. Goods can have an *indirect* causal relationship with the satisfaction of human needs.

• In this connection, a distinction can be made between goods of 1^{st} order, 2^{nd} order, etc.
Goods of 1^{st} order = goods that can be put in *direct* causal connection with the satisfaction of a need = consumers' goods.
Goods of 2^{nd} order = goods that cannot be put in direct causal connection with the satisfaction of this need, but that can be put in an *indirect* causal connection with it, as far as they serve to *produce* the corresponding 1^{st}-order good = producers' goods.
Goods of still higher orders = the goods that can be put in causal connection with the production of a 2^{nd}-order good appear as 3^{rd} order goods, and so on.
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• Just as their goods-character, their "order" is not inherent in the goods themselves. It is always *in some particular employment*, that a good has a closer or more distant causal relationship with the satisfaction of a human need.

COMMENTS

▪ The distinction between higher and lower orders of goods in production processes is a distinctive and decisive feature of Austrianism.

▪ What has been said as concerns the definition of goods-character holds true as regards the distinction of orders of goods : it is no more an observable phenomenon than an empirical property of goods—it is nothing but a category of human action.

3—The Laws Governing Goods-Character

A. *The goods-character of goods of higher order is dependent on command of corresponding complementary goods.*

SUMMARY

• 1st-order goods can be used *directly* for the satisfaction of human needs, i.e., they are goods *by themselves*, as far as the enaction of this causal connection (consumption) does not require the command of any other good.
To the contrary, goods of higher orders can be used only *indirectly*, i.e., in addition to other *complementary* goods, for the production of next and still lower-order, down to 1st-order goods. As a consequence, the goods-character of higher-order goods depends on the command of the whole sum of goods that is required to put them in causal connection with the production of a 1st-order good.

COMMENTS

▪ To say that 1st-order goods are goods "by themselves" is *not* to say that their goods-character is inherent in them, but only that their utilization for the satisfaction of a need does not (from an economic standpoint) require the utilization of any other (complementary) good.

B. *The goods-character of goods of higher order is derived from that of the corresponding goods of lower order.*

SUMMARY

• Goods deriving their goods-character from their causal connection with the satisfaction of human needs, previous goods lose their goods-character immediately upon the disappearance of the need they previously served to satisfy. This principle holds true whether these goods were placed in *direct*, or more or less *indirect* causal connection with the satisfaction of this need.

• But 1st-order goods frequently, and higher-order goods as a rule, derive their goods-character from their causal connections with the satisfaction of *more or less numerous* human needs. In this connection, goods lose their goods-character only if *all* the needs they previously served to satisfy disappear.

• The goods-character of higher-order goods is derived from (and thus depends on) the goods-character of the lower-order goods in whose production they serve.

■ Menger implicitly distinguishes a *general* and a *particular* goods-character. Something has goods-character in general if it is useful to the satisfaction of at least one human need; and it has a particular goods-character with respect to that particular need, as opposed to the particular goods-character it may have with respect to other particular needs. Thus, a previous good may lose one or more or less of its particular goods-characters without losing its general goods-character—as long as it still has at least one particular goods-character left.

■ Previous goods lose one of their particular goods-character immediately upon the disappearance of the corresponding need. This does not mean, however, that men are immediately *informed* of this loss. During the time period between the point at which the loss of one of its particular goods-character occurs, and the *later* point at which men acquire knowledge of it and act accordingly, a good continues to be an *imaginary* good in that particular employment. Here, a *criterium* exists which permits to distinguish "true" from "merely imagined" needs.

■ The connection between the definition of goods-character, the distinction of orders of goods in production, and the law according to which the goods-character of higher-order goods is derived from and depends on the goods-character of the lower-order goods in whose production they serve is a purely logical one—and not an empirical law of human activity.

4—Time and Error

SUMMARY

• Command of producers' goods and command of the corresponding consumers' goods differ in that the latter can be consumed *immediately* whereas the former can be utilized for direct consumption only *after a period of time*. Indeed, the process of causality by which higher-order goods are gradually transformed into 1st-order goods is a process in time; and however short the time periods between the various phases of this process, their nullity is inconceivable.
As a consequence, the goods-character of higher-order goods rests on a *foresight* of needs to be experienced *in the future*—when the process of production has been completed.

• A person with only mediate command of 1st-order goods (through command of the corresponding higher-order goods), can determine their future quantity and quality with less certainty than a person with immediate command of 1st-order goods. The reason for this uncertainty lies in the fact that other factors, apart from higher-order goods, determine the production of 1st-order goods and affect the quality and quantity of the outcome of this causal process. These other factors are :
(i) either such that we have not yet recognized their causal connection with this process;
(ii) or such that they are beyond our control, even though we know their causal connection with this process.

COMMENTS

▪ Stressing the all-pervasiveness and essential character of time in human life, and particularly in human provident activity, is a distinctive feature of the Austrian realistic approach of economic life—as opposed to the general equilibrium approach of mathematical-models builders such as Léon Walras.

▪ As Menger is close from seeing, the passage of time is a universal and necessary condition of human action[7].

▪ Stressing the uncertain character of future empirical conditions with respect to which men make decisions is another distinctive feature of Austrianism, and of major importance to its realistic approach.
The uncertain character of future empirical conditions is also a universal and necessary condition of human action[8].

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[7] Cf. Ludwig von Mises, *Human Action*, The Ludwig von Mises Institute, Auburn, Alabama, 1998 (*HA*),I,V,2, p.100.
[8] Cf. *HA*, I,VI,1, p.105.

5—The Causes of Progress in Human Welfare

SUMMARY

• The division labor is *not* the most important cause of the improvement in the productive powers of labor—and, as a consequence, of the increase in the quantities of consumers' goods at human disposal. It is only a secondary and dependent factor of the economic progress in human welfare. The division of labor increases total output through a more appropriate employment of a *given* stock of higher-order goods; but this increase is very different from and utterly dependant on the increase of the stock of higher-order goods *itself*. The more higher-order goods, (the higher division of labor, and) the greater output of 1st-order goods available for human consumption.

• The causal connection between the increasing employment of higher-order goods and the increasing quantity (or quality) of 1st-order goods produced lies in the fact that the first increases the number of factors of a given causal process of production that have goods-character—i.e., extends to less proximate ones our power to direct its various factors to the satisfaction of our needs.

• The quantities of consumers' goods at human disposal are determined by the extent of human theoretical and practical control over the causal connections between things and human needs.

COMMENTS

■ The most important factor of economic progress, one can say, is not the division of labor in general, but a particular form of it—or rather the division between labor and *capital* services.
The correctness of investment decisions, one can add, is also decisive. Hence, the division between capital services and *entrepreneurial activity*[9].

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[9] Cf. *infra*, III,3,C.

6—Property

SUMMARY

• The entire sum of goods one has at his command for the satisfaction of his needs = his *property*.

• One's property is not an arbitrary quantity of goods, but an *integrated whole*. All those different goods are interdependent factors serving in their entirety only a common end—for one's needs are not independent satisfactions, but the requirements of one's life and well-being.

•As a consequence, no (practically significant) part of one's property can be diminished or increased without affecting the end *it* serves.

COMMENTS

▪ Menger's concept of one's property as an integrated whole is quite unique and entails numerous decisive implications:
(i) If consumers' goods can be used directly for the satisfaction of one's needs, they can be used only indirectly, in addition to other complementary consumers' goods, for the production of one's well being. This paves the way to an extension of economical analysis beyond catallactic phenomena.
(ii) It implies the subjective character of property: a same quantity of goods is *not* the same property in one or in another one's hands; and the same holds true with respect to any property item.
(iii) It implies that one's properties are interdependent with respect to their use-value—their respective importance for one's well-being.

▪ One's property = one's holding of goods as a whole = the stock of goods which one is in position (command) to employ for the satisfaction of his needs.

CHAPTER TWO

ECONOMY AND ECONOMIC GOODS

SUMMARY

• Men strive to provide for the satisfaction of their needs, i.e., to attain command of all the goods on which it depends. More precisely, men provide *in advance* for meeting their requirements *in a more or less distant future*.

• This activity requires a double knowledge :
(i) of the types and quantities of goods required during the time period for which one is planning;
(ii) of the types and quantities of goods actually available for the purpose of meeting these future requirements.

COMMENTS

▪ Provident activity directed towards the satisfaction of individual needs is the *simplest* element of economic life and the subject matter of economic theory. Indeed, Menger's *PE* could be restated so as to be entirely, logically, and explicitly deduced from this fact.

▪ In the last analysis, this fact is *not* an empirical one: individual provident activities cannot be observed—for one could not observe it *as such* if one did not already possess all the praxeological *categories* involved.

1—Human Requirements

SUMMARY

• II.1. shows how men arrive at a knowledge of their requirements for future time periods.

• Human beings experience directly only needs for 1st-order goods. If no requirements for these goods existed, none for higher-order goods could arise. It is thus necessary to start with the study of requirements for consumers' goods, and then to continue with the study of requirements for producers' goods.

A. *Requirements for goods of 1st order (consumers' goods).*

SUMMARY

• A *concrete* human need is satisfied by consuming *one unit* of the corresponding consumers' good. Thus, if men had perfect knowledge of the types of concrete needs they will experience during the period of time for which they plan, and about their intensities, they would have perfect knowledge of the types and quantities of consumers' goods they will require.
However, men are always uncertain whether—or not they will experience certain needs in the future. As for needs they know they will experience, they are uncertain about the quantities involved.
Regarding both questions, men plan, as far as possible, to meet all anticipated requirements.

COMMENTS

▪ As previously said, stressing uncertainty with respect to the future and its importance to human provident activities is a distinctive feature of Austrianism.

▪ It is probable that Menger borrows from Condillac the idea according to which men plan, as far as possible, to meet all anticipated requirements[10].

B. *Requirements for goods of higher order (means of production).*

SUMMARY

• If our future requirements for 1st-order goods are not directly, i.e., already met, requirements arise for the types and quantities of higher-order goods that are necessary to produce them.

COMMENTS

▪ Our requirements for higher-order goods, Menger states, are *effective* only in the limits set by the available quantities of their necessary complementary factors, the difference between our requirements and our effective requirements being our *latent* requirements for higher-order goods.
More precisely, our requirements for higher-order goods are effective in the limits set by the available quantities of the *scarcer* of their necessary complementary factors.

