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The Methodology of Henry George and Carl Menger

By LELAND B. YEAGER

THIS PAPER AIMS to point out how similar Henry George's views on economic research method are to the views of his Austrian contemporary Carl Menger, who, as a discoverer of the marginal-utility principle, ranks among the founders of modern economics.¹ The paper reviews only the main ideas that the two men held in common, neglecting points made by only one of them. Widespread ignorance or misunderstanding of the methodological principles defended by George and Menger, which does harm even nowadays, makes such a summary worthwhile. Incidentally, a survey of George's methodological insights shows how unjustly he is generally pigeonholed as a mere reformer and Single-Tax propagandist. Actually, he merits recognition as a profound and original economist.

I

GEORGE AND MENGER agree that the economist's job is not merely to catalogue economic phenomena but to search for cause-and-effect relationships among them. Both agree that economists should try to formulate "laws of nature" expressing typical relations (invariable uniformities, or invariable coexistences and sequences).² Of course, actual events, in their full complex reality, exhibit little regularity, since they are almost always the joint effects of many interwoven causes. To explain actual events, then, one must break down complex reality into simple and familiar regularities. One understands an observed phenomenon theoretically when one shows it to be a particular instance or a resultant of such elementary regu-

¹ George's views on method appear mainly in *The Science of Political Economy*, New York, Schalkenbach, 1941, copyright 1897, with some remarks in *Protection or Free Trade*, New York, Doubleday, Page, 1905, copyright 1886. Menger's views are in *Untersuchungen über die Methode der Socialwissenschaften und der Politischen Oekonomie insbesondere*, Leipzig, Duncker & Humblot, 1883, and *Principles of Economics*, translated and edited by James Dingwall and Bert F. Hoselitz, Glencoe, Free Press, 1950, first published in German in 1871. For brevity, George's works are henceforth cited as *SPE* and *PFT* and Menger's as *Untersuchungen* and *Principles*, respectively. The fact that the key methodological ideas in these books are scattered and diffusely-worded both precludes quotation and justifies an attempt to assemble and summarize them.

Although *SPE* and *PFT* appeared after *Untersuchungen* and *Principles*, George's ideas seem to be quite independent: Menger's works were not available in English; and to the extent that George did know anything at all about Austrian economics, he apparently missed its significance. See *SPE*, pp. 208, 448-9.

² *SPE*, pp. 45-6, 55-6, 64, 87, 95-6, 441, 443, 452, 481; *Untersuchungen*, pp. 25, 38, 39n., 40, 259 ff.; *Principles*, pp. 48, 56. Menger feels that economists should search for what are commonly called natural laws, although he himself reserves the term "natural law" for the natural sciences.

larities or laws. In particular, theoretical explanation in economics consists largely in tracing back actual phenomena to the most basic and general forces and drives of human nature.³

Perhaps George's and Menger's leading methodological tenet is that these most basic and general forces and drives—these elementary uniformities of economic reality—cannot be found merely by an overall study of the economic system as a whole. Basic uniformities must be sought on the level where decisions are actually made—on the level of the individual and the family (and, one might add, of the business firm and government agency). This approach has been termed “methodological individualism” (as opposed to “holism” or “institutionalism”). It investigates the principles that characterize the decision-making of individual human beings. It recognizes that the individual must *economize* in using the limited means at his disposal to attain the various ends he has in view. Methodological individualism recognizes the legitimacy and necessity of appealing to purpose and motive in explaining economic phenomena. The facts that count are not only objective characteristics of resources and products but also the characteristics attributed to them by fallible men, not only physical and chemical laws but also the preferences and intentions of human beings. An urge to explain structures and relationships in the field of the physical and biological sciences in terms of quasi-human motive and purpose is rightly scorned as pre-scientific anthropomorphism. But George and Menger do not shrink from anthropomorphic concepts and explanations *in economics*; they realize that economics does, after all, concern human action.⁴

George epitomizes the basic facts about economizing in the principle that people seek to satisfy their desires with the least possible exertion. Menger expresses similar ideas. The principle is not an assumption that people are in fact guided only by selfish motives. As Menger says, simplifying assumptions about human motives are analogous to simplifying assumptions made in the natural sciences: to get anywhere, one must in-

³ *SPE*, pp. 46–53; *Untersuchungen*, pp. 17, 33, 41–2, 77; *Principles*, pp. 46–7. Incidentally, George and Menger agree that ethics is not to be confused with economics. There is a fundamental distinction between discovery of explanatory principles and use of these principles in framing measures to attain whatever ends may be desired on ethical grounds. *SPE*, pp. 72–3, 101–4, 198, 426; *Untersuchungen*, pp. 288, 291. The fact that George makes and observes this distinction shows again that he does not deserve to be classified simply as an ordinary reformer and propagandist.

