

CARL MENGER

**INVESTIGATIONS INTO THE
METHOD OF THE SOCIAL SCIENCES
WITH SPECIAL REFERENCE
TO ECONOMICS**

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**PROBLEMS OF ECONOMICS
AND SOCIOLOGY***

(Untersuchungen über die Methode der Socialwissenschaften
und der Politischen Oekonomie insbesondere)

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INTRODUCTION TO THE NEW YORK UNIVERSITY PRESS EDITION

It is a rare book in economics that deserves to be translated into English as much as eighty years after its initial publication. The book that actually receives such attention after so many years almost *ipso facto* qualifies as a classic.¹ Carl Menger's *Untersuchungen über die Methode der Socialwissenschaften und der Politischen Ökonomie Insbesondere* of 1883 clearly merited the translation that it finally received in 1963 (under the title *Problems of Economics and Sociology*²), for there is no doubt about its preeminence as a treatment of vital methodological issues in economics. When this translation fell out of print in recent years, the Institute for Humane Studies and the New York University Press became naturally eager to reissue it as part of their series of Studies in Economic Theory. This series includes the 1981 edition of Menger's only other book-length work, *Principles of Economics*, which was first published in 1871. Thus the *Investigations* takes its well-deserved place alongside the *Principles* as a classic of economic thought enjoying a second century of life in a new language.

The republication of the *Investigations* today is especially appropriate in light of the interest that economists have recently been taking in this work, in the writings of Carl Menger generally, and (still

¹ Beside the present work the only examples that come to mind of works translated into English after eighty years are both classics: Richard Cantillon, *Essai sur la Nature du Commerce en General* (1752) in 1933, and Hermann Heinrich Gossen, *Entwickelung der Gesetze des Menschlichen Verkehrs* (1845) in 1983.

Menger's own *Grundsätze der Volkswirtschaftslehre* (1871) also a classic, went 79 years before an English translation appeared.

² Carl Menger, *Problems of Economics and Sociology* (Urbana: University of Illinois Press, 1963). The present title attempts to render literally the wording of the original German title.

a principle and a universal trend of research. Also for the adherents of this orientation the author of *Inquiry into the Nature and Causes of the Wealth of Nations* has an excellent word:^g "and with whom, on that account, the analogy, which in other writers gives occasion to a few ingenious similitudes, became the great hinge upon which everything turned."⁵⁰

^g A. Smith: "History of Astronomy," in his *Essays on Philos. Subjects*, published by Dugald Stewart, p. 29 of the Basel edition of 1799.

The actual English is taken from the 1795 edition published in London by Codell, Davies and Creech. The German of the text does not quite faithfully render this. It reads as if Smith had written "becomes with writers of the above type the hinge," and there is no German equivalent to "and with whom, on that account." F.J.N.

The Theoretical Understanding of Those Social Phenomena Which Are Not a Product of Agreement or of Positive Legislation, but Are Unintended Results of Historical Development

§ 1. That the acknowledgment of social phenomena as organic structures by no means excludes the striving for the exact (the atomistic) understanding of them

The theoretical understanding of *natural* organisms, too, can be twofold: an exact one (atomistic, chemical-physical) or an empirical-realistic one (collectivistic, specifically anatomical-physiological).—The exact understanding of natural organisms is not only desired in the natural sciences, but signifies an advance over the empirical-realistic understanding.—The exact understanding of social phenomena or of a part thereof can, accordingly, not be inadmissible because the phenomena concerned are viewed as so-called "social organisms."—The circumstance that the exact understanding of natural organisms and of their functions has been successful only in part up to now does not prove that this goal is unattainable in respect to the so-called social organisms.—The theory that "organisms" are indivisible units and their functions are vital expressions of these structures in their totality does not establish an objection to the exact (the atomistic!) orientation of theoretical research either in the realm of natural or of so-called social organisms.—The exact orientation of social research does not deny the real unity of social organisms; it seeks, rather, to explain their nature and origin in an exact way.—Just as little does it deny the justification for the empirical-realistic orientation of research in the realm of the above phenomena.

In the preceding chapter we dealt with the analogy between social phenomena and natural organisms, with the limits of its justification, and finally with the logical consequences resulting from this for the methodology of the social sciences. It turned out that this analogy is only a partial one and even in those respects in which it comes in question it is only a superficial one. Also, the understanding of those phenomena which do not point to a pragmatic origin, but are the result of "organic," i.e., unintended social development, can, accordingly, not be attained merely by way of analogy to natural organisms. Nor can it be attained by applying the points of view of physiology and anatomy to social research.

What remains for us now is to investigate how those problems for social research, *the solution of which is not attainable pragmatically according to the objective state of affairs* and was undertaken previously on the basis of the above analogy ("organically"), can be answered in a way adequate to the nature of social phenomena as well as to the special goals of theoretical research in the realm of the latter.

But before we go on to the examination of the pertinent problems we should like to preface this with a few remarks of a general nature.

As we saw above, all theoretical understanding of phenomena can be the result of a double orientation of research, the *empirical-realistic* and the *exact*. This is true not only in general, but for each realm of phenomena in particular. The understanding of the social phenomena which point to an unintended or, if one prefers, to an "organic" origin, *indeed, even the understanding of natural organisms themselves*, can also be sought in the two above orientations of research. Only their combination can procure for us the deepest theoretical understanding of the phenomena considered here which is attainable in our age.

