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RECEPTION OF SMITHIAN ECONOMICS IN GERMAN-SPEAKING AREAS: CARL MENDER AND BRUNO HILDEBRAND[†]

Yukihiro IKEDA

Department of Economics Keio University Tokyo, Japan

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Abstract: As part of the popularization of Smithian economics in Germany and Austria, we investigate Smith's position in Menger's *Untersuchungen über die Methode der Socialwissenschaften und der politischen Ökonomie insbesondere*. Menger did not discriminate Smithian economics from the economists of France: both were characterized as typical figures of the Enlightenment. This view goes back at least to the Older German Historical School. Methodologically, Menger supported the English Classical School in opposition to the German Historical School. Nevertheless, it is shown that both Menger and the German Historical School hold the same views on Smith.

Key words: Carl Menger, Adam Smith, Austrian School of Economics, Enlightenment, Friedrich Hayek.

JEL Classification Number: B12, B13.

1. INTRODUCTION

Here I present Carl Menger's interpretations of Adam Smith, in light of the long tradition of Smithian scholarship in German-speaking areas. In this study, I claim the following: 1. It is true that Menger was diametrically opposed to the methodology of the German Historical School of economics. I address here the discrepancies between the two by relying upon Menger's arguments in his 1883 book on methodology. Nonetheless, Menger's interpretation of Smith still owes to the Smithian scholarship at that time, especially that of the German Historical School; both Menger and Bruno Hildebrand were of the opinion that Smith and the French Enlightenment belong to the same camp. This finding leads to the following striking understanding of the relationship between Menger and Friedrich Hayek. 2. For Hayek, Smith was a forerunner of his concept of "spontaneous order"; thus, Smith belongs to his own camp, in that the father of political

[†] An earlier version of this paper was read at the ESHET annual meeting in Porto, in 2006; at the HETSA annual meeting in Ballarat, in 2006; and at the HES annual meeting in South Bend, in 2011. This is a largely extended version of my previous paper in Japanese (Ikeda, 1991). My thanks go to Giandomenica Becchio, Maurice Lagueux, Maria Paganelli, and an anonymous journal referee, all of whom helped enrich the content of this paper. The usual caveats apply. This paper is dedicated to the memory of my mentor in Germany, Harald Winkel (1931–2005).

economy emphasizes the unintended results of individual activities. For Menger, the story is not simple. Menger explicitly states that what Smith and other Enlightenment writers have in common is a certain kind of rationalism.

The Enlightenment was an 18th-century intellectual movement in the UK and other European nations, wherein thinkers attempted to understand natural and social phenomena, mainly through the use of human reasons. Today it is widely recognized that the movement itself is many-sided; it is far from true or fair to see in it only a certain type of rationalism. It is well known that some thinkers of the Enlightenment also paid due attention to the passions, which often bear a greater influence on human conduct than reason. Now it will be shown that Hildebrand's and Menger's ways of interpreting the French and Scottish Enlightenments are fundamentally based on the idea that Enlightenment is almost equivalent to rationalism. Apart from the problem of whether or not it is accurate to conceive of the earlier Enlightenment thinkers in France and Scotland in this way, this is indeed a typical understanding of Enlightenment in German-speaking areas.

On this topic, there are at least three materials that deserve to be examined. First, Menger wrote a small essay on the occasion of the 100th anniversary of Smith's demise to pay homage to the great founder of economic science. Positive comments vis-à-vis Smith might be explained by the fact that the article was basically written to commemorate the Scottish thinker. Menger attempted to show that Smith was no enemy to social policies, thus defending the Classical School of Economics from attacks by German mainstream economists, represented by the members of the *Vereins für Socialpolitik*.¹ Second, lecture notebooks to the Prince Rudolf are now available, thanks to the efforts of Erich and Monika Streissler. Although the lectures were not specifically on the history of economic thought but on economics in general, it is apparent that Menger greatly owed his orientation of economic policies to Smith. Erich Streissler even said that Menger was "a classical liberal of the purest water with a much smaller agenda for the state in mind than even Adam Smith" (Streissler 1994: 14). Third, one finds intriguing but scattered comments on Smith in his second work, *Untersuchungen über die Methode der Socialwissenschaften und der politischen Ökonomie insbesondere*. It might be our final purpose to obtain a coherent picture of the Smith–Menger relationship by drawing together all these materials. First, however, let me confine myself to making comments basically on the last of these methodological works, in what follows.

According to the prevailing but stereotyped explanation, Menger methodologically supported the English Classical School in opposition to the German Historical School in his second work, *Untersuchungen*. Since Menger worked to interpret Smith and the

¹ See Menger (1970). Menger said that Smith was not against governmental intervention, if it were necessary: "Es ist nicht wahr, es ist eine Geschichtsfälschung, dass A. Smith ein Doctrinär des „laissez faire, laissez aller“ ist und ausschliesslich von dem völlig freien Spiele der individuellen Interessen das ökonomische Heil der Gesellschaft erwartet. Er anerkennt an zahlreichen Stellen seines Werkes, dass die Bestrebungen und Interessen einzelner Individuen ganzer Gesellschaftsclassen im Widerspruche mit den öffentlichen Interessen stehen, und weist in diesen Fällen die staatliche Einflussnahme nicht nur nicht zurück, sondern stellt sie als ein Gebot der Humanität und der Rücksicht auf das Gemeinwohl hin" (Menger 1970: 230).