⁴ *SPE*, pp. 50–3, 65, 69, 74–86, 251–2, 401, 411, 483, and *passim*; *Untersuchungen*, pp. 45, 60–70, 157n., 236–7, 260n.; *Principles*, pp. 112–3, 119, 193–4. George's repeated use of the term “human action” is significant: *Human Action* (New Haven, Yale, 1949) is the title of a book in which Ludwig von Mises defends and uses a methodology closely akin to that of George and Menger.

investigate the various aspects of human behavior separately; and in investigating economic behavior, one must abstract from non-economic impulses. Furthermore, as George points out, the principle that men seek to satisfy their desires with the least exertion in no way implies that those desires are necessarily selfish; they might, in fact, be quite altruistic.⁵

II

REMARKS BY GEORGE AND MENGER help clarify the nature of so-called "armchair theorizing." If theories are to apply to the real world, some empirical content—some facts gotten by induction from reality—must have been put into them somewhere. George and Menger explain how economic theorists can discover basic principles of economizing by introspection and by observation of the actions of other people. Menger even argues that theoretical economics has one advantage over the natural sciences: while the basic elements of theoretical interpretation in the natural sciences, such, he says, as forces and atoms, cannot be observed directly and must rather be postulated to coordinate such empirical facts as can be obtained directly, the elements of explanation in economics—human individuals and their strivings—are of a direct empirical nature. The facts that economists induce from the behavior of themselves and other people serve as axioms from which a useful body of economic theory can be logically deduced, much as in geometry an impressive body of theorems can be deduced from a few axioms. The inductions that play the role of axioms in economic theory are those such as George's observations that labor continued beyond some point becomes irksome and that men seek to satisfy their desires with the least exertion.⁶ If such generalizations seem trite, that very fact attests to their general validity. It is clear, then, that so-called "armchair theorizing" need not be mere sterile juggling of arbitrary assumptions; it can have a sound empirical foundation.

George and Menger refer briefly to the idea of discovering the elementary cause-and-effect relationships in economics by using statistics or other observations of the real world in all its actual complexity. The trouble with this idea is that real phenomena are almost hopeless interminglings of many different effects of many different causes. George in particular remarks

⁵ *SPE*, pp. 87–91, 247, 411, 512; *Untersuchungen*, pp. 43–5, 74–81; *Principles*, p. 48 and translators' footnote.

⁶ *SPE*, pp. 86–7, 95–100; *PFT*, p. 27; *Untersuchungen*, p. 157n. *Principles*, pp. 47 and 56, has other references to the "empirical method" and to economics as an "empirical science." Introspection and observation of other people are not, of course, the *only* sources of axioms in economic theory. The "law of diminishing returns," for instance, has another sort of sound empirical basis.

caustically about how statistics can be made to prove almost anything. The complex intermingling of cause and effect in the real world forces economic theorists to abstract from irrelevant complications in investigating the consequences to be expected from each separate change in conditions. George has clearly explained this method of "mental or imaginative experiment," the method of testing "the working of known principles by mentally separating, combining or eliminating conditions." Economists should not be criticized for thus working with abstractions; every science must do so. Economists make simplifications just as physicists, in working out the principles of mechanics, for instance, abstract from the air resistance encountered by real objects on earth.⁷

Of course, George and Menger could not have shown that statistical methods are always useless or conducive to error. Statistics can sometimes be used to test the relevance of particular theories to real situations. Statistics is also a powerful tool of research into recent economic history. But George and Menger have properly suggested some limitations of statistics and other methods of historical research in establishing or testing laws of economics. So doing, they have helped to show the scope and justification of abstract theory based on reliable inductive knowledge about human decision-making and human action.

III

ANOTHER NOTABLE SIMILARITY between George and Menger lies in their attitude toward the "organic" conception of society. Both writers are thoroughly familiar with the analogy that represents a society or an economic system as a sort of living organism. The body of a living animal is a whole with a nature of its own: it seems to be more than the mere aggregate of its component organs, bones, and tissues. Furthermore, the component parts almost seem to have been purposively designed to serve the needs of the whole organism. Quite comparably, an economic system seems to have a life of its own that makes it more than the mere aggregate of its component individuals, businesses, government agencies, and other parts. And as with a living body, many of the parts and their functions almost seem to have been designed to serve the working of the whole system.