With this, of course, it is not stated that both kinds of theoretical understanding are *actually* attained in all realms of phenomena similarly. Nor is it stated that they can even definitely be designated as *attainable*, considering the present state of the theoretical sciences of the organic world. However, as a postulate of research the exact understanding of phenomena stands equally justified beside the realistic-empirical understanding in all realms of phenomena, in that of "organic social structures" no less than in that of natural organisms. It is possible that the exact analysis of natural organisms will never be *completely* successful and that realistic-empirical research, at least in certain respects, will always remain indispensable to theoretical understanding. It is possible that the physical-chemical (atomistic!) understanding of them will never attain *exclusive* dominance, simply for this reason. The empirical-realistic view of the organic world is a justified one at present. Perhaps it is one which along with the atomistic one will never lose its justification.

But only a person who is completely unfamiliar with the present state of theoretical research in the realm of natural organisms could draw the conclusion that the striving for the exact (atomistic) understanding of natural organisms is in general an unjustified one, or even an unscientific one. "Physiology," says Helmholtz, "in research into life processes, had to decide to take into account that natural forces adhere to laws without exception. It had to mean business in the pursuit of physical and chemical processes which take place within the organisms." And another outstanding scholar finds that the physical-chemical understanding of organic phenomena is really a measure for the development of the theoretical sciences of the organic world.

As has been said, the exact analysis of natural organisms has been only partly successful; it will perhaps never be *completely* successful. But it would mean being blind to the advances of the exact natural sciences if one refused to recognize the great things that have been accomplished already in the above respect or the successes of "atomism" in the realm of natural organisms, or if one wanted to designate as an unscientific aberration aspiration directed toward exact understanding of the organic world.

Even those who cling to the theory of the strict analogy of social phenomena and natural organisms cannot reject the atomistic orientation of research in the field of the social sciences. On the contrary, just those people who ceaselessly speak of this analogy ought logically to share the aspiration of the natural scientist to achieve exact (atomistic!) understanding of the organic world. They should be farthest removed from a one-sided estimation of the realistic-empirical orientation of research. Accordingly, the problem with which we plan to be occupied in this chapter may simply be designated as one of the "organic" world—the fact is thereby in no way changed that the exact understanding of the above social structures and their functions is a justified aim of theoretical research along with the empirical-realistic understanding. *The acknowledgment of a number of social phenomena as "organisms" is in no way in contradiction to the aspiration for exact (atomistic!) understanding of them.*

But what is to be said of the procedure of those who, because exact understanding has been attained *only incompletely* in the realm of natural organisms, draw the conclusion that the desire for it is unjustified, even unscientific, in the realm of social phenomena, which really can be designated only figuratively as organisms? On the contrary, is it not clear that even when exact understanding of natural organisms is simply unattainable, or even inadequate in this realm of the empirical world, the same understanding would not at all be necessarily out of the question in the realm of social phenomena? Is it not clear, rather, that the question

whether such understanding would be possible can never be answered except by an original investigation taking the nature of social phenomena directly into consideration? That it can never be answered by a superficial analogy?⁵¹

If the opinion has nonetheless found so many representatives in modern sociological literature that only the "organic" view, more correctly the "collectivist" view, is the justified one in the realm of social phenomena, or that it is the "higher" one as opposed to the exact one, the basis for this is a misunderstanding that will be refuted here briefly on account of its importance in principle.

A widespread objection to the exact solution of theoretical problems in the realm of social phenomena is derived from the circumstance that social structures, like natural organisms, are indivisible units; in respect to their parts they are higher units; their functions, however, are vital manifestations of the organic structures in their totality. Therefore the desire for an exact interpretation of their nature and their functions, the "atomistic" point of view in the theories of the organic world, means *a failure to recognize their unitary nature*.

We have already stressed that this view is by no means shared in the

⁵¹ The ultimate elements to which the exact theoretical interpretation of natural phenomena must be reduced are "atoms" and "forces." Neither is of empirical nature. We cannot imagine "atoms" at all, and natural forces only by a representation, and by these we really understand merely unknown causes of real motions. From this there arise ultimately quite extraordinary difficulties for the exact interpretation of natural phenomena. It is otherwise in the exact social sciences. Here the human *individuals* and their *efforts*, the final elements of our analysis, are of empirical nature, and thus the exact theoretical social sciences have a great advantage over the exact natural sciences. The "limits of knowledge of nature" and the difficulties resulting from this for the theoretical understanding of natural phenomena do not really exist for exact research in the realm of social phenomena.^b When A. Comte conceives of "societies" as real organisms and to be sure as organisms of a more complicated nature than the natural ones and designates their theoretical interpretation as the incomparably more complicated and more difficult scientific problem, he exposes himself forthwith to a serious error. His theory would be correct only as against sociologists who might get the idea, which is really insane in the light of the present state of the theoretical natural sciences, of wanting to interpret social phenomena not in a specifically sociological way, but in the atomistic way of the natural sciences.

^b The view expressed in the last two sentences is an extremely interesting one in the history of social science. It is worth noting that Max Weber was later specifically critical of the type of "organicism" represented by Wilhelm Roscher, on the ground that it involved the view that the task of analyzing social "organisms" is more difficult than that of analyzing natural "organisms." Weber agrees with Menger that the task of the social sciences is in principle easier on account of the accessibility to them of the inner life of the individual human units of society. See Max Weber, *Gesammelte Aufsätze zur Wissenschaftslehre*, 2nd ed. (Tübingen: J. C. B. Mohr [Paul Siebeck], 1951), p. 35, footnote 1. L.S.

realm of natural research, since the exact interpretation of organic phenomena is numbered among the highest aims of modern natural research. At this point we should not like to neglect to supply the proof that this view is untenable in the field of social research, that it is, indeed, one which has an error in principle as its basis.

