



Article

Hayek and Menger on Money

Christopher Adair-Toteff

Center for Social and Political Thought, University of South Florida, Tampa, FL 33620, USA; csa-t@web.de

Abstract: Friedrich von Hayek devoted much of his early scholarly writings to the concept of money. That is not that surprising given that he was a member of the Austrian School of Economics. The founder of the school, Carl Menger, had also devoted much of his academic life investigating the nature and function of “Geld” (“money”). What is surprising is that few scholars have investigated Hayek’s and Menger’s writings on money. This essay is intended to help rectify this gap by providing an account of Hayek’s and Menger’s conceptions of money.

Keywords: Hayek; Menger; money; “Geld”

1. Introduction

From the middle of the nineteen-twenties until the middle of the nineteen-thirties, Friedrich August von Hayek devoted much of his scholarly writing to the concept of money (“Geld”). As a member of the Austrian School of Economics, that is not at all surprising since Carl Menger, the founder of the school, had also spent much of his academic life investigating the nature and function of “Geld”. What is surprising is how little scholarship there is on Hayek’s and Menger’s writings on money.¹ What makes this even more remarkable is that Hayek was the person who spent a decade trying to get a publisher to be interested in an edition of Menger’s works, including one volume containing Menger’s writings on money. This essay is intended to help close this gap by offering a brief and preliminary account of Hayek’s and Menger’s conceptions of money. This essay is not intended to be an exhaustive exploration of either Menger’s thinking or Hayek’s works. It does not consider all of Menger’s writings and it stops with Hayek’s thoughts in the mid-1930s. Nor is this essay intended to discuss the secondary literature. It is left to others to debate how right or how wrong Menger and Hayek were. This essay is simply intended to help explain what these two great Austrian scholars thought about the concept of money.²

2. Hayek and Menger

When Friedrich August von Hayek began to attend the University of Vienna in 1919 it was to study law, but then he became interested in psychology. When he switched again to political economy in 1920, it was to study with Othmar Spann. It was also in 1920 that Spann and Friedrich von Wieser were appointed to the two vacant chairs, and it was that year that both Spann and von Wieser began to influence Hayek (Caldwell and Klausinger 2022, pp. 124–32). Von Wieser was the only member of the early Austrian School of Economics who was teaching there. Carl Menger had retired in 1903 and Eugen von Böhm-Bawerk died in 1914, so Spann and especially von Wieser played major roles in Hayek’s intellectual development. Although Hayek would cite von Wieser and edited a volume of his writings, Hayek was much closer in his economic thinking to Carl Menger.³ They shared the same emphasis on subjectivity and the need to combine theory and fact, as well as the appreciation of the importance of history in economics. But what they had in common the most was the need to formulate a proper theory of money. Von Wieser was more concerned with value and Böhm-Bawerk with capital, but Menger spent much of his life devoted to a theory of money (“Geld”). In comparison, Hayek never did write his “big



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book” on money, but the issue of money played a major role throughout his life. The focus here is the ten years between 1924 and 1934 because this was the decade that he was most influenced by Menger’s writings on money.

We know from the recent Hayek biography that it was Othmar Spann who recommended Menger’s writings. Caldwell and Klausinger suggest that Spann may have wanted to test Hayek’s critical acumen but that it seemed to have achieved the opposite. Instead of finding Menger’s writings deficient, Hayek became an enthusiastic supporter (Caldwell and Klausinger 2022, p. 138). One of the biggest indications of Hayek’s enthusiasm for Menger’s ideas was his lengthy search for a publisher of Menger’s complete works. Hayek had published his edition of von Wieser’s essays for the Siebeck publishing company, and he was going to write a volume on money and credit for them.⁴ This was to be included in the *Grundriß der Sozialökonomik* which had been started by Max Weber in 1908. However, the political and economic situations were deteriorating in 1930, so the *Grundriß* volume never appeared, and Oskar Siebeck had decided against Hayek’s Menger collection.⁵ It was not until the late 1930s that Hayek was able to persuade his colleagues at the London School of Economics to approve the publishing of Menger’s *Grundsätze* in the series *Reprints of Scarce Tracts in Economics and Political Science* (Caldwell and Klausinger 2022, p. 350). It is clearly evident from his “Einleitung” how much Hayek had learned from Menger’s books and had adopted and adapted Menger’s theories for himself. This is not to dispute the power that Ludwig von Mises’ theories also had on Hayek, but that power is not pertinent in this discussion.

Hayek was candid about how much he was indebted to Carl Menger. Hayek was forthright regarding how important it was for Eugen von Böhm-Bawerk and Friedrich von Wieser to have developed Menger’s theories. However, he insisted that they would not likely been able to have done so without the master formulating his ideas for them to build upon. Hayek complained that Menger was, and is, ignored, and Hayek suggested that he was hard-pressed to think of another figure in any discipline who has been so undeserving of this lack of attention.