English Classical School through the lens of previous Smith scholarship in Germany, we must first turn to the Smithian scholarship in the German Historical School to identify Menger's position in *Untersuchungen* and his relationship with Smith. As conventional wisdom emphasizes, it is sufficiently true that Menger basically stood for the English Classical School; nonetheless, this does not preclude that he accepted some important tradition from the Smithian scholarship of the German Historical School. My thesis is that Menger and the German Historical School have much in common, in that they do not differentiate between the Scottish and French Enlightenments. I do not, however, claim that their interpretations are correct. In any case, this requires a reading of a large body of Enlightenment literature *per se*; I would argue that their arguments are rooted in the same convention to interpret and criticize the Enlightenment from a viewpoint of historicism.²

In the next section, I choose Bruno Hildebrand as a representative member of the German Historical School. His rather clichéd interpretation of Smith serves as a good starting point in understanding the background of the Smith–Menger relationship. Of all three of the older generation of the Historical School, Hildebrand was definitely against the English Classical School. Wilhelm Roscher was in a sense a follower of classical economics, as I have previously indicated.³ His theoretical work indicates his close relationships with the mainstream English economic thought, represented by John Stuart Mill. Furthermore, Karl Knies defends Smith against the critique that the Scottish scholar was a supporter of *laissez-faire* doctrine, by quoting passages from *Wealth of Nations* where Smith conceded exceptions of economic liberalism.

In the chapter of *Untersuchungen* entitled “The German Historical School of Political Economy,” Menger introduces the Marburg professor as follows:

Among the representatives of the historical school of German economists, B. Hildebrand is to be mentioned among the very first. (Menger 1996: 173)

It needs to be emphasized that the overall estimation of the German Historical School in *Untersuchungen* is positive. Menger's comments are not in blunt terms. Although he had only tried to evaluate the German historicism academically and objectively—and, of course, not without criticism—it does not prevent Schmoller from writing a harsh criticism of the work. Thus, it can be safely said that the *Methodenstreit* begins not with the 1883 book, but with Schmoller's review article. In *Untersuchungen*, Menger mentions Schmoller only *en passant*; Schmoller was far from being a “star player” in the German historicism scene in 1883. As shown in the above quote, Menger thinks

² I must add as a caveat that the Austrian and German philosophical backgrounds at the time of Hildebrand and Menger were quite different, in some respects. In the text, I do not go into the philosophical aspects of the story without implicating that I underestimate the differences in the philosophical architecture of the two. To be sure, this requires further research from a different perspective. Aristotelianism, Heglianism, and Kantianism can be powerful tools in analyzing the philosophical contexts of the time.

³ Apart from his programmatic statements, Roscher was deeply involved in the tradition of the English Classical School. See Ikeda (1995b). His *Grundlagen* was a very well-read economics textbook in Germany in the second half of the 19th century. Indeed, Roscher was a great textbook writer in Germany, following Karl Heinrich Rau.

highly of Hildebrand.

It is important to know that both Hildebrand and Menger basically face the same problems in interpreting Smith: first, whether Smith believes in economic laws that are invariant in the course of history; second, whether Smithian economics are based on the individualistic method; and third, whether there are any substantial differences between the Scottish and French Enlightenments. Obviously, Hildebrand and Menger are thinking in terms of the same paradigmatic discourses of German historicism of the time. Referring to *Die Nationalökonomie der Gegenwart und Zukunft*, Menger mentions Hildebrand's criticism of the individualistic method of Smith. Thus it is apparent that he had been quite well informed of Hildebrand's arguments vis-à-vis Smith.

After analyzing Hildebrand's interpretation of Smith in what follows, the third and fourth sections highlight Menger's comments on Smith. I look to interpret them in light of Hildebrand's critical comments on Smith, as detailed in section 2. In the final section, brief concluding remarks are provided. The appendix offers some information on various editions of *Wealth of Nations*, as found in the Menger Library.

2. HILDEBRAND'S CRITIQUE OF ADAM SMITH⁴

Hildebrand's interpretation of Smith is conventional within the long history of Smith's reception in German-speaking areas. It therefore has some foundation, but it is not wholeheartedly accepted in the recent Smith scholarship. See the following statement in *Die Nationalökonomie der Gegenwart und Zukunft*:

Trotz der geschilderten Verdienste und wahrhaft weltgeschichtlichen Stellung hat Adam Smith und seine ganze Schule mit seinen Vorgängern, den Merkantilisten und Physiokraten, gemein, dass er eine nationalökonomische Theorie aufzubauen suchte, deren Gesetze für alle Zeiten und Völker absolute Gültigkeit haben sollten. Gerade so wie Rousseau und Kant eine staatsrechtliche und politische Schule hervorriefen, welche einen absoluten Staat ohne Rücksicht auf die von der Natur gegebenen Unterschiede der Menschheit, auf die verschiedenen Entwicklungsstufen und Völkeranlagen zu construieren suchten, ebenso haben Adam Smith und seine Anhänger bis auf Rossi und Quincey herab aus den speciellen Thatsachen einzelner Völker und Entwicklungsmomente allgemein gültige Sätze zu ziehen und so eine Art Welt- und Menschheitsökonomie zu schaffen gesucht, welche ganz dem damaligen Zeitalter rationalistischer Verstandsaufklärung entsprach. (Hildebrand 1998 [1848]: 27)