George and Menger realize all this; but, significantly, they do not join the "holists" and "institutionalists" in supposing that theories based on the behavior of decision-making individuals and business firms violate in some

⁷ *SPE*, p. 100; *PFT*, pp. 27-9; *Untersuchungen*, pp. 41-3, 53-4, 59, 75-7, 79-80, 259-61.

way the organic unity of the economic system. They do not suppose that this organic unity requires research to be concentrated almost exclusively on the system's overall institutional arrangements and evolutionary trends. On the contrary, George and Menger practice the methodological individualism described above. They recognize and emphasize the apparently spontaneous orderliness of a competitive private-enterprise system but do not just take it for granted; this orderliness is precisely one of the phenomena that cry out for explanation.⁸

As an example of this spontaneous cooperation or coordination of many independent human wills, George discusses the building of a large ship. Timbers, iron and steel, screws, chains, winches, paper, paint, lanterns, and countless other articles and many types of labor must be assembled in definite quantities at definite places at definite times. When one considers the many stages in the production of materials for the ship, stretching back to the original exploitation of natural resources, one gets an idea of how immensely complicated the whole process is. No single brain and no central planning board could ever hope to acquire all the detailed knowledge necessary for deliberate coordination of all the processes from beginning to end.

A modern ship is a product of cooperation that nobody deliberately arranges but that "grows, as it were from within, by the relation of the efforts of individuals, each seeking the satisfaction of individual desires."⁹ This spontaneous cooperation puts to use the special skills and the special knowledge of local and temporary conditions that is dispersed in thousands of individual minds and that would largely go to waste if economic activity were directed by a central planning board. According to George, the primary task of economics is to find out the nature and laws of this beneficent unplanned coordination. Menger says nearly the same thing: perhaps the main problem of the social sciences is to explain how arrangements that serve the general welfare arise without being consciously established.

Menger says and George implies that the research methods used in understanding the growth of "social organisms" and the methods for solving the main problems of economic theory are essentially the same.¹⁰ Those methods consist in tracing the overall pattern back to the strivings of individual people.

⁸ *SPE*, pp. 21-3, 25-7, 70-1, 118-9, 378, 383 ff., 439; *Untersuchungen*, pp. 60-70, 140-51, 155, 158-61; *Principles*, pp. 112-3.

⁹ *SPE*, pp. 388-91.

¹⁰ *SPE*, pp. 70, 391-401; *Untersuchungen*, pp. 159, 163-5, 183.

It is noteworthy that George and Menger use the same two examples to illustrate how unplanned features of the economic whole arise from the efforts of individuals to gratify their separate desires. Both explain how money evolved from commodities in very general demand that individuals found it to their own advantage to accept in trade, even if they themselves had no direct use for them. The most marketable commodity, being familiar to everyone, came to be used as a standard of value as well as a medium of exchange.¹¹ George and Menger also discuss the growth of new communities, showing that although settlers move in and take up particular occupations only with a view to satisfying their separate desires, economic activity in the community does grow into the appearance of a rational pattern.¹²

To sum up: George and Menger conceived of economic theory as a body of deductions from basic principles having a strong empirical foundation. The methodological individualism of George and Menger stems from a realization that economists' "inside" knowledge of human motives and decision-making is a leading source of basic empirical generalizations.¹³

Not sharing George's and Menger's understanding of how empirical content gets into so-called "armchair theory," many economists of our own day apparently regard theoretical and empirical work as two distinct fields. Manipulation of arbitrarily-assumed functional relationships is justified in the minds of such economists by the idea that empirical testing of theories against the real world comes afterward. Often empirical research is assigned an even less appropriate role—that of measuring the supposed parameters in equations built on little or no empirical foundation. A general understanding of the methodology of George and Menger and their successors would be an antidote to such mistaken notions.

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¹¹ SPE, pp. 267, 484–7, 495–6, 501–2, 512–7; *Untersuchungen*, pp. 172–8.

¹² *Progress and Poverty*, New York, Schalkenbach, 1940, first published in 1879, pp. 235 ff.; *Untersuchungen*, pp. 178–9.

¹³ In addition to von Mises's book already mentioned, the following works expound a methodological viewpoint akin to that of George and Menger: Friedrich A. Hayek, *Individualism and Economic Order*, London, Routledge & Kegan Paul, 1949, especially chapters 1 through 5; Hayek, *The Counter-Revolution of Science*, Glencoe, Free Press, 1952; and Lionel Robbins, *An Essay on the Nature and Significance of Economic Science*, second edition, London, Macmillan, 1948.