The sciences in their totality have the task of offering us the understanding of all realities; the theoretical sciences have especially that of offering the theoretical understanding of the real world. This, as is obvious, is also true of those theoretical sciences whose realm is the investigation of organisms. They could, however, fulfill this task only imperfectly if they were to leave unobserved the real unity of the phenomena discussed here, if they were to make us aware of these only as a juxtaposition of parts and not as a *whole*, and if they failed to make us aware of the functions of organisms as functions of organisms in their totality.

From the circumstance that organisms present themselves to us in each case as units and their functions as vital manifestations of them in their totality, it by no means follows that the exact orientation of research is in general inadequate for the realm of phenomena discussed here. It does not follow that *only* the realistic-empirical orientation of theoretical research is adequate for this group of phenomena. The actual consequence of the above circumstance for theoretical research in the realm of organisms is that it establishes a number of problems for exact research, and the solution of these cannot be avoided by exact research. These problems are the exact interpretation of the nature and origin of organisms (thought of as units) and the exact interpretation of their functions.

The exact orientation of research in the realm of the organic world does not thus deny the unity of organisms. It tries, rather, to explain the origin and the functions of these unified structures in an exact way, to explain how these "real unities" have come about and how they function.

This problem, which is one of the most advanced problems of modern natural research, is undertaken by the exact orientation of research in the realm of social phenomena also, and especially in the realm of those which are presented to us as the unintended product of historical development. Here, too, the failure to recognize the "unity" of social organisms, to the extent that it corresponds to real conditions, cannot come into question. What the exact orientation of research strives for is on the one hand the clarification of the special nature of the "unity" of those structures which are designated as social organisms. On the other, it strives for the exact explanation of their origin and their function. It does not give way to the illusion that this unity can be comprehended merely by analogy to natural organisms. Rather, it tries to establish its unified nature by direct

investigation, by consideration of "social organisms." It is not content with wanting to understand the functions of the social structures discussed here by means of the above analogy. Instead, it strives for their exact understanding without any consideration of analogies, the inadmissibility of which it clarifies instead. It tries to achieve for the social sciences by direct investigation of social structures the same thing that the exact orientation of theoretical research in the realm of natural organisms strives for, the exact understanding of the so-called "social organisms" and their functions. It opposes the understanding of social structures on the basis of mere analogies, however, for *general, methodological* reasons, the same ones for which physiology, for example, had to reject the "politico-economical" understanding of human organisms as a principle of research. It rejects the opinion that theoretical problems which as yet have not been solved in the realm of natural research or which appear insoluble to our age are likewise to be characterized as insoluble a priori in the realm of social research. Rather, it investigates those problems without considering the results of physiology and anatomy, in the mere light of social structures themselves, just like physiology, which in its striving for the empirical or the exact understanding of natural organisms is not concerned with the results of social research. However, none of this is the result of the failure to recognize the unified nature of social organisms, but comes about for general methodological reasons.^{51a}

The opinion that the unified nature of those social structures which are designated as "social organisms" excludes the exact (atomistic!) interpretation of them is thus a crude misunderstanding.

But in the following we will deal first with the exact understanding of "social organisms" and their functions, then with the realistic-empirical understanding of them.

§2. The various orientations of theoretical research which are the consequence of viewing social phenomena as "organic" structures

^{51a} The "organic" view—more correctly, the "collectivist" view—of economy neither forms a contrast to the problems of theoretical political economy in general, nor does it comprise the totality of the tasks of the latter. It is nothing else than a part, a particular aspect of the science which teaches us to understand the phenomena of economy in theory. The acknowledgment of it is nothing which could nullify or in any way alter the concept of economics as a theoretical science. Also, the acknowledgment of the "organic" view of economy cannot change our science into either a historical or practical one, nor can it change it to a science of the mere "organic" understanding of human economy (to a mere "anatomy and physiology").

A portion of the social structures is of pragmatic origin and must thus be interpreted pragmatically.—Another portion is the unintended result of social development (of "organic" origin!) and the pragmatic interpretation of this is inadmissible.—The major problem of the theoretical interpretation of the origin of the social structures arising unintentionally ("organically").—The above problem and the most important problems of theoretical economics exhibit a close relationship.—Two other problems of the theoretical social sciences in general and of theoretical economics in particular, which come from the "organic" view of social phenomena: (a) the effort to understand the reciprocal conditioning of social phenomena; (b) the effort to understand social phenomena as functions and vital manifestations of society (or of economy, etc.) as an organic unit.—The striving for the exact (atomistic!) solution of the above problems and for the empirical-realistic (collectivistic, anatomical-physiological!) solution.—Plan of the presentation.

There are a number of social phenomena which are products of the agreement of members of society, or of positive legislation, results of the purposeful common activity of society thought of as a separate active subject. These are social phenomena, in connection with which there can properly be no thought of an "organic" origin in any admissible sense. Here the interpretation appropriate to the real state of affairs is the *pragmatic* one—the explanation of the nature and origin of social phenomena from the intentions, opinions, and available instrumentalities of human social unions or their rulers.