Smith, Hildebrand argues, attempted to build economic theories that are valid in all the phases of historical development. Of course we all know that Smith emphasized that all institutions are historically changeable, meaning that every institution has its justification within its historical setting, but that it becomes obsolete once the surrounding

⁴ For a detailed analysis of Hildebrand's *Die Nationalökonomie der Gegenwart und Zukunft* and his criticism of Smith, see Rothschild (1998).

situation has changed. In this sense, no one is justified in saying that Smith was an ahistorical thinker. What Hildebrand criticizes is the methodological standpoint of Smithian economics, where it is implicitly assumed that some immanent economic laws are observable in every nation, and are essentially based on self-love. This understanding, beginning with Friedrich List, is fairly typical in Smith's reception history in German-speaking countries.

Second, Hildebrand did not see any serious discrepancies between Smith and the physiocrats; the same can be said of the relationship between Smith and Rousseau. In general, Hildebrand did not attempt to differentiate between the Scottish Enlightenment and its French counterpart; both are said to have much in common, inasmuch as they were products of the Age of Enlightenment. However, the founder of modern economics saw his own system differently. Smith made every effort to distinguish his system from that of physiocracy. See the following famous passage from *Wealth of Nations*⁵:

Some speculative physicians seems to have imagined that the health of the human body could be preserved only by a certain precise regimen of diet and exercise, of which every, the smallest, violation necessarily occasioned some degree of disease or disorder proportioned to the degree of the violation. Experience, however, would seem to show that the human body frequently preserves, to all appearance at least, the most perfect state of health under a vast variety of different regimens; even under some which are generally believed to be very far from being perfectly wholesome. But the healthful state of the human body, it would seem, contains in itself some unknown principles of preservation, capable either of preventing or of correcting, in many respects, the bad effects even of a very faulty regimen. Mr. Quesnai, who was himself a physician, and a very speculative physician, seems to have entertained a notion of the same kind concerning the political body, and to have imagined that it would thrive and prosper only under a certain precise regimen, the exact regimen of perfect liberty and justice. (Smith 1981: vol. 2, 673–74)

Quesnay was of the opinion that a nation cannot thrive in the absence of at least some rigorous conditions—for instance, under “perfect liberty and justice.” Although Smith also emphasizes the importance of liberty and justice, he was far from asserting that these are essential conditions for a nation's prosperity. In many European nations, the system of perfect liberty was not realized, as he points out in other parts of *Wealth of Nations*; nevertheless, some nations did develop economically. This self-portrait of Smith is fully compatible with Hayek's characterization of Smith and the French Enlightenment in his celebrated lecture, “Individualism: True and False.” As is well known, Smith was one of Hayek's favorites, while Hayek's evaluation of the French

⁵ The main arguments of Book 4, Chapter 9 of *Wealth of Nations* are dedicated to differences in labor productivity invested in various industrial sectors. Then Smith goes on to explain the economic liberalism of the physiocrats, which he basically supports. The quote in the text is taken from this part. Certainly, he is also a friend of economic liberalism, without implicating being a dogmatic proponent of this political ideology.

Enlightenment was basically negative.⁶

Hildebrand then turns to his second critique of Smith. Again, in his own words from *Die Nationalökonomie der Gegenwart und Zukunft*:

Hierzu kommt eine zweite Eigenthümlichkeit der Smith'schen Lehre, die sie ebenfalls mit der Staatsrechtslehre und der gesamten Aufklärungsliteratur jener Zeit gemein hat. Sie geht von derselben atomistischen Grundanschauung der menschlichen und bürgerlichen Gesellschaft aus, und betrachtet die einzelnen Individuen als alleinigen Zweck der Gemeinschaft. Dem politischen Rationalismus erschien der Staat nur als ein Rechtsinstitut zur Garantie der Freiheit aller Individuen, dem ökonomischen Rationalismus die ökonomische Gesellschaft nur als ein Verein oder System von Einzelwirthschaften zur leichtern und bequemern Befriedigung ihrer Privatbedürfnisse. Jener gründete die Gesellschaft auf den Rechtsvertrag, dieser auf den Tauschvertrag der Einzelnen, und der Privatvorteil der Individuen galt in beiden Fällen als die Ursache und das Band der Gemeinschaft. (Hildebrand 1998 [1848]: 29–30)

The second critique is a popular understanding of Smith among German-speaking scholars at that time: Smith, along with other figures of the Enlightenment, is criticized because his economic analysis is based on the individual; thus, they are—in Hildebrand's view—supporters of the atomistic method. For them, the society is only a system of individuals that work to make their private lives better and easier.