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[10] Cf. Condillac, *Le Commerce et le Gouvernement*, Amsterdam, 1776 (*CG*), I,1.

C. *The time limits within which human needs are felt.*

SUMMARY

• Men not only estimate the types and quantities of consumers' and producers' goods they will need "in the future", but try to estimate the particular time periods within which these various requirements will arise—e.g., one's requirements for certain 2$^{\text{nd}}$-order goods will arise a certain period of time (= period of production) before one's requirements for the corresponding 1$^{\text{st}}$-order goods.

2—The Available Quantities

SUMMARY

• II.2. shows how men obtain as complete a knowledge as possible of the types and quantities of goods actually available to them for providing for the satisfaction of their future needs.

• A complete knowledge would be a complete enumeration of the goods available at a given point in time, i.e., their classification into homogeneous categories, and the determination of the number of items in each category. Men, however, pursue this completeness only to the degree that is necessary for planning their provident activity.

• This degree increases with the importance of trade for such provident activity. The more one trades with other people, i.e., depends on the types and quantities of goods available to them for the provision of one's needs, the highest interest one has in knowing them.

COMMENTS

▪ Menger's "practically necessary" degree of completeness of information can be analyzed as the point at which the pursuit of a new piece of information would be *un*profitable. Indeed, *ceteris paribus*, each new piece of information represents a diminishing marginal gain (of information and, thanks to it, of provision for one's future requirements), and a rising marginal cost of acquiring it[11]. Moreover, one can only *anticipate* the marginal (informative) value of an additional piece of information. As a consequence, if "information" is necessary—for one could not act at all without any piece of information, the practically necessary degree of completeness of information is a subjective estimate: the point at which one estimates that the marginal (acquisition) cost of an additional piece of information would exceed its anticipated marginal (informative) value to a particular plan.

▪ Stressing the incompleteness of the information available to economic actors is a distinctive feature of Austrianism, and a decisive element of its realistic approach of economic life. It extends not only to the uncertain future, but just as well to present empirical conditions.

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[11] Cf.

3—The Origin of Human Economy and Economic Goods

A. *Economic goods.*

SUMMARY

• II.1 and II.2 have shown how men attempt to gain information about their requirements for future time periods, and about the quantities of goods available to them for meeting these requirements. II.3. shows how men, on the basis of this knowledge, direct the available goods to the greatest possible satisfaction of their needs.

• A comparison of the requirements for, and available quantities of, a good may establish the existence of any one of the three following relationships:
(i) that requirements are larger than the available quantity;
(ii) that requirements are smaller than the available quantity;
(iii) that requirements and the available quantity are equal.

The first effect of the insight that (i) upon a man intent to satisfy his needs as completely as possible is that, knowing that no unit of the available quantity of the good may be lost without causing one of his concrete needs to remain unsatisfied, he strives:
(i) to maintain at his command each unit of this good, and
(ii) to conserve its useful properties.

A second effect is that, knowing he cannot satisfy all his concrete needs for this good, he endeavors:
(iii) to make a choice between the (more important) needs he will satisfy with the available quantity, and the (less important) needs he will leave unsatisfied; and
(iv) to obtain the greatest possible result with a given quantity of the good, or a given result with the smallest possible quantity.

• The complex of human activities directed to these four objectives is called *economizing*; and goods whose available quantities are smaller than the requirements for them—i.e., *scarce* goods, are the exclusive objects of it. They are *economic* goods, in contrast to such goods as men have no practical necessity of economizing—i.e., abundant goods.

• What has just been said applies equally to an isolated individual and to a whole society, *however it may be organized*. If the requirements of a society for a good are larger than its available quantities, its various members can only meet their respective requirements for this good to the exclusion of one another. Thus, economy and property have a joint origin: the disparity between requirements for, and available quantities of, all economic goods—scarcity.

COMMENTS

■ Contrarily to goods-character—which is an attribute of *types* of things, economic-goods-character is an attribute of *available supplies* of things.

■ Menger's conclusion from isolated individuals to whole societies rests on the principle according to which a social economy consists of individual economies[12].

■ Menger presupposes here a seminal praxeological theory of (the origin of) property rights: all economic goods must come under the rule of private property in order to avoid conflicts of interest regarding their usage[13].

■ This idea must not be confused with another one, also presupposed by Menger: the idea according to which
(i) it is *impossible* to abolish property for economic goods in general, as well as for particular economic goods, since there is a purely logical relationship (implication) between economic-goods-character and (private) property;
(ii) all that is possible is to decree *state* property over particular economic goods, and to transform them into quasi-non-economic goods[14].

B. *Non-economic goods.*

SUMMARY

• Just as necessarily as they are present in the case of goods whose available quantities are smaller than the requirements for them, the four forms in which human economic activity expresses itself are *absent* in the case of goods whose available quantities are *larger* than the requirements for them (*non-economic* goods):
(i) one is under no necessity of either preserving each unit of such goods at one' s command,
(ii) or conserving its useful properties;
(iii) and neither is one moved to satisfy only certain of one's needs for such goods,
(iv) nor to achieve the greatest possible result with each quantity of such goods, and any given result with the least possible quantity.

[12] Cf. *PE*, IV,2, p.187
[13] Cf. Roy Cordato, "Toward an Austrian Theory of Environmental Economics", *The Quarterly Journal of Austrian Economics*, Vol.7, N°1, Spring 2004, p.8.
[14] Cf. *infra*, II,3,C.

• Likewise, non-economic goods are neither objects of economy, nor objects of property. To the contrary, men are communists whenever possible, and collective property is as naturally founded for non-economic goods as private property is for economic ones.

COMMENTS

▪ If men are communists whenever possible, it is not only because they have no economic reason to preserve quantities of non-economic goods at their command, but more essentially because they have an economic reason *not to*, and would act *un*economically if they did. This reason is that preservation costs (the costs of defining and defending one's property) are a loss whenever what is preserved has either no value at all (like non-economic goods), or even an inferior value. Hence, men intent to satisfy their needs as completely as possible have an incentive no to appropriate themselves quantities of such goods.

▪ "Collective property" is a rather misleading expression—too easily confused with "public", i.e., *state* property. In fact, "collective property" means the absence of *all* property.

C. *The relationship between economic and non-economic goods.*

SUMMARY

• The economic or non-economic character of goods is nothing inherent in them, but a quantitative relationship between requirements for and available quantities of them.

• There can be only two reasons why a non-economic good becomes an economic good:
(i) an increase in the requirements for it, or
(ii) a diminution in the available quantities of it.
Conversely, all changes by which economic goods become non-economic goods can be reduced to changes in the relationship between requirements for and available quantities of them.

COMMENTS

■ Some kinds of goods, Menger states interestingly, occupy a special position between economic and non-economic goods:
(i) "Quasi-non-economic goods" = such goods as are produced by the government and offered for public use in such quantities that they no longer attain economic character for their users.
(ii) "Quasi-economic goods" = such goods as are naturally available in quantities exceeding requirements, but (artificially) acquire economic character for their users because a powerful individual seizes them and excludes the other members of society from their free use.
(iii) " = such goods as do not exhibit economic character at the present time but which, in view of future developments (diminishing quantities and/or increasing requirements) are already considered as economic goods.

■ One can add that, given that the transformation of an economic good into a quasi-non-economic good implies a greater employment of the higher-order economic goods that are necessary to produce it, it is logically impossible to transform *all* economic goods into quasi-non-economic goods. Furthermore, economic (=valuable) higher-order goods are, e.d., *wasted* in the production of quasi-non-economic (=valueless) goods[15].

■ The chief causes of an increase in requirements, Menger states, are:
(i) growth of population,
(ii) growth of individual needs,
(iii) and advance in technical knowledge and power—as the result of which new uses for goods appear.
These three phenomena, Menger adds, accompany the transition of mankind from lower to higher levels of civilization, with this consequence that non-economic goods show a tendency to take on economic character.

[15] For the relationship between the economic character and value of goods, cf. *infra*, III,1. "e.d." stands for "*ex definitione*", by definition.

D. *The laws governing the economic character of goods.*

SUMMARY

• Requirements for higher-order goods depending on the excess of requirements for the corresponding lower-order goods over their available quantities, the economic character of higher-order goods depends upon the economic character of the lower-order goods for whose production they serve.

COMMENTS

▪ It would be a complete reversal of the true relationship, Menger deduces, to pretend to explain the economic character or lower-order goods by the economic character of the higher-order goods employed in producing them. Moreover,
(i) it would be a pseudo-explanation postponing the origin of the economic character of economic goods to ever-higher orders. (Such pseudo-explanations, Menger states, lose sight of the fact that *man*, with his needs and his command of the means to satisfy them, is himself the point at which economic life both *begins* and *ends*);
(ii) it would contradict experience, which teaches us that, in consequence of economic ignorance, economic higher-order goods are sometimes wasted in the production of things that do not even have goods-character.
At any rate, one can add, quasi-non-economic goods do not attain economic character, though economic higher-order goods are employed (wasted) in producing them. Indeed, the economic character of higher-order goods depends upon the economic character of the lower-order goods for whose production they serve—*provided they are not monopolized and coercively diverted to the production of quasi-non-economic goods*.

4—Wealth

SUMMARY

• If a person's holding of goods as a whole = his property, a person's holding of *economic* goods as a whole = his *wealth*.

• Wealth being the entire sum of economic goods *at a person's command*, the existence of any item of wealth presupposes a person in command.
States are economic units : social organizations whose personnel administer "their" economic goods in order to satisfy "their" needs. Hence, no question arises as regards the existence of "public wealth". The same is not true, however, as regards "national wealth"—unless "the nation" be one big economizing unit, i.e., unless the state direct the society's entire economy. Except under such social arrangement, "national wealth" does not constitute "wealth" in the economic sense of the term, but rather a composite and fictive sum of individual wealths.

COMMENTS

▪ Menger does not analyze *who* actually possesses the state's "public" wealth. The question is: who are the ones in position to employ it to the satisfaction of their needs ? who is "in command" ?

CHAPTER THREE

THE THEORY OF VALUE

1—The Nature and Origin of Value

SUMMARY

• The value of goods springs from the same source as the economic character of goods: from the excess of requirements over available quantities—i.e., from scarcity. More precisely, the fact that a good has value to us comes from the fact that command of it provides for the satisfaction of a need that would not be provided for if we did not have command of it. Thus, the particular value of a good is: the significance of its command for our life and well-being.