We interpret these phenomena *pragmatically* by investigating the aims which in the concrete case have guided the social unions, or their rulers, in the establishment and advancement of the social phenomena under discussion here. We investigate the aids which have been at their disposal in this case, the obstacles which have worked against the creation and development of those social structures, the way and manner in which the available aids were used for establishing them. We fulfill this task so much the more perfectly the more we examine the *ultimate* real aims of the active subjects on the one hand, and the most *original* means which they had at their command on the other, and the more we come to understand the social phenomena referring back to a pragmatic origin as links in a chain of regulations for the realization of the above aims. We make use of historical-pragmatic criticism of social phenomena of the above type when in each concrete case we test the real aims of the social unions or

of their rulers by the needs of the social unions in question, when we test the application of the aids to social action, on the other hand, by the limitations of success (the fullest satisfaction possible of the social needs).

All this is true of those social phenomena which refer back to a pragmatic origin. Another portion of them, however, is not the result of agreement of members of society or of legislation, as we have already explained. Language, religion, law, even the state itself, and, to mention a few economic social phenomena, the phenomena of markets, of competition, of money, and numerous other social structures are already met with in epochs of history where we cannot properly speak of a purposeful activity of the community as such directed at establishing them. Nor can we speak of such activity on the part of the rulers. We are confronted here with the appearance of social institutions which to a high degree serve the welfare of society. Indeed, they are not infrequently of vital significance for the latter and yet are not the result of communal social activity. It is here that we meet a noteworthy, perhaps the most noteworthy, problem of the social sciences:

How can it be that institutions which serve the common welfare and are extremely significant for its development come into being without a common will¹ directed toward establishing them?

With this the problem is by no means exhausted of the theoretical interpretation of those social phenomena which do not refer back to a pragmatic origin in the above sense. There are a number of extremely significant social phenomena which are of "organic" origin in exactly the same sense as the previously characterized social structures. However, because they do not appear in their respective concrete forms as social "institutions" such as law, money, markets, etc., they cannot be grouped in common as "organic structures" and interpreted accordingly.

Here we could point to a long series of phenomena of this kind. We intend, however, to set forth the above idea by an example that is so striking that it excludes any doubt of the meaning of what we plan to present here. We mean the example of the social prices of goods. As is well known, these are in individual cases completely or at least in part the result of positive social factors, e.g., prices under the sway of tax and wage laws, etc. But as a rule these are formed and changed free of any state influence directed toward regulating them, free of any social agreement, as unintended results of social movement. The same thing holds true of interest on capital, ground rents, speculative profits, etc.

What is the nature of all the above social phenomena—this is the ques-

¹ The words "common will" (*Gemeinwillen*) appear in boldface in the original.
L.S.

tion of importance for our science—and how can we arrive at a full understanding of their nature and their movement?

The remark is hardly needed that the problem of the origin of unintentionally created social structures and that of the formation of those economic phenomena that we have just mentioned exhibit an extremely close relationship. Law, language, the state, money, markets, all these social structures in their various empirical forms and in their constant change are to no small extent the unintended result of social development. The prices of goods, interest rates, ground rents, wages, and a thousand other phenomena of social life in general and of economy in particular exhibit exactly the same peculiarity. Also, understanding of them cannot be "pragmatic" in the cases considered here. It must be analogous to the understanding of unintentionally created social institutions. The solution of the most important problems of the theoretical social sciences in general and of theoretical economics in particular is thus closely connected with the question of theoretically understanding the origin and change of "organically" created social structures.

Here we must mention two more problems of the theoretical social sciences which likewise are rooted in the organic view of social phenomena.

It was already stressed above, where we talked of the analogy between natural organisms and individual structures of social life in general and of economy in particular, that the observer of the latter is struck by an aggregate of institutions. Each one of these serves the normal function of the whole, conditions and influences it, and in turn is conditioned and influenced by it in its normal nature and its normal function. Also in a number of social phenomena we meet with the appearance of the reciprocal conditioning of the whole and its normal functions and the parts, and vice versa. As a natural result of this fact we are met with a special orientation of social research which has the task of making us aware of this reciprocal conditioning of social phenomena.

In addition to the above-characterized orientation of theoretical social research another one closely related to that just presented could be designated as "organic." It is the one that tries to make us understand economic phenomena as functions, as vital manifestations of the whole of economy (the latter thought of as an organic unit!). It thus stands in a relationship, not to be discussed in any more detail, to certain problems of theoretical research in the realm of natural organisms.

All these orientations of research resulting from the organic view of society (or of economy) and the theoretical principles adequate for them can justly attract the interest of social philosophers. The empirical-realistic

(the specifically physiological) orientations of research have most recently, however, been developed so comprehensively, especially in Germany, that we can properly dispense with a detailed presentation of them and confine ourselves to the *exact* interpretation of the so-called organic social structures. Thus, in the following we will deal with the striving for the exact understanding of unintentionally created social structures, both those which are commonly acknowledged to be "organisms" and those that have not had their "organic" character sufficiently stressed as yet. But we will preface the pertinent discussions with a survey of the chief attempts which have thus far been undertaken to solve the problems resulting from the organic view of social phenomena.

§3. The previous attempts to solve the problems resulting from the organic view of social phenomena

Pragmatism as a universal mode of explaining the origin and change of social phenomena.—Contradiction between it and the teaching of history.—The interpretation of the *origin* of unintentionally created social structures by characterizing them as "organic," as "original."—Aristotle's opinion.—The striving for the organic understanding of the *alterations* of social phenomena.—The conception of them as functions and vital manifestations of real social organisms (of society, of economy, etc.) in their totality.—The striving for the understanding of the reciprocal conditioning of social phenomena.—The physiological-anatomical orientation of social research.