To complement the above, the following should be borne in mind when one locates Hildebrand's critique within a long history of German historicism. Hildebrand and his followers were firmly convinced that the individualist way of understanding social phenomena is not compatible with the social sciences. In a typically communitarian way, they thought it necessary to complement self-love with some kind of public spirit. The scholars of the later generation, including Gustav Schmoller, called it "Sittlichkeit." Furthermore, Max Weber, who was raised in the tradition of German historicism and simultaneously appreciated the importance of the Austrian School of Economics, attempted to amplify the concepts of "rationality" in a way that greatly contributed to the development of sociology. These happened all within the framework of German historicism, running from Friedrich List, and earlier members, to the later members of the

⁶ Among Smithian scholars today, Ignatieff Hont clearly explicates Smith's standpoint as follows: "How was one to counter the effects of these unnatural developments? The answer of the economists was to advocate the radical redirection of France to the natural growth path. Despite previous distortions, the best path was to allow free natural development that would automatically correct the effects of previous false policies in due time. For Smith the criteria of choosing strategies, both in the case of agriculture and natural liberty, were not only desirability and theoretical elegance, but also feasibility" (Hont 2005 [1989]: 374). Hildebrand's interpretation of Smith diametrically opposes Hont's explanation above; for the cofounder of the German Historical School, both the Scottish and French Enlightenments are based on rationality, in the sense that their policies are deduced from certain robust theoretic findings. Hont, meanwhile, sees their relationships quite differently: Hont's claim corresponds with Smith's own explanation about himself and the French Enlightenment. Of course, Smith and the representative figures of the French Enlightenment do believe in the basic rationality of human beings, and it is on this axiom that their political and economic discourses are built. For German scholars including Hildebrand, this is not acceptable.

German Historical School.

Now, let me summarize the arguments of this section. Hildebrand's interpretation of Smith cannot be accepted in light of recent, present-day scholarship, but it is a typical way of understanding Smith at that time in Germany. As we see later, part of this tradition contributed to Menger's later understanding of Smith.

3. MENGER'S METHODOLOGICAL INDIVIDUALISM AND ADAM SMITH

All players of the Marginal Revolution believed in methodological individualism; they thought economic phenomena to be basically products of individual human behaviors. Thus, they are also known as the cofounders of microeconomics. Menger is no exception; he was certain that economic phenomena could be reduced to individual economic subjects. Whether Menger believed in the methodological individualism in later years of his life is debatable. In the second edition of *Grundsätze* we have a different story, to which we turn later in this section.

Now let us begin with the marginal notes inserted in Rau's *Grundsätze der Volkswirtschaftslehre*. These notes are available in readable form, thanks to the efforts of Emil Kauder, a prominent scholar of the Austrian School of Economics. These notes, written in 1867, unequivocally show Menger's methodological individualism:

Eben weil aber die sogenannte Volkswirtschaft nichts anders als ein System der Individualwirtschaften ist, ist die Betrachtung der letzteren die Grundlage der erstern. (Menger 1963: 3)

Die Wirkung der Privatwirtschaft braucht von dem Einzelnen durchaus nicht vom Standpunkte der ganzen Volkswirtschaft betrachtet zu werden. (Menger 1963: 26)

Menger's methodological individualism is quite apparent, even in the years predating the publication of his masterpiece. Since national economy is nothing more than a system of individual economic subjects, Menger says, we must begin with observations of the latter, in order to obtain a picture of the former. This is reminiscent of his methodological standpoints in the first edition of *Grundsätze*, as well as in his 1883 work. In what follows, we turn to his second work on the methodology of economics. See the following statement taken from the Appendix I of *Untersuchungen*:

Adam Smith and his school have neglected to reduce the complicated phenomena of human economy in general, and in particular of its social form, national economy, to the efforts of individual economies, as would be in accordance with the real state of affairs. They have neglected to be in accordance with the real state of affairs. They have neglected to teach us to understand them theoretically as the result of individual efforts. Their endeavors have been aimed, rather, and, to be sure, subconsciously for the most part, at making us understand them theoretically from the point of view of the national economy fiction. On the other hand, the historical school of German economists follows this erroneous conception consciously. It is clear, however, that under the sway of the fiction discussed here a theoretical

understanding of the phenomena of national economy adequate to reality is not attainable. Also, the slight value of the prevailing theories of economics finds its explanation in no small measure in the above erroneous basic view of the nature of the present-day social form of human economy. (Menger 1996: 181)

In section 2, we concerned ourselves with Hildebrand's interpretation of Smith. Compared to this traditional Smith interpretation in German-speaking areas, the above critique is unique. Smith is criticized not for being a proponent of methodological individualism, but for his insufficient understanding of its methodological importance. In Menger's opinion, this led to the problematic methodology of the German Historical School and also to the poorly developed economic theories of the time in Germany.

In the second edition of *Grundsätze*, we have a slightly different explanation vis-à-vis methodological problems. See the following two quotes from the later edition of *Grundsätze*:

Unter unseren heutigen sozialen Verhältnissen ist der Bedarf des Volkes in dem obigen, dem eigentlichen Verstandes des Wortes, wie gesagt, nur in seltenen Ausnahmefällen und auch da nur partiell der Gegenstand praktischen Interesses, da es in Wahrheit in keinem Volke ein wirtschaftendes Subjekt gibt, das die Deckung des Volksbedarfes im obigen Sinne zur Aufgabe seiner Wirtschaft machen würde. (Menger 1923: 49)

Hier indes, wo ich von den Grundlagen der menschlichen Wirtschaft überhaupt und nicht ausschliesslich von jenen einer bestimmten Form der letzteren spreche, möchte ich den Volksbedarf im eigentlichen Verstande des Wortes nicht übergehen. . . . (Menger 1923: 50)

In the first of these two quotes, Menger denies the possibility that an economic system is operated by the general will of the society: there are no economic subjects who concern themselves with the satisfaction of the nation as a whole. This statement is fully compatible with his standpoints in the first edition of *Grundsätze* and *Untersuchungen*. On the other hand, in the second quote, he concedes the importance of the satisfaction of the nation, saying that the concept cannot be ignored when it comes to human economy in general. The first quote is a mere repetition of Menger's methodological individualism, whereas the second reveals a new insight into human economy. Whether or not this new insight relates to a breakdown of methodological individualism is still debatable; certainly, it is an intriguing problem that deserves to be scrutinized in future research.