• Value is nothing inherent in goods, but merely the importance that we first attribute to the satisfaction of our needs, and carry over to economic goods as their causes. Hence, the value of goods is entirely *subjective* in nature.

• No satisfaction depending on our control of one unit of a non-economic good, non-economic goods have no value to us.

• The value of goods arising from the relationship between requirements for and available quantities of them, it increases, diminishes, and disappears with changes in this relationship.

COMMENTS

▪ Against the classical economists, Menger stresses the fact that, contrary, e.g., to its weight, the value of a good is *not* an objective property of it—e.g., the quantity of labor services that a product "contains", but the relationship (dependence) between its command and an economizing individual's provision for the satisfaction of his needs.

▪ Like economic-goods-character, and contrarily to utility—which is an attribute of *types* of goods, value is imputed to *available supplies* of goods.

▪ It is most probable that Menger borrows from Condillac his distinction between scarce-valuable and abundant-valueless goods. Indeed, the quantities / requirements comparison is a leitmotiv of *Le Commerce et le Gouvernement*[16].

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[16] Cf. CG, I,1.

2—The Original Measure of Value

SUMMARY

•In the final analysis, only the satisfaction of our needs has direct importance to us. The valuation of goods is the imputation to goods of the importance of the satisfactions that depend on their command. Hence, the *differences* in the value of different goods are founded on differences in the importance of the satisfactions that depend on their command.

• With an answer to the question as to the ultimate causes of differences in the value of goods, a solution is also provided to the problem of *change* in value—for all change consists of nothing but differences through time.

A. *Differences in the magnitude of importance of different satisfactions (subjective factor).*

SUMMARY

• As concerns the differences in the importance that different satisfactions have for us, experience teaches that the satisfactions of greatest importance to men are usually those on which the maintenance of life depends, and that other satisfactions are graduated according to which degree (intensity and duration) our well-being depends upon them.

• These differences in the importance of different satisfactions can be observed not only with the satisfaction of needs of different kinds, but also with the more or less complete satisfaction of one and the same need.

• Economizing individuals weigh the relative importance of the separate acts leading to an additional and diminishing satisfaction of relatively more or less important needs; and the result guides them in their choosing, according to the means at their disposal, which needs to satisfy, and to which degree.

COMMENTS

▪ The differences in importance that different satisfactions have for us, Menger states, "generally" depend upon the fact that they :
#1 provide for the maintenance of one's life, or
#2 provide for the maintenance of one's health, or
#3 provide with progressively weaker pleasures.

It seems probable that Menger borrows this age-old hierarchy from Aristotle's ethics—though the introductory distinction between "true" and "merely imagined" needs renders plausible that Epicurean influences be also at work, here. At any rate, it is both useless and unfortunate.
It is useless, because it is not to economic theory to study the *empirical content* of one's subjective ranking of his needs. As far as economic theory is concerned, it is a sufficient point that one's employment of *scarce* goods to the satisfaction of one's needs has *necessarily* a *hierarchical form*—viz., implies an order (whatever it is) of diminishing (subjective) importance. Being empirical, the life-health-pleasures hierarchy is, at best, a mere generalization—neither universal, nor necessary. In fact, it is not even a correct empirical generalization: all smokers, e.g., prefer small immediate pleasures to the long-term maintenance of their health.
And it is unfortunate, because it is misleading :
(i) It overlooks the fact that economizing individuals rank *concrete*—and not types of needs.
(ii) It presents the diminishing importance of various satisfactions from a psycho-physiological point of view—e.g., when Menger describes the separate acts of satisfaction of one's need for food[17].
(iii) It overlooks the subjective (personal) character of one's choices of which to satisfy among one's concrete needs.
(iv) It overshadows the real and *logical* connection between economizing scarce means and employing them to the fulfillment of gradually less important ends.
It is all the more unfortunate, indeed, that the correction of those four "errors" is the main achievement of Menger's theory of value. In fact, we have here a new example of the delay of Menger's understanding of his own method: while he actually *deduces* that ranking one's concrete needs is a necessary *trait* of human economic action, he *presents* it through a pseudo-positivist life-health-pleasures hierarchy.

▪ Menger illustrates the weighing of the relative importance of the satisfaction of various concrete needs with a double-entry table (Table 1). The Roman numerals designate the comparative importance of the satisfaction of *different* needs. They form a scale beginning with I, the most important need, and ending with X, the least important need. The Arabic numerals down each Roman numeral designate the diminishing importance of successive acts of satisfaction of the *same* corresponding need. Thus, the importance of a first act of satisfaction of I is marked 10; the importance of a first act of satisfaction of II is marked 9; the importance of a second act of satisfaction of I is marked 9; etc.
This table, Menger insists, is a device aiming at facilitating comprehension of the fact that economizing individuals compare the importance that would have,
(i) according to the *degree already attained* in their respective satisfaction,
(ii) *concrete* acts of *further* satisfaction of their various needs.

[17] Cf. *PE*, III,2,A, p.124-125.

I	II	III	IV	V	VI	VII	VIII	IX	X
10	9	8	7	6	5	4	3	2	1
9	8	7	6	5	4	3	2	1	0
8	7	6	5	4	3	2	1	0	
7	6	5	4	3	2	1	0		
6	5	4	3	2	1	0			
5	4	3	2	1	0				
4	3	2	1	0					
3	2	1	0						
2	1	0							
1	0								
0									

Table 1
Menger's Original Double-Entry Table

It has, however, two grave defects. First, Menger writes later that the figures composing the table are *not* cardinal measures of various "degrees of satisfaction", and express, not the absolute, but merely the *relative* importance of the satisfaction of various needs[18]. But this is incoherent, for *the second presupposes the first*. It is all the more unfortunate that, even if it were possible, it would be useless to express the relative "magnitude of importance" of the satisfaction of different concrete needs, for economizing individuals never have to (and could not) *measure* their relative importance. They only have to choose, as Menger himself explains, which (not) to satisfy; and this preference requires only that one be ranked higher than the other—it does not require that one be able to measure the "distance" between their ranks.
Second, this table suffers from another defect: it allows for (subjective) equivalences of importance between various satisfactions. But there cannot be any equivalence of importance between concrete acts of satisfaction—e.g., a second act of satisfaction of I, and a first act of satisfaction of II, since one has to *choose* between them, be it only with respect to which to satisfy first, or to prefer not to choose, i.e., to leave both unsatisfied.

If we modify Table 1 so that its numbers be purely ordinal, and the satisfaction of two different concrete needs cannot have a same rank of importance, we obtain, e.g., Table 2. Finally, it is also possible to modify Table 2 so as to obtain an integrated scale (Table 3).

[18] Cf. *PE*, IV,2, p.183, note 3.

I	II	III	IV	V	VI	VII	VIII	IX	X
#1	#3	#6	#10						
#2	#5	#9							
#4	#8								
#7									

Table 2
Modified Table (Example)

#1...........1st satisfaction of I
#2...........2nd satisfaction of I
#3...........1st satisfaction of II
#4...........3rd satisfaction of I
#5...........2nd satisfaction of II
#6...........1st satisfaction of III
#7...........4th satisfaction of I
#8...........3rd satisfaction of II
#9...........2nd satisfaction of III
#10.........1st satisfaction of IV

Table 3
Integrated Scale (Example)

B. *The dependence of separate satisfactions on particular goods (objective factor).*

SUMMARY

• With a given quantity of goods and needs of various importance, men first satisfy those needs whose satisfaction has the greatest importance to them. If there are any goods remaining, they direct them to the satisfaction of needs that are next in degree of importance, and so on.
As a consequence, of all the satisfactions provided by the quantities of a good at an economizing individual's command, only the least important (to him) depends on his command of one unit of this good. Hence, the *value* to him, of one unit of the good at his disposal = the importance (to him) of the least important satisfaction among those provided by the whole quantity of the good at his disposal.

• Thus, the valuation of economic goods not only depends on a subjective factor (the relative importance of the satisfaction of different concrete needs), but also on an objective factor: the quantities of each economic good at one's disposal. *Ceteris paribus, the larger the quantity* of a given good at one's disposal, the less important the least important satisfaction that it provides for, i.e., *the lower the value* of one unit of this good. Conversely, *the smaller the quantity* of a given good at one's disposal, the more important the least important satisfaction that it provides for, i.e., *the higher the value* of one unit of this good.

COMMENTS

■ A simple utility theory of value is incapable of facing Adam Smith's so-called "paradox of value"[19]: diamonds have much more value to men than drinking water, though they are much less useful to them. But the paradox vanishes as soon as one understands that, as Menger explains, "value" is imputed, not to types, as does utility, but to *available quantities* of goods. Diamonds are so scarce that men satisfy only the most important needs that diamonds serve to satisfy; to the contrary, drinking water is (usually) so abundant that men are in a position to satisfy their needs for drinking water fully without using up the available quantity. Thus (usually), while concrete quantities of diamonds have a high value to them, concrete quantities of drinking water have no value to economizing men.
In fact, the so-called "paradox of value" had been resolved by Condillac even before Adam Smith formulated it. And it is certain that, here again, Menger borrows from the *abbé*'s masterpiece, *Le Commerce & le Gouvernement*[20].

■ It is remarkable that Menger, known to be one of the Founding Fathers of the marginalist theory of value, never employs this term in *PE*. The thesis, though, is clearly expressed: the value of one unit of a supply of a good to its possessor = the importance of the *least important* concrete need that the whole supply allows him to satisfy. Moreover, it is perfectly demonstrated (logically deduced): economizing individuals satisfying their needs by order of diminishing importance, it is only its least important employment to them that depends on their command of one unit of their whole supply of each good.

■ The value of one unit of a supply of N units of a good = the importance of the concrete need whose satisfaction would not be provided for by a supply of N – 1 units. Menger does not deduce it, but from this it is evident that the value of one unit of a supply of N + 1 units = the importance of the most important among the needs that are left unsatisfied with a supply of N units.

C. *The influence of differences in the quality of goods on their value.*

SUMMARY

• Goods that satisfy human needs in an identical fashion are for this very reason regarded as completely homogeneous from an economic point of view—even though they may differ on the basis of external appearance. *Idem*, if a smaller quantity of a more highly qualified good satisfy one's needs in the same manner as a larger quantity of a less qualified good, the smaller quantity of the more highly qualified good has for this very reason the same value to him as the larger quantity of the less qualified good.