The most obvious idea for arriving at understanding of social institutions, of their nature, and of their movement was to explain them as the result of human calculation aimed at their establishment and formation, to attribute them to agreement between people or to acts of positive legislation. This (pragmatic) approach was not adequate to real conditions and was thoroughly unhistorical. It still offered the advantage of interpreting from a common, easily understood point of view all social institutions, both those which are presented to us actually as the result of the common will of socially organized human beings and those in which such origin is not detectable. This is an advantage which will be underestimated by no one who is familiar with scientific works and knows the history of their development.

The contradiction to the facts of history in which the above merely formally satisfactory approach (stressing the exclusively *pragmatic* origin

of the cause and change of social phenomena) stands brought it about nevertheless that a number of mostly meaningless attempts were undertaken in scientific investigations into the problem treated here. Along with the pragmatic, obviously one-sided mode of interpretation, and indeed, partially in direct opposition to it, there were attempts which document quite well the inadequacy of the previous "organic" views of social phenomena.

In this category belong above all the attempts of those who think that they have solved the problem involved merely by designating as "organic" the developmental process we are discussing. The process by which social structures originate without action of the common will may well be called "organic," but it must not be believed that even the smallest part of the noteworthy problem of the social sciences that we alluded to above has been solved by this image or by any mystic allusions attached to it.

Just as meaningless is another attempt to solve the problem discussed here. I mean the theory, which has attained widespread currency, that recognizes in social institutions something *original*, that is, not something that has developed, but an *original* product of the life of the people. This theory (which, incidentally, is also applied by a few of its adherents, for whom a unified principle means more than historical truth or the logic of things, by way of a peculiar mysticism to social institutions created by positive laws) indeed avoids the error of those who reduce all institutions to acts of positive common will. Still, it obviously offers us no solution of the problem discussed here, but evades it. The origin of a phenomenon is by no means explained by the assertion that it was *present from the very beginning* or that it *developed originally*. Aside from the question of the historical establishment of this theory, it involves a paradox with respect to every complicated phenomenon. Such a phenomenon must obviously have developed at some time from its simpler elements; a social phenomenon, at least in its most original form, must clearly have developed from individual factors.⁵² The view here referred to is merely an analogy between the development of social institutions and that of natural organisms which is completely worthless for the purpose of solving our problem. It states, to be sure, that institutions are unintended creations of the human mind, but not *how* they came about. These attempts at interpretation are comparable to the procedure of a natural scientist who thinks he

⁵² Obviously Aristotle was unfamiliar with such nonsense, no matter how often he is alluded to as the founder of the theory that the state is something "original," that it is something given with the existence of man itself. See Appendix VII: "The Opinion Ascribed to Aristotle That the State Is an Original Phenomenon Given Simultaneously with the Existence of Man."

is solving the problem of the origin of natural organisms by alluding to their "originality," "natural growth," or their "primeval nature."

The previous attempts to interpret the *changes* of social phenomena as "organic processes" are no less inadmissible than the above theories which aim to solve "organically" the problem of the *origin* of unintentionally created social structures. There is hardly need to remark that the changes of social phenomena cannot be interpreted in a social-pragmatic way, insofar as they are not the intended result of the agreement of members of society or of positive legislation, but are the unintended product of social development. But it is just as obvious that not even the slightest insight into the nature and the laws of the movement of social phenomena can be gained either by the mere allusion to the "organic" or the "primeval" character of the processes under discussion, nor even by mere analogies between these and the transformations to be observed in natural organisms. The worthlessness of the above orientation of research is so clear that we do not care to add anything to what we have already said.

If this significant problem of the social sciences is truly to be solved, this cannot be done by way of superficial and, for the most part, inadmissible analogies.⁵³ It can be done, in any case, only by way of direct consideration of social phenomena, not "organically," "anatomically," or "physiologically," but only in a *specifically sociological* way. The road to this, however, is *theoretical* social research, the nature and main orientations of which (the exact and the empirical-realistic) we have characterized above.

We should further like to mention an orientation of social research at this point which is likewise in the sphere of the "organic" approach to social phenomena. We mean the striving to understand their *reciprocal conditioning*. This orientation of research has at its basis the idea of a "mutual causation" of social phenomena. The value of this idea for a deeper theoretical understanding of such phenomena, as we have already stated in another place,⁵⁴ is not entirely beyond question. Nonetheless, this approach is one so close to common understanding that it justly can claim the respect of social scientists, at least as long as the exact understanding of more complicated social phenomena has not yet been gained.

It would be an error to conceive of the above approach as the only justified one or even, as many want it, "*the method*" of the social sciences. It would be just as wrong, however, voluntarily to fail to recognize its significance and its usefulness for the theoretical understanding of social phenomena in general.⁵⁵

⁵³ See p. 131 ff.

⁵⁴ See p. 132 ff.

