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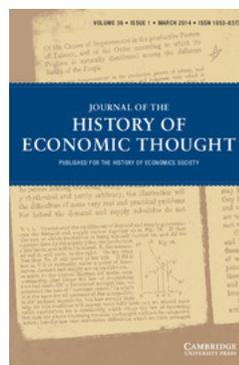
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MENGER ON THE NATURE OF CAPITAL AND ITS STRUCTURE: A REJOINDER

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BY
EDUARD BRAUN

I. INTRODUCTION

In their reply, Endres and Harper (hereafter E&H) reject my point about Menger's position on capital. In their opinion, the Menger–Lachmann trajectory on capital, as established in E&H (2011), remains intact. To be sure: if E&H maintained only that there is a close connection between Menger's *Grundsätze* (Menger 1871) and Lachmann (1978), no objections could be made. Lachmann undoubtedly builds his capital theory upon Menger's (1871) discussion of the multi-stage production process. On this point we are in full agreement (see Braun 2014, p. 99), and E&H's (2014, part III) elaboration on this link is largely beside the point. However, E&H maintain that Menger (1888), the only place in which Menger dealt with capital in depth, also fits the picture. In short, they argue that Menger's (1888) endorsement of the capital concept as used in economic calculation, where capital is homogeneously expressed as a sum of money, can easily be reconciled with Menger's (1871) earlier discussion in which he argues that capital represents a combination of economic goods of higher order.

E&H support their position in two ways. First, they quote from Menger (1888), and second, they make an argument from authority, referring to several authors of high standing who share their opinion. In the following, both arguments will be discussed.

II. THE QUOTE FROM MENGER'S ARTICLE ON CAPITAL

In part II of their reply, E&H maintain their original claim (E&H 2011, p. 358) that capital, according to Menger, is “a hierarchically organized, structured combination of economic goods that are used to produce other goods.” They now (E&H 2014, p. 105) add that “Menger's capital emphatically cannot have any point without a production objective in view.” In addition, and most importantly, they once more emphasize that Menger (1888) perfectly fits the picture. They (p. 105) even argue that Menger's “main point” in his 1888 article is that capital is always connected to production. In the sole reference they provide in support, Menger allegedly writes that capital is “*productive property*” and that its money value appears in accounting as “a *productive* sum of

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money” (E&H 2014, p. 105, emphasis added). However, E&H mistranslate the original. “Das Vermögen der Erwerbswirtschaft” does not mean “productive property,” but simply “business property” (or “wealth of the business”). And “werbende Geldsumme” does not translate into “a productive sum of money,” but into “a sum of money dedicated to the acquisition of income.”¹ The one quotation E&H provide does not back their interpretation in any way. They fail to demonstrate a connection between capital and the production process in Menger (1888).

III. E&H’S ARGUMENT FROM AUTHORITY

E&H try to support their view by referring to other authors: “no historians of Austrian economics of high standing (e.g., Hayek, Schumpeter) have ever noticed or commented upon an alleged break in his [Menger’s] thinking on the subject” (E&H 2014, p. 106). They further refer to Erich Streissler, Klaus Hennings, and Karl Milford.

E&H’s argument from authority is not correct. Schumpeter actually *has* commented upon the break in Menger’s thinking. In a neglected remark, Schumpeter (1997, p. 187) states that “C. Menger, after he had constructed a materialistic concept of capital in earlier times, later established a concept that is very close to our [Schumpeter’s] own one.”² Schumpeter (1997, p. 173), as is well known, defines capital as a sum of money and other means of payment that are available to entrepreneurs at any moment. In a later publication, Schumpeter (1954, p. 899) once more refers to this break in Menger’s thinking, this time explicitly contrasting Menger’s *Principles* with Menger (1888). Thus, in the eyes of Schumpeter, there *was* a break in Menger’s thinking on capital: the one I refer to in my comment.

I would like to add that this evidence could shed new light on a famous statement passed down by Schumpeter. According to him (1954, p. 847, n. 8), Menger thought that “Böhm-Bawerk’s theory [of capital and interest] is one of the greatest errors ever committed.” Böhm-Bawerk, like the early Menger, used a *materialistic* concept of capital. Unfortunately, Endres (1987) does not consider Schumpeter’s remarks, referred to above, in his discussion of what Menger could have meant by his dictum.

E&H (2014, p. 105) concur with Hayek, another author of high standing, that the “main substantive point” in Menger (1888) is the “necessity of clearly distinguishing between the rent obtained from already existing instruments of production and interest proper” (Hayek 1934, p. 411, as quoted in E&H 2014, p. 105). This is interesting as, a few lines above, E&H (2014, p. 105) maintain that “Menger’s main point in the 1888 article is that capital is ‘productive property’.” I have shown in part II that the latter argument cannot be upheld. The distinction between rent and interest proper, on the other hand, is indeed discussed in Menger (1888), but only at the very end (pp. 44–49) of the article and as an outflow of his earlier discussion of the correct capital concept.

¹E&H probably follow Schumpeter’s (1954, p. 899) translation of the sentence they quote. Schumpeter (1954), it must be said, was published posthumously, and Schumpeter did not edit it himself. So, conceivably, he also did not commit this error himself. Be that as it may, according to the dictionary, *erwerben* means: to acquire, to purchase, to earn, to get, to gain, to secure, or to win (Langenscheidt 1997, p. 382). There is no connection to production or productivity.

²The quote is taken from an appendix that was not translated into English (see Schumpeter 1936, p. xii).

That Lachmann (1976, p. 147) quotes Menger (1888) favorably on this distinction does not imply that he concurs with the rest of the article. His opposition to the accounting concept of capital has been demonstrated in detail in my comment (Braun 2014, p. 99 f.).

IV. CONCLUSION

E&H's attempts to support their point of view on the place of Menger (1888) in the Menger–Lachmann trajectory of capital are misplaced. Menger's only substantial discussion of the capital concept is not an elaboration of Menger (1871), but must, rather, be interpreted as a recantation of his earlier views.

E&H seem to fear that Menger's capital theory becomes pointless when a connection to the production process is removed from it. Schumpeter, however, clearly promotes the possibility of a capital theory that deals with economic calculation in—and the financing of—the market economy, and not with matters of the production process. The discussion about Menger's viewpoint on capital is not only a quibble about definitions: “As opposed to regularly uttered assertions, the controversial point is not only one of terminology. Not an expression, but a theory about the nature of important processes in the capitalistic economy is at stake. Therefore, it was a great progress that C. Menger tried to get directly at the facts” (Schumpeter 1997, p. 185).

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