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[19] Cf. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776), I,4.
[20] Cf. *CG*, I,1.

• And if goods of one quality can be replaced by goods of another quality, though not with the same effectiveness, the value of one unit of the good of superior quality is equal to the difference in importance between the satisfactions that can be attained when we have command of it and the satisfactions that would be attained if we did not—i.e., is equal to the importance of the least important satisfaction that is provided for by one unit of the good of superior quality *minus*:
(i) the value of one unit of the good of inferior quality, and
(ii) the loss in importance of the least important satisfaction that is provided for by one unit of the good of superior quality when it is replaced by a unit of the good of inferior quality.

COMMENTS

▪ The "value quota" mentioned by Menger is equal to the difference between the importance of the least important satisfaction provided by the whole supply of a superior good and the actual value of one unit of it.

D. *The subjective character of the measure of value. Labor and value. Error.*

SUMMARY

• Not only the *nature* but also the *measure* of value is subjective. Goods always have value *to* certain economizing individuals, but their value is also determined *by* these individuals. The differences between the valuations of different economizing individuals depend upon the differences in their requirements for and available quantities of each good.

• In estimating the value of a good, economizing individuals solely consider the *future* consumption that depends on its command. There is no necessary and direct connection between the value of a good and the "cost" of its past production. The comparison of the actual value of a good with the value of the goods spent in its production teaches whether and to what extent the latter has been economic; but the higher-order goods (including but not limited to labor services) that have been spent in its past production do not determine the importance of the future consumption that depends on its command.

• The determination of the value of goods is a matter of judgment, and for this very reason, subject to error. Economizing men can err:
(i) with respect to the subjective factor of value determination—the relative importance of their own concrete needs;
(ii) with respect to the objective factor of value determination—the quantities (and qualities) of goods available.

■ Menger does not stress that point, but it is obvious that the determination of the value of goods is even more subject to error when one judges in advance of the future requirements of *other people*—which is necessarily the case when one plans his production of a *commodity*[21].

[21] For the definition of commodity-character, cf. *infra*, VII,1.

3—The Laws Governing the Value of Goods of Higher Order

A. *The principle determining the value of goods of higher order.*

SUMMARY

• The pseudo-explanation of the value of lower-order goods by the value of the higher-order goods that were employed in their production does not even provide a *formally* correct explanation of the value of goods. For it can logically not explain the value of original factors of production (nature-given goods, labor services, etc.). Indeed, it makes their value completely incomprehensible. Moreover, it is debunked by the teachings of experience.

• To the contrary, the value of higher-order goods is determined by the *prospective* value of the lower-order goods in whose production they serve.

• Only the satisfaction of our needs has direct significance to us. This significance is measured by the relative importance of the satisfaction of various concrete needs for our lives and well-being. We next impute these values to the goods on which we know that these various satisfactions directly depend.

• In cases in which our requirements are not met by the existing quantities of 1st-order goods, we turn to the corresponding goods of the next higher order, and impute the values that we imputed to 1st-order goods gradually to goods of still higher orders (as far as they have economic character). Thus, in the final analysis, the value of higher-order goods, just as the value of 1st-order goods, is nothing but the importance economizing men attribute to their lives and well-being.

COMMENTS

▪ Menger's thesis according to which value is imputed *backwards* from concrete needs to the 1st-order goods that can be put in causal connection with their satisfaction, and then to the complementary 2nd-order goods that can be put in causal connection with the production of the latter, and so on, is, with his marginal theory of value, one of the great achievements of *PE*. Both form the basis of a *systematic* subjectivist theory of value—which, in turn, forms the basis of an unified theory of price explaining all price phenomena according to the same principles, and based upon reality. With this thesis, not only labor, but all costs-of-production theories of price are definitively rejected.

▪ Menger explains in III,3,D, the principle according to which the aggregate value imputed to a set of complementary factors is divided among them.

B. *The productivity of capital.*

SUMMARY

• The transformation of higher-order goods into lower-order goods takes place, as every causal process does, in time. Moreover, the points in time at which men will obtain command of 1st-order goods from the higher-order goods at their present command are more distant the higher the order of these goods. As a consequence, if the extension in the employment of higher-order goods brings about an expansion in the quantities of available consumers' goods, this extension is only possible if the provident activities of men extend to ever more distant time periods.

• This sets an important restraint upon economic progress. For the most anxious care of men is always directed to the provision for their requirements in the immediate future, their anxiety diminishing with respect to ever more future requirements—so that economizing individuals generally endeavor to provide for the satisfaction of their requirements in accordance with their remoteness in time. To the contrary, every extension in the employment of higher-order goods implies that men choose to direct goods which they could employ for the satisfaction of their needs in a less distant future to the satisfaction of their needs in a more distant future.

• The "productivity of capital" is one of the most important truths of economic theory. It means that the command of capital for given periods of time is a means to the better satisfaction of human needs, and, therefore, that capital services are a good, and an economic good whenever the requirements for are greater than the available quantities of capital. Scarce capital services are goods to which men attribute value. Hence the payment of interest—which must be understood as an exchange of economic goods (capital services and, e.g., money).

COMMENTS

■ While Condillac merely hinted the phenomenon of "time-preference", Menger stresses its significance with respect to capital formation[22]. However, Menger's understanding of time-preference is still unsatisfying:
(i) He presents it as a psychological phenomenon, while it is a universal and necessary condition of human action—i.e., a praxeological law[23].
(ii) He presents it as an empirical truth: "economizing individuals generally endeavor to provide for the satisfaction of their requirements in accordance with their remoteness in time". But this is an awkward formulation of a *consequence* of time-preference. Time preference = *ceteris paribus*, men prefer to satisfy their concrete needs *as soon as possible*—a praxeological truth ; and

[22] Cf. *CG*, I,1.
[23] Cf. *HA*, IV,XVIII,2, p.480.

because of that, *ceteris paribus*, men provide for their requirements in accordance with their remoteness in time.
(iii) He does not stress its subjective character, viz., the *different* time-preferences of different economizing individuals.
(iv) He does not stress the connection between time-preference and value, viz., the *premium* of present over future goods.

■ Appendix E to III, 3, informs us about Menger's peculiar concept of "capital". According to him, capital consists only of those quantities of *complementary* higher-order goods that are available in the present for the *production* of lower-order goods in future time periods. Therefore, Menger stresses the difference between items of capital and items of wealth yielding an income—i.e., *concrete* durable goods whose services have economic character, such as land, buildings, etc. The latter, according to Menger, are *not* capital.
Consequently, capital services consist, according to Menger, in renting out the (direct or indirect) command of capital. But this would imply that, in the final analysis, the value of the services of capital comes from its *physica*l productivity. To the contrary, the (value of the) physical productivity of an item of capital is, according to Menger's own principles, imputed backward to its factors of production—i.e., it is not the service supplied by the capital suppliers, and not the source of their income. If it were, this income would not be an *interes*t; and it is an interest because capitalists supply, not physically productive services of capital during a period of time, but a *temporal* service: they allow for the extension of the provident activities of men to ever more distant time periods by exchanging present against future goods. For this reason, they pay the latter at their present *discounted* value—on behalf of time-preference, and receive the price of time-difference, i.e., the interest rate.
In this respect, however, *all* producers' goods should be counted as capital items—provided that they can be sold, and without regard for their being, or not, part of a physically productive combination of goods. Also, it appears that capital services do not essentially consist in renting out command of capital, for the entrepreneurs borrowing from capital-lenders are themselves (net) *future* goods buyers. Finally, if one overlooks the temporal service supplied by capitalists, then it seems that their income in production comes from their mere *ownership* of a physically productive capital—which is wrong.

C. *The value of complementary quantities of goods of higher order.*

SUMMARY

• The production of lower-order goods out of higher-order goods requires the command of the capital employed for the period of time over which the production process extends. As a consequence, the aggregate present value of all the goods of higher order necessary for the production of a good of lower order can be set equal to the prospective value of the product only if the value of the services of the capital employed is included. As a consequence, the aggregate *present* value of these higher-order goods is equal to the value of the prospective product *minus* the value of the services of the capital employed. This explains why buyers of higher-order goods never pay the full prospective price of their product.

• Production, the process of transforming higher-order goods into lower-order goods, must always be planned and conducted by an economizing individual. This *entrepreneurial activity* consists in the actual assignment of higher-order goods to particular productive purposes. It includes:
(i) obtaining *information* about the economic situation;
(ii) economic *calculation*—all the various computations that must be made if a production process is to be efficient;
(iii) the *act of will* by which goods of higher order are assigned to particular production processes;
(iv) *supervision* of the execution of the production plan.

• Entrepreneurial activity is just as necessary a factor in the production of goods as technical labor services. It therefore has goods-character—and value, whenever it is an economic good.
Thus, the prospective value of their product determines the present aggregate value of complementary quantities of higher-order goods only if the value of entrepreneurial activity is included in the aggregate

COMMENTS

■ Menger does not explain how the value of the services of the capital employed in a production process is to be calculated. Indeed, his theory of capital and capital services rendres this explanation impossible. For the value to be explained is not that of the command, during the production period, of the capital employed, but the difference between the future and present value of the services of the complementary higher-order goods employed.
The mere ownership of capital does not yield any income. What does yield an income is the capital service that consists in exchanging present goods that one could employ for his own consumption purposes against other people's future goods—discounted to their present value.

■ Stressing the decisive importance of entrepreneurial activity is a distinctive *trait* of Austrianism:
(i) The economic life is a complex of production processes, which are necessarily *subjectively* planned and conducted by *real men* (entrepreneurs).
(ii) This planning and conducting implies coping with *uncertainty* as regards future conditions, on behalf of the reality of time; and with *incompleteness of information* as regards present conditions, on behalf of the cost of (acquisition of) information.

■ Unfortunately, Menger presents entrepreneurial activity as an economic good. But this is incoherent with the definition of goods-character, since "entrepreneurial services" *cannot*, by their very nature, be disposed of[24]. What can be disposed of are *managerial* services—a particular type of labor services, completely different from entrepreneurial activity. Menger does not confuse the two, however, who states that the entrepreneurial function is irreducible, even if ultimately confined to the allocation of capital to productive purposes by broad categories, and to the selection and control of agents.