⁵⁵ It is here, too, that the works by A. Comte, H. Spencer, Schäffle, and Lilien-

The name that is applied to this orientation of research is a matter of terminology and thus without objective importance from the standpoint of methodology. But we still believe that it could, for lack of a better expression, be designated as "organic" or "physiological-anatomical," in consideration of a certain similarity, even if not a fully clarified one, to certain orientations of theoretical research in the realm of natural organisms. Only, it must be kept firmly in mind that the expressions here in question are merely symbolic and that really a specifically *sociological* orientation of theoretical research is designated by them which would have its objective justification even if sciences of natural organisms in general and anatomy and physiology in particular did not exist at all. Let the orientation be called "organic" or "physiological-anatomical"; it really is still a branch of the empirical-realistic orientation of theoretical social research.

§4. The exact (atomistic) understanding of the origin of those social structures which are the unintended result of social development

Introduction. Course of the presentation.—(a) *The origin of money:* The phenomenon of money.—Characteristics of it.—The theory that money originated through agreement or law.—Plato, Aristotle, the jurist Paulus.—Insufficiency of this theory.—Exact explanation of the origin of money.—(b) *The origin of a number of other social institutions:* The genesis of localities, of states.—The genesis of the division of labor, of markets.—Influence of legislation.—Exact explanation of the origin of the above social structures.—(c) *Concluding remarks:* General nature of the social-pragmatic origin of social phenomena and of their so-called "organic" origin; the contrast between these.—The methods for the exact understanding of the origin of "organically" created social structures and those for the solution of the main problems of exact economics are the same.

INTRODUCTION

In the preceding section I have presented the previous attempts to solve our problem and alluded to their insufficiency. If there is

feld, which are excellent in their way, have really contributed essentially to a deepening of the theoretical understanding of social phenomena. This is furthermore the case even if we do not consider the analogies between natural organisms and structures of social life placed in the foreground of presentation by some of these authors.

to be any question of a serious solution, it must be sought in other ways than the previous ones.

But I will first present the theory of the origin of the social structures under discussion here by way of a few examples, that of the genesis of money, of states, of markets, etc., and thus by the genesis of social institutions which serve social interests to a high degree and the first origins of which in the great majority of cases can in no way be traced back to positive laws or other expressions of intentional common will.

(a) *The origin of money.*⁵⁶

In the markets of nearly all nations which have advanced to the barter stage in their economic culture certain goods are gradually accepted in barter by everyone in return for wares brought to market. Initially, according to varying conditions, these are heads of cattle, hides, cowrie shells, cocoa beans, tea tiles, etc.; with advancing culture they are metals in the uncoined state, then in the coined state. They are, indeed, accepted even by people who have no immediate need for these goods or have already covered this need sufficiently. In a word, in trade markets certain wares emerge from the sphere of all the others and become means of barter, "money" in the broadest sense of the word. This is a phenomenon that from the beginning social philosophers have had the greatest difficulties in understanding. That in a market an item is readily turned over by its owner for another that seems more useful to him is a phenomenon which is clear to the meanest understanding. But that in a market anyone who offers goods for sale is ready to turn these over for a definite other item, that is, according to varying conditions, for cattle, cocoa beans, certain amounts by weight of copper or silver, even when he has no direct need for these goods or has completely satisfied his possible need for them, while he nevertheless rejects certain other goods under the same presupposition—this is a paradoxical procedure. It is so contradictory to the sense of the individual oriented simply to his own interest, that we must not be astonished when it seemed really mysterious even to so excellent a thinker as Savigny and its explanation by individual human interests appeared impossible to him.⁵⁷

The problem which science has to solve here consists in the explanation of a *social* phenomenon, of a homogeneous way of acting on the part of the members of a community for which public motives are recognizable, but for which in the concrete case individual motives are hard to discern.

⁵⁶ Cf. my *Grundsätze der Volkswirtschaftslehre*, p. 250 ff., where the above theory is already presented.

⁵⁷ Savigny, *Obligat.*, II, 406.

The idea of tracing these back to an agreement or to a legislative act was fairly obvious, especially with respect to the later coin form of money. Plato thought money was "an agreed-upon token for barter,"⁵⁸ and Aristotle said that money came about through *agreement*, not by nature, but by *law*.⁵⁹ The jurist Paulus⁶⁰ and with few exceptions the medieval theoreticians on coined money down to the economists of our day are of a similar opinion.⁶¹

It would be an error to reject the opinion as wrong in principle, for history actually offers us examples that certain wares have been declared money by law. To be sure, it must not be overlooked that in most of these cases the legal stipulation demonstrably had the purpose not so much of introducing a certain item as money, but rather the acknowledgement of an item which had already become money. Nonetheless, it is certain that the institution of money, like other social institutions, can be introduced by agreement or legislation, especially when new communities are formed from the elements of an old culture, e.g., in colonies. Moreover, there is no doubt that the further development of such institutions takes place as a rule in the latter way in times of higher economic culture. Therefore the above opinion has its partial justification.

It is otherwise with the understanding of the social institution discussed here when it can by no means be historically viewed as the result of legislative activity, that is, when we see that money developed from the economic conditions of a nation without such activity, "primevally," or, as others express it, "organically." Here the above, pragmatic approach is at any rate inadmissible, and the task of science is to make us understand the institution of money by presenting the process by which, as economic culture advances, a definite item or a number of items leaves the sphere of the remaining goods and becomes money, without express agreement of people and without legislative acts. This is to pose the question of how certain items turn into goods which are accepted by everyone in exchange for the goods offered for sale to him, even when he has no need for them.