4. ARE INVARIANT ECONOMIC LAWS POSSIBLE?

As is well known, for the members of the German Historical School—including its forerunner, Friedrich List—it is not so easy to believe in invariant economic laws. They tend to think that each nation in its own phase of development has its own peculiarities, and that they cannot be easily understood in terms of immanent laws, like those in the natural sciences. Clearly, Menger has a different opinion when he says:

The conception of so-called “perpetualism” and “cosmopolitism” which the historical school of German economists has had is thus inadequate. For the scholar who ever so carefully avoided the two errors so characterized would nonetheless not escape the fundamental weakness of an excessive generalization of theoretical knowledge, i.e., a generalization not adequate for real conditions. And only the consideration of all variations of the empirical forms of economic life stressed by us here would bestow upon the realistic theory of economy that rigor which the above school thinks it attains merely by the removal of “cosmopolitism” and “perpetualism” in the theory of economy. (Menger 1996: 86)

This can be interpreted as a direct answer to the critique Hildebrand had extended in his 1848 book. If we reproduce Menger’s idea within this quote, it would look like this: “Let us admit that British and German people have different ways of thinking and, accordingly, different ways of behavior.” Perhaps it is possible to use two distinct models to explain these nations’ economic behaviors; however, even inside the UK or in Germany there are many different areas possessing a variety of economic behaviors. Obviously this is a never-ending story. The same can be said of different phases of economic development within the same country. Even if it were possible to have different models applied to the Middle Ages and modern times, for example, it would still be necessary to differentiate the various periods within the Middle Ages.

The above observation leads Menger to the idea that economic theories must be built on certain concepts that cannot be found in the real world. In his own words:

But the way by which theoretical research arrived at the above goal, a way essentially different from Bacon’s empirical-realistic induction, is the following: it seeks to ascertain the *simplest elements* of everything real, elements which must be thought of as strictly typical just because they are the simplest. It strives for the establishment of these elements by way of an only partially empirical-realistic analysis, i.e., without considering whether these in reality are present as *independent* phenomena; indeed, even without considering whether they can at all be presented independently in their full purity. (Menger 1996: 29)

Based upon these “simplest elements,” Menger constructs his “exact laws,” which are basically independent of empirical tests. To be sure, for those who consider economics an empirical science, Menger’s methodology is difficult to accept.

5. MENER’S THEORY OF INSTITUTIONS, AND CRITIQUE OF SMITH

Menger thought that many institutions that were useful to humans had developed in the absence of any state intervention, and even in the absence of any formal consensus on the part of the participants. Law, language, money, and the state are typical examples of naturally developed institutions, Menger says. Later, this idea was incorporated into Friedrich Hayek’s politico-economic thought, thereby contributing to his criticism of the planning economy.

First of all, let us begin by seeing Menger's own explanation of the theory of institutions:⁷

Natural organisms almost without exception exhibit, when closely observed, a really admirable functionality of all parts with respect to the whole, a functionality which is not, however, the result of human *calculation*, but of a *natural* process. Similarly we can observe in numerous social institutions a strikingly apparent functionality with respect to the whole. But with closer consideration they still do not prove to be the result of an *intention aimed at this purpose*, i.e., the result of an agreement of members of society or of positive legislation. They, too, present themselves to us rather as "natural" products (in a certain sense), as *unintended results of historical development*. One needs, e.g., only to think of the phenomenon of money, an institution which to so great a measure serves the result of an agreement directed at its establishment as a social institution, or of positive legislation, but is the unintended product of historical development. One needs only to think of law, of language, of the origin of markets, the origin of communities and of states, etc. (Menger 1996: 106)

Although Menger admits some similarities between natural organisms and social institutions as described above, he is not an ally of those who assert that social institutions can be interpreted analogously with examples of natural organisms; of this, there is some supportive evidence. First, as Menger points out, "only a part of social phenomena" shows "an analogy to natural organism." There are many examples of institutions that are "the result of purposeful activity of humans directed toward their establishment and development," in which case, we cannot speak of the "organic" formation of the institutions. Second, even naturally developed institutions are "the unintended result of individual human efforts (pursuing individual interests). Thus, they are said to be "the result of human efforts, the efforts of thinking, feeling, acting human beings" (Menger 1996: 110), which strikingly contrasts with natural organisms that move by "the mechanical play of natural forces" (Menger 1996: 110). Menger uses the term "organic" with quotation marks, demonstrating that it was not his intention to accept the concept at face value; several times, he refers to the "so-called 'organic' origin" of social institutions.