■ "Risk bearing", Menger states, is *not* the essential function of the entrepreneur in a production process, since the "risk" is only incidental, and the chance of loss is counterbalanced by the chance of profit.

■ Menger does not explain how the value of the entrepreneurial activity is to be calculated. Given its nature, and that of capital services, it is clear that the specific income of the entrepreneurial activity is the product of the production process *minus* the prices of all the complementary higher-order goods employed, and *minus* the market rate of interest, i.e., = *profit*.

D. *The value of individual goods of higher order.*

SUMMARY

• Only *complementary* quantities of higher-order goods can produce quantities of lower-order goods; but they need not always be combined in fixed proportions. To the contrary, experience teaches that there is generally a wide range within which the proportions of higher-order goods applied to the production of a lower-order good can be varied—i.e., that particular goods of higher order can, as a rule, be replaced by quantities of other complementary goods. Accordingly, the particular value of a quantity of one of various complementary goods is equal to the difference between the satisfactions that can be attained only if we have command of it and the satisfactions that can be attained by its replacement by quantities of other complementary goods.

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[24] Cf. *infra*, III,3,E.

Corollary: the value of a higher-order good is greater :
(i) the greater, the value of the other complementary goods remaining equal, the prospective value of the product, and
(ii) the lower, the prospective value of the product remaining equal, the value of the other complementary goods.

COMMENTS

▪ This is coherent with the general law of value determination: the particular value of a quantity of one of various complementary goods is equal to the part of their product that depends on its command—i.e., that would not be produced if it was replaced. This is also coherent with what Menger said about the value of a superior good that could be replaced with an inferior one.

▪ However, Menger presents it as a consequence of the empirical observation of the general variability of the proportions in which complementary higher-order goods can produce a certain lower-order good, while it is a consequence of the law of returns—a praxeological truth.

E. The value of the services of land, capital, and labor, in particular.

SUMMARY

• Land occupies no exceptional place among goods. Be it a consumers', or a producers' good, it is subject to the general law of value determination, i.e., it attains value only to the extent that we depend on its command for the satisfaction of our needs. Thus, where services of land are applied, together with the services of other complementary goods, to the production of lower-order goods, the particular value of the services of land is determined in accordance with the general principle that the value of a good of higher order is greater, *ceteris paribus*,
(i) the greater the value of the prospective product, and
(ii) the smaller the value of the complementary higher-order goods.

• The value of a piece of land is nothing but the expected value of all its future services, minus the value of the services of capital. Hence, the value of a particular piece of land is greater:
(i) the higher the expected value of its future services, and
(ii) the lower the value of the services of capital (rate of interest).

• Labor services are not always goods—let alone economic goods, simply because they are labor services. They do not have value as a matter of necessity. This reason suffices to prove that labor services do *not* determine the value of economic goods. To the contrary, like the services of land, and of all other economic goods, labor services are subject to the general law of value determination—i.e., their value is determined by the importance of the needs that they serve to satisfy.

• Entrepreneurial activity must be counted as a category of labor services. Nevertheless, this labor service has two peculiarities:
(i) it is by nature not a commodity (not intended for exchange), and for this reason has no price;
(ii) it has command of the services of capital as a necessary prerequisite, since it cannot otherwise be performed.

• The ultimate causes of the economic character and value of capital services have already been explained, and we already know that the principle determining their value is the same as the principle determining the value of all economic goods.

•It is thus shown with respect to economic goods of all kinds that all phenomena of value are the same in nature and origin, and that the magnitude of value is always determined according to the same principle.

COMMENTS

▪ The value of the services of land, Menger states, can obviously *not* be explained by labor or costs-of-production theories of value. But this implies, Menger adds, not that land should be reserved an exceptional place among goods, and treated according to specific principles, but that *another* theory of value is required, whose principle holds true for all kinds of economic goods, and can be used as a basis for the explanation of *all* price phenomena.

▪ Likewise, it is obvious that neither the value of the services of labor, nor the value of the services of capital, can be reduced to "quantities" of labor, or costs of production.

▪ Labor services, Menger states, are *one* of the *complementary* factors necessary to any production process ; but they are not so in any higher degree than the other necessary factors of production—the services of land and capital. Thus, Menger deduces, landowners and capitalists do not live on what they take away from laborers, but upon the services of their land and capital—which have value, just as do labor services, to society.
Moreover, as we shall see, the *price* of a good is a consequence of its value. As a consequence, Menger continues, if possession of a piece of land, or amount

of capital, often yields a higher income for a given period of time than the most strenuous work during the same period, the cause of this is simply that the satisfaction of more important human needs depends upon the services of the piece of land, or amount of capital, than upon this labor service in question. Thus, Menger concludes, those who would like to see society allot a larger share of the available consumers' goods to laborers than at present demand nothing else than paying their labor services above their value.
It seems necessary, however, to stress the fact that, not the mere ownership of capital, but *temporal services*, yield a return in production processes.

▪ One should not read as a negation of the unpleasantness of labor (in the *economic* sense) on Menger's part the fact that he writes that the value of inactivity to most laborers is much less than is generally believed, and that the occupations of the great majority of men are themselves satisfactions of the need, for every human being, to exercise his powers. For this would be nothing but a confusion between two different concepts of labor :
(i) "labor" in the common sense, as opposed to inactivity, and
(ii) "labor" in the economic sense, as opposed to *leisure*.

▪ Just as it was unfortunate to count entrepreneurial activity as an economic good, it is also unfortunate to count it as a labor service. Only *managerial* tasks are labor services. Indeed, its first "peculiarity" forbids, according to Menger's own principles, that entrepreneurial activity be a labor service: by its very nature, it cannot be disposed of.

CHAPTER IV

THE THEORY OF EXCHANGE

1—The Foundations of Economic Exchange

SUMMARY

• The nature of exchange is: a reciprocally agreed upon reciprocal transfer of command of economic goods.

• The origin of exchange—the principle that leads men to exchange is the same that guides them in their economic activity in general: the endeavor to provide for the fullest possible satisfaction of their needs.

• The possibility of an exchange depends on three necessary conditions:
(i) one economizing individual must have command of quantities of goods which have a *smaller value* to him than other quantities of goods at another economizing individual's command, and the latter must evaluate these quantities *in reverse fashion*;
(ii) the two of them must be *informed* of this relationship, and
(iii) they must have the *power* to perform the exchange.

• The first condition implies that any and all exchange is *reciprocally beneficial*. Under the first condition, a reciprocal transfer of goods between two economizing individuals necessarily *improves* the economic position of *both* of them.

COMMENTS

▪ "A reciprocally agreed upon reciprocal transfer of command of economic goods" may seem too complex a definition of exchange operations. It is not, however:
(i) "reciprocally agreed upon" is necessary in order to oppose economical to *political* transfers of command of goods;
(ii) "reciprocal transfer" is necessary in order to oppose conditional to *unconditional* transfers—a gift also must be reciprocally agreed upon, but it is not a reciprocal transfer;
(iii) "command" is necessary because their value is not inherent in goods, but the subjective importance men impute to their *command*—i.e., men exchange, not goods, but commands of goods;

(iv) "economic goods" is necessary because exchange operations involve economic sacrifices, so that economizing individuals demand in exchange only goods that have *value* to them—and enough value to counterbalance their price, *plus* the economic sacrifices involved in the operation[25].

■ Menger establishes logically the principle according to which its reciprocal benefice is an universal and necessary condition of exchange—he deduces it from his subjective theory of value.
Moreover, borrowing from Condillac, Menger adds that this truth is particularly evident (and impressive) in the case in which two economizing individuals improve their economic positions by an exchange of goods that have *no value* to the one who has them at his command, but do have value to the other one[26]. Such a case (in which one has command of a quantity of a good larger than his full requirements, but suffers a deficiency of a second good, while the other one is in the opposite situation) is of course not a necessary, but a rather rare condition. It enlightens, nevertheless, the reciprocal profitability, as well as the *productivity* of trade.

• Indeed, Menger stresses that trade is no less productive than, e.g., industrial or agricultural activity. The effect of any and all economic exchange upon the economic position of each of the two traders, Menger explains, is the same as if a new item of wealth had entered his property. Assume two economizing individuals, A and B, A possessing a certain supply of "a", and B a certain supply of "b"; and assume also the value of 1a to A to be W, the value of 1b to A to be W + x, the value of 1b to B to be w, and the value of 1a to B to be w + y. Then, the product of an exchange of 1a against 1b is that :
(i) A gains a value = x, since $-W + (W+x) = x$; and
(ii) B gains a value = y, since $-w + (w+y) = y$.

[25] Cf. *infra*, III,2.
[26] Cf. *CG*, I,2. Menger even borrows Condillac's example of a wheat / wine exchange.

2—The Limit of Economic Exchange

SUMMARY

• Whenever there exists a basis for economic exchange operations between two economizing individuals, there also exists a limit at which they can operate to their *best* reciprocal advantage—i.e.,
(i) below which the gains to be derived from exchange operations would be incompletely exploited;
(ii) at which only the gains to be derived from exchange operations are fully exploited (exhausted), and
(iii) beyond which these gains would be diminished, reduced to nothing, or even converted to losses, by further exchange operations.

• This limit is reached when the basis for economic exchange disappears, i.e., when two economizing individuals have no further quantities of their goods which they value in reverse fashion.

• Exchange operations demand economic sacrifices. Cases are conceivable in which the economic sacrifices of an exchange operation fall to a minimum neglected in practical life; but an exchange operation without any economic sacrifice (be it only time) is inconceivable.

• An economic exchange increases the wealth of its participants just as effectively as a physical increase in the quantities of economic goods at their disposal. All persons who mediate exchange are therefore just as "productive" as farmers, manufacturers, etc. They contribute to the attainment of the end of economy : the fullest possible provision for the satisfaction of human needs.