The explanation of this phenomenon is given by the following considerations. As long as mere barter prevails in a nation economic individuals naturally first pursue one aim in their barterings. They exchange their excess only for goods for which they have an immediate need and reject those that they do not need at all or with which they are sufficiently supplied. For somebody who is bringing his excess to market to be able to get in exchange the goods he desires he must not only find somebody who

⁵⁸ *De republica*, II, 12.

⁵⁹ *Ethic. Nicom.*, V, 8.

⁶⁰ *Dig. de contr. empt.*, Lib. 1, 18, 1.

⁶¹ Cf. the pertinent literature in my *Volkswirtschaftslehre*, p. 255 ff.

needs his wares but also somebody who offers for sale the goods desired. This is the circumstance that presents so many obstacles to traffic when pure barter prevails and limits it to the narrowest confines.

In this state of affairs itself there lay a very effective means to do away with this untoward circumstance which is such a burden on the traffic in goods. Each individual could easily observe that there was a greater demand in the market for certain wares, namely those which fitted a very general need, than there was for others. Accordingly, among the competitors for these goods he more easily found those who offered for sale certain goods desired by him than if he went to market with less marketable wares. Thus everyone in a nomadic tribe knows from his own experience that, when he brings cattle to the market, he will more easily find among the many who try to get these goods by barter those who offer the goods he wants than if he brought another item that has only a small circle of takers. Thus every individual who brought to the market items of slight marketability in the above sense had the obvious idea of exchanging them not only for the goods he needed, but also, when these were not directly available, for others. These others were ones which he, to be sure, did not need at the moment, but which were more marketable than his. By this he did not, of course, directly attain the final goal of his planned economic operation (procuring by exchange the goods *he* needed!), but he approached it essentially. The economic interest of the economic individuals, therefore, with increased knowledge of their *individual* interests, without any agreement, without legislative compulsion, even without any consideration of public interest, leads them to turn over their wares for more marketable ones, even if they do not need the latter for their immediate consumer needs. Among the latter, however, as is readily evident, they again select those which are most easily and most economically suited to the function of a means of barter. Thus there appears before us under the powerful influence of custom the phenomenon to be observed everywhere with advancing economic culture that a certain number of goods are accepted in exchange by everybody. These are, with respect to time and place, the most marketable, the most easily transported, the most durable, the most easily divisible. They can, therefore, be exchanged for any other item. They are goods which our predecessors called *Geld*, from *gelten*, i.e., to perform, to "pay."¹

The great significance that *custom* has for the genesis of money is directly clear from the consideration of the just described process by which

¹ *Geld* is the German word for "money"; it is a derivative of *gelten*, which, however, means "to compensate, to atone for." F.J.N.

Compare Menger's own philological discussion of designations for money in his *Principles of Economics*, pp. 312-314. L.S.

certain goods become money. The exchange of less marketable wares for those of greater marketability, durability, divisibility, etc., is in the interest of every *single* economic individual. But the actual closing of such an exchange operation presupposes the knowledge of this interest on the part of those economic subjects who for the sake of the above characteristics are to accept in barter for their wares an item which *per se* is perhaps utterly useless to them. This knowledge will never arise simultaneously with all members of a national group. Rather, at first only a number of economic subjects will recognize the advantage accruing to them. This happens because they accept in exchange other more marketable wares for their own where a direct barter of their wares for useful goods is not possible or is highly uncertain. This is an advantage which is *per se se independent of the general acknowledgment of an item as money*, since such an exchange always and under all circumstances brings the economic individual considerably closer to *his* ultimate aim, the procuring of useful goods that *he* needs. But, as is well known, there is no better means to enlighten people about their economic interests than their perceiving the economic successes of those who put the right means to work for attaining them. Therefore it is also clear that nothing may have favored the genesis of money as much as the receiving of eminently marketable goods for all other goods, which had been practiced for quite a long time on the part of the most perspicacious and ablest economic subjects for their own economic advantage. Thus practice and custom have certainly contributed not a little to making the temporarily most marketable wares the ones which are received in exchange for their wares not only by many economic individuals, but ultimately by all.

Money, an institution serving the common good in the most outstanding sense of the word, can thus, as we saw, come into being legislatively, like other social institutions. But this is no more the only way than it is the most original way that money developed. This is rather to be sought in the process described above, the nature of which would be explained only imperfectly if we wanted to call it "organic," or if we wanted to designate money as something "primeval," "original," etc. It is clear, rather, that the origin of money can truly be brought to our full understanding only by our learning to understand the *social* institution discussed here as the unintended result, as the unplanned outcome of specifically *individual* efforts of members of a society.

(b) *The origin of a number of other social institutions in general and economy in particular.*

The question of the origin of a number of other social struc-

tures can be answered in a similar way. These likewise serve the common welfare, indeed, even cause it, without being regularly the result of an intention of society directed toward advancing this welfare.

The *development of new localities* takes place today only in the rarest cases because a number of people of different abilities and different professions unite with the intention of founding a locality and thereupon realize this intention by planning. To be sure, such a means of starting new settlements is not out of the question and has even been attested by experience. As a rule, however, new localities arise "unintentionally," i.e., by the mere activation of individual interests which of themselves lead to the above result furthering the common interest, i.e., without any intention really directed toward this. The first farmers who take possession of a territory, the first craftsman who settles in their midst, have as a rule only their *individual* interest in view. Likewise, the first innkeeper, the first shopkeeper, the first teacher, etc. With the increasing needs of the members of the society still other economic subjects find it advantageous to enter new professions in the gradually growing community or to practice the old ones in a more comprehensive way. Thus there gradually comes into being an economic organization which is to a high degree of benefit to the interests of the members of the community. Indeed, their normal existence finally could not be imagined without it. Yet this organization is by no means the result of the activation of the common will directed toward its establishment. This will is more likely to appear as a rule only in more advanced stages of development of communities, and it is more likely to produce, not the establishment, but the perfection of the "organically" created social structures.