There are some important implications of this. First, for Menger, organic understanding is an example of using the wrong methodology, in order to mimic the methods of natural sciences in the field of economics. As Menger characterizes, natural organisms

⁷ The description here is based on the detailed analysis by Pierre Garrouste (2004) [1994a]. As Garrouste rightly points out, Menger inclined to emphasize the difference between natural bodies and social institutions in his methodological monograph, while admitting the analogy in a sense. Garrouste says: "However, the effective content of such a system of analogies needs to be reduced. Some social institutions do not respect the analogy. Parts of natural organisms participate mechanically, in the constitution and evolution of the whole, while "pragmatic" institutions are the result of a collective deliberate calculation.... It is only for social institutions that are the unintended outcome of the origin of phenomena, is applicable. Concerning pragmatic institutions and problems dealing with the nature and the function of organic institutions, the analogy is erroneous" (Garrouste 2004 [1994a]: 86).

“are the result of purely causal processes, of the mechanical play of natural forces” (Menger 1996: 110). When he says that social institutions are the result of human actions, he anticipates the later argument of Ludwig Mises. Quite often, an organic understanding of society is asserted by those who are not satisfied with methodological individualism, which was thought to be a kind of reductionism drawn from the natural sciences. Menger was unique, in that he suggested the combination of an organic method and the natural sciences. Second, the organic view was seen as collectivist by Menger himself; for Menger, obviously, the spontaneous-order explanation was not interpreted within the collectivist framework.

The founder of the Austrian School of Economics suggests the origin of his understanding of institutions in the tradition of German jurisprudential thought, as follows:

The historical school of jurists utilizes the above notion (idea of Fr. Savigny... Y.I.) to arrive at the thesis that law something above the arbitrariness of the individual, is even something independent of the arbitrariness of the temporary generation of the national body. They state that it is an “organic” structure which cannot and must not be arbitrarily shaped by individuals or by single generations, that it is a structure which, on the contrary, is opposed as something higher to the arbitrariness of the individual, of the entire age, of human wisdom. From this thesis the above school now further derived consequences which are in part extremely practical. It concluded that the desire for a reform of social and political conditions aroused in all Europe by the French Revolution really meant a failure to recognize the nature of law, state, and society and their “organic origin.” (Menger 1996: 66)

Menger rightly positions his own theory of institutions within the tradition of Savigny and the Historical School of Jurists. For Savigny and the Historical School of Jurists, law is something that cannot be patterned, reformed, or remade by reformers: its existence transcends the wills of individual reformers, as Menger summarizes above. For readers interested in the “Abuse of Reason Project” (Caldwell, 2004) of Hayek, it might be of interest to reconfirm that the natural formation of law goes beyond “human wisdom.” Indeed, one can draw the Savigny–Menger–Hayek line within the tradition of spontaneous order.

Based on these ideas, Menger criticized Smith, rather severely:

What Adam Smith and even those of his followers who have most successfully developed political economy can actually be charged with is not the failure to recognize the obvious significance of the study of history for the politician. Nor is it failure to recognize the just as obvious principle that various economic institutions and governmental measures correspond to various temporal and spatial conditions of economy. It is their defective understanding of the unintentionally created social institutions and their significance for economy. It is the opinion appearing chiefly in their writings that the institutions of economy are always the intended product of the common will of society or of positive legislation. In this one-sidedly pragmatic view of the nature of social institutions, the sphere of ideas of A. Smith and

his closest followers comes into contact with that of the writers of the French Age of Enlightenment in general and of the French physiocrats in particular. (Menger 1996: 153)

Menger says two things about Smith in the above quote. First, Menger rightly points out that Smith had recognized the importance of history for politics. In reviewing Book 3 of *Wealth of Nations*, the reader quickly realizes that Smith was deeply interested in the historical development of institutions, beginning with the demise of the Roman Empire. So far, so good. Nonetheless, Menger's interpretation of Smithian economics is problematic, in the sense that it sees institutions as "always the intended product of the common will of society or of positive legislation." Since Smith was obviously against the so-called social contract theory, the above criticism perhaps widely misses the mark. Smith did not consider the formation of institutions as embodying an explicit contract with the existing members of society. Furthermore, Smith is interpreted as being allied with the French Enlightenment. Menger did not distinguish Smith from physiocrats; this corresponds to Hildebrand's interpretation of Smith, as introduced in section 2. If this interpretation is correct, it has far-reaching implications vis-à-vis interpretations of the relationship between Menger and Hayek. Hayek describes Smith as an economist, supporting his concept of "spontaneous order." Quite surprisingly, Menger puts Smith in a different camp, saying that an economic system was for Smith a product of legislative action of some form.⁸

6. ADAM SMITH, THE GERMAN HISTORICAL SCHOOL, AND CARL MENDER: CONCLUDING REMARKS

The relationships among Adam Smith, the German Historical School, and Carl Menger are complicated. In this study, I examined Hildebrand's interpretations of Smith, through the use of his *Die Nationalökonomie der Gegenwart und Zukunft*. First, Smith was said to believe in the existence of economic laws that are independent of space and time; this was not acceptable to Hildebrand. Second, Smith's method is individualistic, taking no consideration of the ethical importance of the community in the existence of the society. The first point was not accepted by Menger, who defended the English Classical School through the use of arguments cited above. Furthermore, Smith was not sufficiently individualistic for Menger, an ardent proponent of the methodological individualism, at least in the earlier part of his life. Whether Menger remained to be faithful to the tenet of methodological individualism in the later phase of his academic life is debatable. It is necessary to take a closer look at the second edition of his