COMMENTS

■ Menger's theory of exchange is logically deduced from his theory of the subjective and marginal character of value. In order to illustrate it, Menger resorts to "scales of equivalents" (Table 4). This device is a variant of the former double-entry table:
(i) While the latter was concerned with only one individual, Menger compares here the scales of *two* bargainers, A and B;
(ii) While the ten columns of the latter represented the increasing satisfaction of ten different *needs*, the two columns of each bargainer's scale represent here the increasing supply of different *goods* (horses and cows).
These scales also have the same defects as had the double-entry table:
(iii) The figures down each good designate the importance that additional units of it have to their possessor. They are diminishing, because, *ceteris paribus*, the larger the supply of a good, the less important the least important concrete need that it provides for. But it is nonsensical to say, as Menger does, that a x^{th} unit of a good has "twice the importance" of the y^{th} unit of the same,

A			B	
Horses	Cows		Horses	Cows
50	50		50	50
40				40
30				30
20				20
10				10
00				00

Table 4
Menger's Original Scales of Equivalents of A and B

or of another good, to its possessor.
(iv) It is also nonsensical to say that a first horse is "as important as" a first cow to A. Quantities of different goods *cannot* be subjectively equivalent to an economizing individual.

Menger's demonstration may be summed up with Table 5. The figures in parenthesis designate the additional units received in a first, and in a second exchange operation. Crossed figures designate the units given in a first, and in a second exchange operation. It is clear, Menger states, that:
(i) there exists a basis for reciprocally profitable exchange operations between A and B;
(ii) a first operation does not exhaust the gains to be derived from the exploitation of that exchange opportunity;
(iii) after a second operation, neither A, nor B, have any economic reason to exchange further units—a third operation would not improve their economic positions;
(iv) a fourth, etc., exchange operation would worsen the economic positions of A and B.

Modified so as to consist of purely ordinal numbers designating exclusive ranks, this summary scale would look, e.g., like Table 6. And once integrated, it would look, e.g., like Table 7. The latter makes it crystal clear that, *ceteris paribus*, A will not agree to a third exchange operation—viz., to give away a fourth horse in order to acquire a fourth cow.

A		B	
Horses	Cows	Horses	Cows
50	50	50	50
40	(40)	(40)	40
30	(30)	(30)	30
20			20
~~10~~			~~10~~
~~00~~			~~00~~

Table 5
Summary of Menger's Demonstration

A		B	
Horses	Cows	Horses	Cows
#1	#2	#2	#1
#3	#4	#4	#3
#5	#6	#6	#5
#7	#8	#8	#7
#9	#11	#11	#9
#10	#12	#12	#10

Table 6
Modified Summary Table

A		B	
#1	1st horse	#1	1st cow
#2	1st cow	#2	1st horse
#3	2nd horse	#3	2nd cow
#4	(2nd cow)	#4	(2nd horse)
#5	3rd horse	#5	3rd cow
#6	(3rd cow)	#6	(3rd horse)
#7	4th horse	#7	4th cow
----------	----------	----------	----------
#8	4th cow	#8	4th horse
#9	~~5th horse~~	#9	~~5th cow~~
#10	~~6th horse~~	#10	~~6th cow~~

Table 7
Integrated Scales of A and B

■ The reason why a limit necessarily exists at which exchange operations result in the greatest economic gain for each participant follow from:
(i) the fact that each new unit of the good given in exchange has a *higher* (marginal) value than the precedent, since its total supply diminishes, while
(ii) each new unit of the good acquired in exchange has a *lower* (marginal) value than the precedent, since its total supply increases.
The limit Menger refers to is attained as soon as a new unit of the good acquired in exchange would not have a higher (marginal) value than a new unit of the good given in exchange to one of the bargainers.

■ A social economy, Menger writes, is composed of individual economies. But there is much more to it than what Menger deduces. Given the *nature* of exchange, a social economy composed of free trading individual economies, viz., an unhampered market, "operates" necessarily to the *best possible* benefice of *each* of his participant—is necessarily Pareto-efficient.

■ It is probable that Menger borrows from Condillac the idea according to which various economic sacrifices are required for the conduct of exchange operations, which absorb a portion of the economic gains resulting from their exploitation[27]. Indeed, as any action, exchange operations take time. Moreover, Menger adds, individual economies (men and their possessions) being separated in space, exchange operations between them generally require packaging costs, freight costs, insurance costs, etc. And we already noticed (acquisition of) information costs. All these expenses, Menger states, can even render uneconomic exchange opportunities which would be economic if only they did not exist; and economic development tends to reduce them (construction of communication and transportation facilities, etc.), with the result that more and more economic exchanges become possible which previously could not have taken place.

[27] Cf. *CG*, I,4.

CHAPTER V

THE THEORY OF PRICE

SUMMARY

• Prices are not the most fundamental feature of the economic phenomenon of exchange. This central feature lies rather in the better provision that two individuals can make for the satisfaction of their needs by means of trade. Prices are only incidental manifestations of this activity and symptoms of an economic equilibrium between the economies of individuals.

• The error of regarding prices as the essential feature of exchange resulted in the further error of regarding the quantities of goods exchanged as equivalents in an *objective* sense. And the result was a vain attempt to discover the causes of this alleged equivalence. Some theorists pretended to find the cause in "equal quantities of labor" expended on the goods; others in "equal costs of production". In this setting, the subjective character of value and the nature of exchange is completely misunderstood.

• A correct theory of price must instead be directed to showing how economizing men, in their endeavor to provide for the best possible satisfaction of their needs, are led to exchange *definite* quantities of goods—i.e., price formation.

COMMENTS

■ Menger's theory of price logically follows from his theory of exchange—which, in turn, logically follows from the theory of the subjective and marginal character of value. This logical chain ensures that price theory be an *unified* explanation of the *formation* of prices rooted in the *concrete interactions* of individual actors.

1—Price Formation in an Isolated Exchange

SUMMARY

• The basis for an exchange between two economizing individuals (their reverse valuations of quantities of goods at each other's command) implies the existence of limits within which price formation must take place. These limits are given by the quantities of the two goods that are equivalents, in a *subjective* sense, for each bargainer.

• Within these limits, the actual price depends on the opposing efforts of the bargainers to derive the greatest possible gain from the transaction, i.e., it depends on their bargaining skills, as well as on other incidental factors.

COMMENTS

▪ The limits within which price formation must take place must not be confused with the limit at which it involves the greatest possible gain for each bargainer.

▪ It is most unfortunate that Menger replace the idea of an objective equivalence between quantities of different goods exchanged with that of a subjective equivalence to one of the bargainers. As we already pointed out, the latter is illusory (even though "less" illusory than the first). Indeed, it is not the idea of an *objective* equivalence, but the very idea of an *equivalence* at all between quantities of different goods exchanged, that should be replaced.

2—Price Formation Under Monopoly

SUMMARY

• An exchange of goods between two economizing individuals who are not influenced by the economic activity of other persons = an isolated exchange.

• More complicated relationships appear when:
(i) a basis for economic exchange operations exists between a monopolist and each of several other economizing individuals who are in competition with each other for the monopolized good;
(ii) a basis for economic exchange operations exists between each of several owners of one good and each of several owners of another good. Here, several economizing individuals are in competition with one another for both goods.

COMMENTS

▪ Unless otherwise specified, Menger always uses the term "monopolist" in the etymological sense, in order to designate the "unique seller" of a good.

▪ Menger implicitly underlines the radical difference between competition and conflict: individuals compete economically, and not politically, when they endeavor to acquire a same good *by trade*—i.e., to *cooperate* with other economic individuals.

A. *Price formation and the distribution of goods when there is competition between several persons for a single indivisible monopolized good.*

SUMMARY

• When several economic individuals compete for a single indivisible monopolized good…
(i) the competitor who obtains the good is the one for whom it is the equivalent of the largest quantity of the good offered for it in exchange (the one who is in a position to offer the highest price for it);
(ii) price formation takes place between limits that are set by the equivalents of the monopolized good for the two competitors who are in the strongest competitive position to perform the exchange;
(iii) within these limits, the price is fixed according to the principles of price formation already studied for isolated exchange—the only difference being that the limits between which price formation takes place have become narrower.

COMMENTS

▪ (i) is true *ceteris paribus*—e.g., provided that no preference for one particular buyer counterbalance a lower selling price.

▪ (ii) is true because the most able competitor offers high enough a price to exclude (economically) the second best able competitor from the exchange.

▪ Economical exclusion, Menger states, is utterly distinct from *political* exclusion—i.e., exclusion *by the use of physical force*. Nevertheless, Menger does not use this distinction in order to distinguisg economical and political forms of monopoly.

B. *Price formation and the distribution of goods when there is competition for several units of a monopolized good.*

SUMMARY

• When several economizing individuals compete for a quantity ≥ 2 units of a monopolized good…
(i) The quantity offered for sale by the monopolist is acquired by those competitors who are in a position to offer the highest price for it (i.e., to whom the largest quantities of the good offered in exchange are the equivalents of the units of the monopolized good). This price (the quantity of the good given in exchange that is given in exchange of one unit of the monopolized good) is equal for each of the purchasers.
(ii) Price formation takes place between limits that are set by the equivalent of one unit of the monopolized good to the individual least able to compete who still participates in the exchange and the equivalent of one unit of the monopolized good to the best able of the competitors who are economically excluded from the exchange.
(iii) The larger the quantity of the monopolized good, the lower its unit price has to be in order to sell the whole quantity. Then, the larger the quantity of the monopolized good offered for sale, the fewer competitors are excluded from acquiring quantities of it, and the more units each included competitor demands.

C. *The influence of the price fixed by a monopolist on the quantity of a monopolized good that can be sold and on the distribution of the good among the competitors for it.*

SUMMARY

• In their endeavor to improve their economic positions,
(i) The competitors for a monopolized good for whom one unit of it is the equivalent of a quantity of the good offered in exchange that is ≤ the price set by the monopolist are economically excluded from acquiring quantities of it.
(ii) Each of the competitors for whom one unit of it is the equivalent of a quantity of the good offered in exchange that is > the price set by the monopolist demands quantities of it up to the limit at which one unit of the monopolized good becomes for him the equivalent of a quantity of the good offered in exchange that is equal to the price set by the monopolist.
(iii) The higher a monopolist sets the price of a unit of a monopolized good, the more competitors are excluded from acquiring quantities it, the less units are demanded by each included competitor, and the smaller are the sales of the monopolist. Opposite relationships hold in the reverse case.

D. *The principles of monopoly trading (the policy of a monopolist).*

SUMMARY

•A monopolist *cannot* determine the course of economic events:
(i) The general principle according to which both parties derive an economic advantage from an economic exchange maintains its validity.
(ii) Within this range, a monopolist cannot determine the unit price *and* the quantities sold of a monopolized good.