A similar statement holds true for the *origin of the state*. No unprejudiced person can doubt that under favorable conditions the basis for a community capable of development can be laid by the agreement of a number of people with a territory at their disposal. Nor can it reasonably be doubted that from the natural conditions of power in the family new states capable of development could be established by individual rulers or groups of them, even without the agreement of all subjects of the new state. The theory, according to which that social structure which we call the state will simply arise "organically," is thus one-sided, at any rate. Just as erroneous, indeed to a still greater degree unhistorical, is the theory that all states originally came into being by *an agreement directed toward establishing them* or by the conscious activity of individual rulers or groups of rulers directed toward this aim. For it can scarcely be doubted that at least in the earliest epochs of human development states developed in the following way. Family heads joined by no political bond and liv-

ing side by side came to have a state community and organization even if it was undeveloped at first. They did this without special agreement, merely because they progressively recognized their *individual* interests and endeavored to pursue them (by voluntary subjection of the weaker to the protection of the stronger, by the effective aid which neighbor gave to neighbor in those cases in which the latter was to be coerced under circumstances under which the remaining inhabitants of a territory also felt threatened in their welfare, etc.). Conscious agreement and power relationships of different kinds directed toward the goal of strengthening communities as such may actually have aided this process of state formation in particular cases. The correct recognition and the activation of the *individual* interests on the part of individual family heads living side by side have certainly in other cases led to state formation even without the above influences, indeed even without any consideration of the common interest by individuals. That social structure, too, which we call the state, has been the unintended result of efforts serving individual interests, at least in its most original forms.

In the same way it might be pointed out that other social institutions, language, law,⁶² morals, but especially numerous institutions of economy, have come into being without any express agreement, without legislative compulsion, even without any consideration of public interest, merely through the impulse of *individual* interests and as a result of the activation of these interests. The organization of the traffic in goods in markets which recur periodically and are held in definite localities, the organization of society by separation of professions and the division of labor, trade customs, etc., are nothing but institutions which most eminently serve the interests of the common good and whose origin seems at first glance to be based necessarily on agreement or state power. They are, however, not the result of agreement, contract, law, or special consideration of the public interest by individuals, but the result of efforts serving individual interests.

It is clear that legislative compulsion not infrequently encroaches upon this "organic" developmental process and thus accelerates or modifies the results. The unintended genesis of social phenomena may factually be the exclusively decisive genesis for the first beginnings of social formation. In the course of social development the purposeful encroachment of public powers on social conditions becomes more and more evident. Along with the "organically" created institutions there go those which are the result of purposeful social action. Institutions which came about organically find

⁶² See Appendix VIII: "The 'Organic' Origin of Law and the Exact Understanding Thereof."

their continuation and reorganization by means of the purposeful activity of public powers applied to social aims. The present-day system of money and markets, present-day law, the modern state, etc., offer just as many examples of institutions which are presented to us as the result of the combined effectiveness of individually and socially teleological powers, or, in other words, of "organic" and "positive" factors.

(c) *Concluding remarks.*

We might ask now about the general nature of the process to which those social phenomena owe their origin which are not the result of socially teleological factors, but are the unintended result of social movement. This is a process, which in contrast to the genesis of social phenomena by way of positive legislation, can still be designated as "organic." The answer to the above question can scarcely be in doubt any longer.

The characteristic element in the socially teleological genesis of social phenomena is in the intention of society as such directed toward establishing these phenomena, under the circumstance that they are the intended result of the common will of society, thought of as an acting subject, or of its rulers. The social phenomena of "organic" origin, on the other hand, are characterized by the fact that they present themselves to us as the unintended result of individual efforts of members of society, i.e., of efforts in pursuit of individual interests. Accordingly, in contrast to the previously characterized social structures, they are, to be sure, the unintended social result of individually teleological factors.

But in the preceding we believe we have not only presented the true nature of that process to which a large part of social phenomena owe their origin, a nature which has up to now been characterized merely by vague analogies or by meaningless phrases. We believe we have also come to another result which is important for the methodology of the social sciences.

We already alluded above to the fact that a large number of the phenomena of economy which cannot usually be viewed as "organically" created "social structures," e.g., market prices, wages, interest rates, etc., have come into existence in exactly the same way as those social institutions which we mentioned in the preceding section.⁶³ For they, too, as a rule are not the result of socially teleological causes, but the unintended result of innumerable efforts of economic subjects pursuing *individual* interests. The theoretical understanding of them, the theoretical understanding of their nature and their movement can thus be attained in an

⁶³ See p. 146 ff.

exact manner only in the same way as the understanding of the above-mentioned social structures. That is, it can be attained by reducing them to their elements, to the *individual* factors of their causation, and by investigating the laws by which the complicated phenomena of human economy under discussion here are built up from these elements. This, however, as scarcely needs saying, is that method which we have characterized above⁶⁴ as the one adequate for the exact orientation of theoretical research in the realm of social phenomena in general. The methods for the exact understanding of the origin of the "organically" created social structures and those for the solution of the main problems of exact economics are by nature identical.

⁶⁴ See p. 60 ff.