⁸ Menger continues his argument by introducing Edmund Burke as a central figure who opposed the "one-sided rationalism and pragmatism of the Anglo-French Age of Enlightenment" (Menger 1996: 155). It can be clearly seen that Menger's dichotomy is based on the later Hayekian idea that distinguishes planners who believe in their ability to change society as they like from pessimistic realists. As this expression shows, Menger's concept of rationalism is closely related to the idea of social planning. Again, it is surprising to find that he put Smith in the camp of rationalism, which would imply that Smith had been attempting to change society as he likes. Obviously, Menger's concept of rationalism goes far beyond the general meaning of the term, thus supporting our hypothesis that he thought in terms of the Hayekian dichotomy framework.

masterwork, published after his death.

On the other hand, Menger accepted the critique of the German Historical School: that Smith was a figure of the Age of the Enlightenment whose rationalistic method he shared with the personalities of the French Enlightenment. This contrasts beautifully with Hayek's interpretation of Smith. As is well known, Smith was a representative personality of his true individualism. It would be an embarrassment for Hayek to put Smith in the category of the French Enlightenment, a *bête noire* for the champion of neoliberalism.⁹ Nonetheless, this was exactly what the founder of the School did in his book on methodology.

APPENDIX: WEALTH OF NATIONS IN THE MENDER LIBRARY¹⁰

To understand how Menger studied the works of Smith, we examine various editions of *Wealth of Nations* now housed in the Menger Library of Hitotsubashi University. The catalogue of the Menger Library demonstrates that Menger attempted to collect different editions of *Wealth of Nations* systematically. Since we concern ourselves here with a *Wirkungsgeschichte* of *Wealth of Nations* in German-speaking areas, special attention needs to be paid to the following German editions that Menger owned:¹¹

⁹ Once again, Hayek's "likes" and "dislikes" are laid bare in this lecture. (Likes: John Locke, Bernard Mandeville, David Hume, Josiah Tucker, Adam Ferguson, Adam Smith, Edmund Burke, Alexis de Tocqueville, and Lord Acton; dislikes: Jean Jacques Rousseau, Jeremy Bentham, physiocrats, encyclopedists, and last but not least, René Descartes (!)) As one can tell, his critique of rationalism basically focuses on Descartes and the Cartesian way of thinking. For Hayek's dichotomy—especially in comparison to Hildebrand's understanding of Smith—see also Rothschild (1998). Quoting from Hayek, she aptly captures the differences in their interpretations as follows: "Hildebrands Dreifaltigkeit Rousseau, Kant und Smith paßt nicht mehr zu einer leicht wiedererkennbaren Sicht der Aufklärung. F. A. Hayek etwa beschreibt Hume, Smith und Burke als die »typischen Repräsentanten in England« eines »Liberalismus«, den es »deutlich von... der Tradition Voltaires, Rousseaus, Condorcets und der Französischen Revolution« abzugrenzen gelte; über die »britischen und französischen« Tradition sagt er: »ein großer Kontrast [sei] schwerlich vorstellbar«" (Rothschild 1998: 167–68). It is still debatable, whether Hayek's dichotomy can be accepted in light of recent scholarship on the Enlightenment. It does not seem to me that a detailed historiographical study of individual writers would support Hayek's bold but simplistic assertion. For a recent contribution on the relationship between Smith and Hayek, see Montes (2011).

¹⁰ This section draws heavily on *Katalog der Carl Menger=Bibliothek in der Handels=Universität Tokio* (1926), the Catalogue of the Menger Library at Hitotsubashi University. My historical descriptions of Smithian economics in Germany are attributed to the following secondary literature: Carpenter (1977), Hasek (1925), Oz-Salzberger (1995), Tribe (1988), Waszek (1993), and Winkel (1986). For an introduction to the Menger Library in general, see Campagnolo (2000). Campagnolo (2004) also addresses the annotations of Menger on Rau and Gossen, among others; see also Campagnolo (2010). I also attempted to describe in my dissertation the formation of Menger's *Grundsätze* in detail, using both the Menger Library at Hitotsubashi University in Tokyo and the Menger Papers at Duke University in North Carolina; see Ikeda (1997).

¹¹ Among the German scholars who contributed to the introduction of Smithian economics to Germany, Georg Sartorius deserves mention. Menger has the following works by Sartorius: *Abhandlungen, die Elemente des National-Reichthums und die Staatswirthschaft betreffend*, Teil I, Göttingen, 1806; *Handbuch der Staatswirthschaft*, Berlin, 1796; and *Von den Elementen der National-Reichthums, und von der Staatswirthschaft, nach Adam Smith*, Göttingen, 1806. The last work attempts to build an improved system of economics based on Smith, as the title explicitly shows. See, *Katalog der Carl Menger=Bibliothek in der Handels=Universität Tokio* (1926).