• A monopolist cannot sell a larger quantity of his good at as high a unit price as he could sell a smaller quantity of it ; nor can he sell at a certain unit price as large a quantity of it as he could at lower prices. But a monopolist *can* determine the quantity of a monopolized good to be traded *or* its unit price. It is thus in his power, either to regulate the price by supplying smaller or larger quantities of his good, or to regulate the quantity traded by raising or lowering the price—in accordance with his economic interest.

■ Unfortunately, even without a name for, and not even an explicit theory of it, Menger does not totally avoid the "monopoly price" fallacy. He notes, e.g., that under certain circumstances it may be in the interest of a monopolist to "exploit the consumers" by destroying part of the quantity of his good, instead of offering it for sale, or by leaving unused part of the corresponding factors of production at his command, and raising his selling unit price.
This is all the more unfortunate, indeed, that, meanwhile, Menger logically deduces that,
(i) given that, for each quantity of a good that a monopolist decides to sell, the price is determined independently of his will; and
(ii) given that, at each price that a monopolist decides to set for a unit of his good, the quantity sold is determined independently of his will;
(iii) it is evident that, although a monopolist has the power to set higher or lower prices, or to market larger or smaller quantities, there is *one and only one* price, corresponding to one and only one quantity, that is to his best economic interest.
But, from there it is also evident that, if a monopolist has to destroy part of the quantity of his product in order to attain that price, or to leave unused part of the corresponding factors of production at his command in order to attain that quantity, it only means that he employed *too much* (i.e., wasted) scarce factors in that particular production process—*to the consumers' own judgment (evaluation).*

■ The case is different, however, if one speaks of a monopoly springing, not from economical, but from *political* exclusion of competing suppliers. For such a monopoly too there is one and only one unit price that is to his best economic interest, but:
(i) he can politically exclude all competitors in position to exclude him economically—i.e., he can forbid competition *at better (lower) unit prices*; and
(ii) he can obtain for himself all the gains to be derived from exchanges at that unit price, even though he is not the only supplier in economic position to sell at that unit price—i.e., he can forbid competition *at that unit price*.
The first has a great effect on the consumers—such that one can even call it an "exploitation of the consumers", though this be a misleading expression; the second, to the contrary, has no further necessary effect on the consumers[28].

[28] Cf. *infra*, V,3,B.

3—Price Formation and the Distribution of Goods Under Bilateral Competition

A. *The origin of competition.*

SUMMARY

• In the widest sense, monopoly = the position of any economizing unit who can supply a good that it is physically or economically impossible for other economizing units to supply competitively.

• As an actual condition, it is the earlier and more primitive phenomenon, competition appearing only later, when a monopolist cannot comply anymore with the demand for the good he supplies—provided there are no political or other barriers in the way.

COMMENTS

▪ Unfortunately, Menger does not stress the difference between economical and political monopolies. It is clear, however, that an economizing unit supplying a good that it is *economically* impossible for other economizing units to supply *competitively* cannot be said to "exploit" the consumers!

B. *The effect of the quantities of a commodity supplied by competitors on price formation; the effect of given prices set by them on sales; and in both cases the effect on the distribution of the commodity among the competing buyers.*

SUMMARY

• Contrarily to the larger or smaller quantity of a good supplied, the fact that a *given* quantity be supplied by a monopolist or by several competitors, just as its original distribution among competing sellers, have neither effect on price formation, nor on the resultant distribution of the quantity sold among the competing buyers.

• A similar result obtains with respect to a *given* unit price. The higher or lower level of its unit price has a very important effect on the total sales of a good, as well as on the quantity that each competing buyer actually acquires. But whether the goods are supplied (at a given price) by only one or by several seller(s) has necessary effects, neither on the first, nor on the latter.

• The effect of changes in unit price on quantities of units sold, as well as the distribution of each quantity sold among the various competing buyers, are therefore the same whether there is competition in demand only, or bilateral competition in demand and in supply.

C. *The effect of competition in the supply of a good on the quantity sold and on the price at which it is offered (the policies of competitors).*

SUMMARY

• His position allows a monopolist to market only part of the quantity of the good at his command, or to put to use only part of the means of production at his command. But this policy is impossible under true competition, for a competitor would only allow his competitors to fill the gap he would create, and to capture the intended gain.

• The existence of true competition not only causes the entire quantity of a commodity actually available to be offered for sale, but also has the further and much more important result of increasing significantly the quantity that becomes available.

• These factors are responsible for reductions in prices. As a consequence of competition in the supply of a good, therefore, more and more members of society are able to consume more and more of it at falling prices—i.e., the provisioning of society in general becomes ever more complete.

COMMENTS

■ Menger's idea of "true competition" is an outgrowth of his implicit "monopoly price" theory. According to him, a cartel of competing suppliers would constitute a "false" competition, since competition implies (to Menger) that no single competitor has the power to regulate *either* the price, *or* the quantity of a good. To this respect, Menger praises, "true" competition in supply removes one of the socially most injurious consequence of monopoly.
This, however, is untenable, for, while there is a *criterium* distinguishing political from economical exclusion, there is none distinguishing so-called "false" from so-called "true" competition—there is only political intervention, or *free* competition.
In fact, Menger's so-called "true" competition would require that an authority forbid the constitution of a cartel aiming at marketing only part of the quantity of a good at several competitors' command, or putting to use only part of the means of production at their command. But this would be political exclusion, not free competition; and it would entail socially injurious consequences. For,

if the constitution of a cartel is to the competing suppliers' advantage, it means that they are actually wasting scarce factors—to the consumers' own judgment; a waste that would remain *uncorrected*, were cartels to be forbidden.

■ Menger does not sufficiently explain the connection between competition in supply and the increase in quantities supplied at falling unit prices. The increasing number of competing suppliers is only a superficial and unnecessary phenomenon. To the contrary, the main effect of free competition is to free *entrepreneurial activity*, and notably the improvement of *production* methods—In the larger sense of the term, from political control. Thus, free competition ensures:
(i) the best possible employment of the *existing* capital, the realization of profits, and
(ii) the creation of *new* capital by the most able competitors.

CHAPTER VI

USE VALUE AND EXCHANGE VALUE

1—The Nature of Use Value and Exchange Value

SUMMARY

• Use value is the importance that goods acquire for us because they *directly* provide for the satisfaction of needs that would not be provided for if we did not have them at our command.

• Exchange value is the importance that goods acquire for us because they *indirectly* (by way of exchange) provide for the satisfaction of needs that would not be provided for if we did not have them at our command.

2—The Relationship Between the Use Value and the Exchange Value of Goods

SUMMARY

• If an economic good has both use value and exchange value to its possessor, the *economic* value (i.e., the one that is determining in its possessor's economic calculations and actions) is the *greater* of the two.
It is its exchange value in every instance in which the basis for an economic exchange exists; and it is its use value whenever such is not the case.

COMMENTS

▪ "economic value" is a forgotten Mengerian concept. It is the *actual* value of a good to an economizing individual—either its use value, or its exchange value, according to which is greater.

3—Changes in the Economic Center of Gravity of the Value of Goods.

SUMMARY

• The factors determining the economic form of value are subject to change. The chief causes of changes in the economic form of value are:
(i) Changes in the importance of the satisfaction for which the command of a good provides. Such changes increase or decrease the good's use value to its possessor without changing its exchange value.
(ii) Changes in the properties of a good which do not cause its use value (to its possessor) and its exchange value to change to the same extent.
(iii) Changes in the quantities of goods at one's command. *Ceteris paribus*, an increase in the quantity of a good at one's command causes the use value of each unit to diminish; a decrease, on the other hand, causes the use value of each unit to increase. In both cases, the exchange value of the good is not affected.

COMMENTS

▪ From what Menger said about the "integrated" nature of one's property, one can add that changes in the use value of one good to its possessor may affect the use value, to him, of *another good*.

CHAPTER VII

THE THEORY OF COMMODITY

1—The Concept of Commodity in Its Popular and Scientific Meanings

SUMMARY

• In ordinary usage the term "commodity" is narrowed down to movable tangible goods that are in such external circumstances that the intention of their owner to sell them is obvious. In the scientific sense of the term, however, the commodity concept refers to *all* economic goods held ready for sale—without regard to their mobility, tangibility, etc.

• Its commodity-character is nothing inherent in a good, but a specific relationship to the person who has command of it: his intention to sell it. Commodity-character is therefore usually only a *transitory* character. Certain goods are intended by their owners to be exchanged for the goods of other economizing individuals; during their passage, sometimes through several hands, from the possession of the first into the possession of the last owner, we call them "commodities"; but as soon as they have reached their final economic destination, they cease to be commodities and become consumers' goods. Where this does not happen (as is very frequently the case with money units), they simply continue to be commodities.

• From this it follows:
(i) That the frequently stated proposition that money is a commodity contributes nothing at all toward explaining *the unique position of money among commodities*.
(ii) That the view of those who deny the commodity-character of money because it does not, as such, serve any consumption purpose, is untenable. The same argument can be advanced against the commodity-character of all commodities, for no commodity serves *as such* a consumption purpose. To be consumed a good must cease to be a commodity—e.g., it must often very concretely relinquish the form in which it has been traded.

2—The Marketability of Commodities

A. *The outer limits of the marketability of commodities*

SUMMARY

• Different goods cannot be exchanged for each other with equal facility: there are differences in the marketability of commodities.

• The marketability of commodities is limited :

(i) With respect to the persons to whom they can be sold.
The owner of a commodity has no chance of selling it to persons:

> (i.i.) who have no requirements for it,
> (i.ii.) who are prevented, by legal or physical circumstances, from purchasing it, or
> (i.iii.) who have no knowledge of the exchange opportunity offered, or
> (i.iv) to anyone who does not prefer a given quantity of this commodity to its price.

(ii) With respect to the area within which they can be sold.
The differences between different commodities are not less great with respect to the geographical extent of the areas in which they can be sold than with respect to the numbers of persons to whom they can be sold. For a commodity to be sold in any one place, it is necessary, in addition to the previous requirements,

> (ii.i.) that there be no legal barrier to its transportation to that place, and
> (ii.ii.) that the costs of transportation do not exhaust the expected gain—which implies
> (ii.iii.) that there be requirements for it *there* at that price.

(iii) With respect to the quantities of it that can be sold.
The marketability of a commodity is restricted to those quantities with respect to which the basis for economic exchange operations exists; but different commodities differ greatly with respect to the quantities of them that can be sold even at the lowest price.

(iv) With respect to the time periods in which they can be sold.
There are goods for which a demand exists only during some period of time, whereas others can be sold at any time.
Moreover, the effect of storage fees, costs of safe-keeping, and loss of interest, on the limits of the marketability of commodities in time is similar to the effect of transportation costs on the spatial limits of their marketability.

COMMENTS

▪ The investigation of the nature and causes of the differences in the marketability of different commodities is all the more important, Menger states, that its answer is a necessary prerequisite of the explanation of the origin of money—the most marketable of all goods.

B. *The different degrees of marketability of commodities.*

SUMMARY

• A commodity is an economic good intended for sale, not unconditionally, viz., not at any price, but *at an economic price*, i.e., at a price that corresponds to the general economic situation.

• Within the limits of their marketability, commodities can be sold with greater or less facility *at an economic price*.

• Effective prices correspond more closely to the general economic situation the more complete competition is on both sides. *Ceteris paribus*, then,
(i) the better organized the market for a commodity the higher its marketability at an economic price, and
(ii) the worse organized the market for a commodity, the lower its marketability at an economic price.
The first cause of differences in the marketability of commodities is thus the fact that the number of persons to whom they can be sold is sometimes larger and sometimes smaller, *and that the points of concentration of the economizing individuals interested in their pricing are sometimes better and sometimes less well organized.*

• The second cause of differences in the marketability of commodities is the fact that the geographical areas within which their sale is confined are sometimes wider and sometimes narrower, *and that within this area some have many and some have only a few trading points at which they can be sold at economic prices.*

• The third cause of differences in the marketability of commodities is the fact that the quantities of them that can be sold are sometimes wider and sometimes narrower, *and that some can be sold in any quantity, with little sacrifice in price, while others cannot, or only with great sacrifice in price, because they are not, or not to the same extent, the object of a well organized speculation absorbing the excess of supply over current requirements.*

• The fourth cause of differences in the marketability of commodities is the fact that the time limits within which commodities can be sold are sometimes wider and sometimes narrower, *and that within these limits some commodities can be sold at any time, while others can be sold only at more or less distant points in time, at economic prices.*

COMMENTS

▪ The "economic price" perspective is an awkward presentation of the significance, *given the economic sacrifices involved in, and the necessary limits of, the pricing process itself*, of market institutions and of speculation for the marketability of commodities.

▪ An "economic price" corresponding to the "general economic situation" is a *fiction* to which nothing corresponds in reality: it is the market price of a commodity that would be established if economizing individuals interested in its pricing could *directly* compare their respective scales of equivalents. To the contrary, the pricing process necessarily involves economic sacrifices.
The "pricing cost", one can say, is the cost involved in the inclusion of an additional competitor in a pricing process.

▪ Menger implicitly distinguishes "market costs" (our term) from *transaction* costs: exchange operations imply economic sacrifices, but market institutions are discovered and organized so as to diminish those transaction costs. "Market costs" are the economic sacrifices one incurs when one resorts to market institutions. For instance, Menger explains that market *places*, and other market institutions of similar nature, are for the purpose of bringing all persons interested in the pricing of a commodity together at a particular time and place, in order to ensure an economic pricing process.
It is probable that Menger borrows from Condillac the idea according to which market institutions are for the purpose of lowering transaction costs[29].

▪ Just as it necessarily involves economic sacrifices, a pricing process is necessarily limited with respect both to time and space. In this respect, Menger states, certain economizing individuals—*speculators* take care that the differences in price between various markets do not exceed the costs of transportation from one to the other, viz.,
(i) the freight costs, etc., involved in space-transportation, and
(ii) the storage costs, etc., and loss of interest, involved in time-transportation.
Both transportation costs, one could add, are economic sacrifices involved in the extension of a pricing process to further competitors *in time and space*.

[29] Cf. *CG*, I,4.

C. *The facility with which commodities circulate.*

SUMMARY

• Finally, some commodities, even though highly marketable, have a low *transitive* marketability, i.e., are not suited to easy circulation from hand to hand.

• As a consequence, for a commodity to be the most marketable, it must be saleable in all four of the senses discussed above*, and remain so to every person through whose hands it may pass*.

CHAPTER VIII

THE THEORY OF MONEY

1—The Nature and Origin of Money

SUMMARY

• The *final end* of the exchange operations of economizing individuals is to provide *directly* for their requirements. But they would be behaving uneconomically if, when they cannot reach this final end *immediately*, they were to forsake approaching it altogether; for it must be a very rare accident that two economizing individuals happen
(i) to possess exactly the goods each other needs,
(ii) to value them in reverse fashion, and
(iii) to meet each other.
Hence, men are led by their own economic interest, *without any need for a previous agreement, or compulsion,* to overcome this difficulty by giving their commodities in exchange for others *which have greater marketability*. For, with more marketable commodities, they stand closer to their *final end*, which they can reach more quickly, and more economically.

• Money is not an invention of the state, but the product of *custom*. The exchange of commodities less marketable for commodities of greater marketability is in the economic interest of every economizing individual; but it requires a knowledge of their interest on the part of economizing individuals. At first, only the most discerning economizing individuals of a people accept more saleable commodities as means of exchange. The rest of the people become enlightened about their own economic interests by observation of the economic success of the firsts, who employ the correct means of achieving their ends. In this way, custom rendered the commodities that were most marketable among a given people acceptable to *everyone* in trade.

COMMENTS

■ As Mises praises, Menger provides here "an irrefutable praxeological theory of the origin of money", i.e., one that traces it back to the action of individuals, and proceeds logically from there on. Menger's explanation, Mises explains, is *sufficient*, for, "if conditions of interpersonal exchange are such that indirect exchange facilitates the transactions", then, "if and as far as people realize these advantages, indirect exchange and money come into being". And there is no need to "resort in addition to authoritarian decree or an explicit compact between citizens". Moreover, Mises adds, Menger's explanation is *necessary*—for, "how, in the absence of these conditions, people could have adopted indirect exchange and money and clung to these modes of exchanging, is inconceivable".

■ Clearly, this praxeo-logical theory is (fortunately) not coherent with what Menger pretends in the Preface to be his own method. Menger recognized in his *Investigations*, Mises adds, "the import of his theory [of the origin of money] for the elucidation of fundamental principles of praxeology and its methods of research."[30]

2—The Kinds of Money Appropriate to Particular Peoples and to Particular Historical Periods

SUMMARY

• Because money is a natural product of human economy,
(i) it came to exist in numerous centers of civilization independently, and
(ii) the specific forms in which it exists are the result of the specific economic situation of different peoples at the same time, or of the same people in different periods of time.

[30] Cf. *HA*, IV,XVII,3, p. 403.

3—Money as a "Measure of Price" and as the Most Economic Form for Storing Exchangeable Wealth

SUMMARY

• Objective equivalence between goods being a nonsense, there can obviously be no question of a measure of such equivalences; so that the theory that presents money as the "measure of the exchange value" of goods disintegrates into nothingness, the basis of the theory being an erroneous fiction.

•Although the theory of money as a "measure of exchange value" is untenable, observation teaches that *appraisements of subjective equivalences* (as opposed to "measurements of objective exchange value") are usually made in terms of money.
The reason for this lies in the fact that, under conditions of developed trade, indirect exchange predominates, with the consequence that commodities usually have no effective price in terms of each other, but only respective prices in terms of money.

• Average money prices can be a sufficient basis when appraisements of only approximate correctness are needed. But when a higher degree of correctness is needed, it becomes necessary to estimate (according to one's intention):
(i.i) the price at which a good can be sold,
(i.ii) the price at which a good can be bought, and
(ii) the subjective money equivalent, to oneself, of a good.

• Although estimates are generally made in terms of a commodity that has money-character, this outcome is not a necessity. –One can imagine cases in which a commodity that does not have money-character nevertheless serves this purpose. At any rate, this function is not a necessary feature of money-character, not a necessary consequence, not a cause, and still less a necessary condition of money-character. The function of serving as a "measure of price" is not contained in the concept of money.

• Money is also the most appropriate means for accumulating that portion of one's wealth by means of which one intends to acquire other (consumers' and producers') goods, since any other commodity must first be exchanged for money in order to be further exchanged. But the function of serving as a "store of value" is not a necessary attribute of money as such.

COMMENTARY

▪ (i.i) and (i.ii) = the two extremes between which price formation takes place:
(i.i) the lower, or "demand price" = the unit price at which only one unit of a good is demanded;
(ii) the higher, or "supply price" = the unit price at which only one unit of a good is supplied.

▪ (ii) shows that the money equivalent of the value of a good to its possessor can be correctly estimated only due account taken of its economic status to its possessor (predominant use value / exchange value). A good having a predominant use value to its possessor is, e.d., worth *more*, to him, than its "market price" (= average money price). This difference is of practical interest, e.g., in cases in which there are claims for damages.

▪ "Market" prices, Menger states, are merely *average* prices. In reality, there are only *actual* prices, i.e., actual exchange rates between economizing individuals.

4—Coinage

SUMMARY

• Just as the precious metals naturally become the economic form of money in the ordinary trading relations of civilized peoples, "coins" naturally become the economic form of the economic form of money.
The use of uncoined precious metals for monetary purposes is accompanied by two chief defects:
(i) the difficulty of determining their genuineness and degree of fineness, and
(ii) the necessity of dividing them continually into appropriate pieces,
which imply great economic sacrifices.
Coinage permits to remove (i) and (ii), for coins are nothing but pieces of metal whose genuineness, fineness and weight are guaranteed.

COMMENTARY

• Coins are *guaranteed* pieces of metal—guaranteed, Menger states, by a public official, or some reliable person. This "guarantee", Menger continues, has usually been given by governments; but the masters of the mints have so often and so greatly misused their stamping power, debased the currency, and treated money as if it had been merely the product of their legislative whims, that their subjects eventually almost forgot that a coin is nothing but a piece of precious metal of guaranteed fineness and weight. This, in turn, Menger concludes, contributed not a little toward causing money to be regarded as a "measure of exchange value".