Untersuchungen der Natur und Ursachen von Nationalreichthümern. Liepzig. 1776–1778. 2 Bd. Eng. 1424.

Untersuchungen über die Natur und die Ursachen des Nationalreichthums. Frankfurt u. Leipzig. 1796–1799. 4 Bd. Eng. 1425.

Untersuchungen über die Natur und die Ursachen des Nationalreichthums. Brelau u. Leipzig. 1799. 3 Bd. Eng. 1426.

Untersuchungen über die Natur und die Ursachen des Nationalreichthums. Brelau u. Leipzig. 1810. 3 Bd. Eng. 1427.

Untersuchungen über das Wesen und die Ursachen des Nationalreichthums. Deutsch mit Anmerkungen von Max Stirner. Leipzig. 1846–1847. 4. Bd. Eng. 1428.

Untersuchungen über das Wesen und die Ursachen des Nationalreichthums. Deutsch mit Anmerkungen von Max Stirner. Leipzig. 1846–1847. 4. Bd. Eng. 1429.

Ueber die Quellen des Volkswohlstandes, neu bearbeitet von C. W. Asher. Stuttgart. 1861. 2 Bd. Eng. 1430.

The 1776–78 edition is the first German translation of *Wealth of Nations*, by Johann Friedrich Schiller, a German staying in London at the time the masterpiece first appeared, and a relative of the great figure in German literature, Johann Christoph Friedrich Schiller. The translator later became a bookseller, in Mainz. Surprising is the date of the publication: it began to appear in 1776, when the original English edition was published. Although Menger does not own the 1794–96 translation by Christian Garve, he has the 1796–99 edition with the same translator.

The conventional view explained the low speed of diffusion of Smithian economics in Germany by emphasizing the low quality of Schiller's translation. It had led, so the argument goes, Garve to attempt a new translation himself. Carl William Hasek said in his classical monograph on the reception of Smithian economics in Germany that Garve's "first acquaintance with Smith was through Schiller's translation and the poverty of that rendering stimulated him to produce a better" (Hasek 1925: 68). Furthermore, the newcomer complained of the low quality of the Schiller version, in his letter to his friend.¹² contests this traditional view in his *Governing Economy*:

But a brief comparison of the two translations disposes of this argument, for it is difficult to see how the detected variations can be viewed as anything more than stylistic difference. In any case, Garve himself disposed of this argument in his foreword, where he states that it was the style of the first translation that disturbed him, and not an obviously poor or inaccurate translation. (Tribe 1988: 134)

This revisionist view, in turn, was later criticized by Norbert Waszek. For now, I must be satisfied with saying that the readability of Schiller's edition is an open question that

¹² Garve wrote to his friend, Weisse: "Smith's book on national wealth I consider one of the classic works of recent times. The German translation is so wretched, that it is hardly intelligible, let alone readable" (Hasek 1925: 68). See also Roscher's critical and positive comments on Schiller and Garve respectively: "Die erste gute Uebersetzung des Smith'schen Nationalreichthums (und zugleich die zweite überhaupt) ist Deutschland zu Theil geworden durch Christian Garve" (Roscher 1874: 603). For a detailed description of Garve as an informant of the Scottish Enlightenment in Germany, see Oz-Salzberger (1995).

awaits an evaluation by scholars from German-speaking areas. Was Schiller's translation really so bad? Indeed, the complaint in the new edition might be only a shameless plug by the latecomer.

The 1846–47 edition by Max Stirner was a standard translation in the 19th century. Menger mainly used this Stirner edition in his research. Although the two copies listed above are exactly the same, the four-volume Eng. 1429 copy is bound together in two volumes. Eng. 1428 was perhaps set aside for preservation and Eng. 1429 used in study, for the latter was filled with many marginal notes by Menger himself.

Menger's annotations begin with the top of the book, continuing sporadically to page 43 of the second volume of the translation. One cannot find any substantial comments in the last two volumes. While Menger almost continuously commented on the exchange and price theory of Smith, his annotations partly emerge from an ongoing criticism of the German Historical School. In the annotations, Menger mentions quite frequently two principles of society: private interests, and altruism. These are well-known categories of *Das Adam Smith Problem*, which Menger used in an attempt to interpret Smithian texts. In this sense, his interpretations are still based on Smithian scholarship of the German Historical School.

Smith, as the founder of modern economics, was well respected in Menger's published works. In *Grundsätze*, Roscher's name appears 14 times, followed by Smith (nine times). The frequent reference to Roscher is no wonder; the work itself is dedicated to the founder of the German Historical School. Other scholars of the Historical School are also frequently cited: Knies appears seven times, and Hildebrand, five times. In *Grundsätze*, Menger refers to the Basil edition of *Wealth of Nations*, published in 1801, and also to the first English edition, in 1776. On the other hand, one finds no explicit reference to *Wealth of Nations* in his 1883 book. However, Menger was deeply involved in methodological evaluations of Smithian economics, as seen in earlier sections of this paper. He twice refers to Smith's *History of Astronomy*, including verbatim citations from it. Menger uses the 1799 Basil edition edited by Dugald Stewart; since the book concerns itself with an overall estimation of German historicism, the frequent *dramatis personae* include Roscher, Hildebrand, and Knies. Compared to these major thinkers, Schmoller remains a minor figure.

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