In order to understand Menger’s ideas, Hayek insisted that it was necessary to consider the history of modern economic theories. It was John Stuart Mill who had “finalized” much of what Hayek referred to as the “classical school of political economy” (“klassische Schule der Nationalökonomie”), and he maintained that the decline of this did not happen as quickly and as completely as in Germany. It was the German Historical School which argued that the classical school was too theoretically oriented (Hayek 1968, pp. VII–X). Hayek wrote that when Menger was first beginning to be interested in economic matters, there was no such thing as an Austrian national economics and that there was no genuine discipline of economics in Austria was because it was part of law. Like other Austrians, Menger’s doctoral degree was in law (Hayek 1968, p. XI). After graduating, Menger worked as a journalist, and one of his areas to cover was social problems. Von Wieser had indicated that Menger had been puzzling over the ways in which prices were determined in the markets, and this prompted him to begin work on his *Grundsätze*. Hayek admits that this may not have been the real cause of Menger’s studies, but he did maintain that it must have been at least a partial cause. Hayek noted that there was probably no other book that was the result of such a long and tedious process of investigation (Hayek 1968, p. XII). Hayek indicated that Menger’s important contribution was not so much his emphasis on the individual as it was his highlighting the subjectivity of value. A second difference between Menger and the classical theory was that he stayed clear of ethical postulates and concentrated on methodology (Hayek 1968, p. XXI). It seems as if Hayek’s biggest praise for Menger was because of his inquiry into the essence and origin of money. While this is the topic of the final chapter of the *Grundsätze* (Menger 1968, pp. 250–85) as well as in the third “Buch” of the *Untersuchungen* (Menger 1969, pp. 172–83), Hayek insisted that the main points of Menger’s theory of money were in his essay on “Geld” in the *Handbuch der Staatswissenschaften*. Hayek pointed out that the essay in the first edition (1892) was excellent and that the essay was only stylistically improved for the second edition (1900).

But it was the version in the third edition that should be carefully studied because it was often misunderstood (Hayek 1968, pp. XXIX–XXX). It is this final version that Hayek included in his edition of Menger’s *Gesammelte Werke*.

3. Menger on Money

Although Hayek thought highest of the third and final version of Menger’s “Geld” essay, it is helpful to consider the outlines of the first version because in it Menger lays out the basis for his final theory of money. Menger observed that progressive cultures adopt the use of gold and silver in order to purchase things, but at some point, these cultures move to use some form of money. Menger also observed that, even for great thinkers like Savigny, the origins of money remain a secret. Menger made short work of the few attempts by some earlier scholars to explain how and why money was invented. However, these scholars failed because they thought the essence of money lay in its intrinsic worth. But Menger argued that money does not have an essence, but it does have a use—as the means of exchange (Menger 1892, pp. 730–32). Accordingly, money has the main role as the “means of exchange” (“Tauschmittel”) in the “movement of goods” (“Güterverkehr”). The greater the distance, the greater the problem in moving goods, so there needed to be a more convenient way of exchanging goods. Menger argued that gold and silver were regarded as having considerable value because of their rarity and were relatively easy to use in exchange for goods (Menger 1892, pp. 732–36). Thus far, Menger had restricted his explanation about money to individuals; but then, he moved to the notion of the state. He began the section on the “Influence of the Power of the State” (“Einfluß der Staatsgewalt”) by insisting that money is not based upon law and that its origins do not lay in the state, rather, from “a social institution” (“eine gesellschaftliche Institution”) (Menger 1892, p. 736). It was only when the state determined that it was necessary to regulate the use of gold and silver that the state began to issue coins. Thus, it was not the case that gold and silver became “money” (“Geld”); “Geld” was formed into gold and silver coins (Menger 1892, p. 737). Menger dealt with several problems in traditional accounts of money before turning to the use of money in capitalism. These are issues that can be addressed in Menger’s 1909 essay, but it is critical to note that he insisted that money was not some static good but it had movement in regards to its “internal value of exchange” (“Bewegung des inneren Tauschwertes des Geldes”) (Menger 1892, pp. 748–50). It is not obvious what Menger meant by “inner”; he might have meant “intrinsic”, but that seems close to “essential”, and he had ruled that out. What he seems to have meant was that there is no outside authority which confers the “value of exchange”. This is supported by two lines of reasoning: one, his general insistence on subjective value and two, his specific insistence on “motion” (“Bewegung”). That is to say that the “value of exchange” is never fixed but is determined by the individuals at the moment that they decided to trade the goods for the money. This is why the notion of time (“Zeit”) is so important to Menger. What is just as important is his reminder that “Geld” is not simply “Geld”, but there are different types, and he lists them mostly in chronological order: “cattle money, shell money, iron money, coin money, paper money, credit money” (“Viehgeld, Muschelgeld, Eisengeld, Barrengeld, Papiergeld, Kreditgeld”) (Menger 1892, p. 751). He added that in popular use there is only one word which is commonly used to describe the object used in the “general means of exchange” (“allgemeine Tauschmitteln”) and that is “money” (“Geld”). He noted that this is not just a terminological issue but brings up the development of it as a concept. Menger had in mind the notion that “money” is “objective”, and he points disapprovingly to the notion that “money” is a creation of the state. This is the notion that would again gain popularity through the influence of Georg Friedrich Knapp’s book *Die staatliche Theorie des Geldes*. This book was first published in 1905 and would go through several more editions. It will figure more prominently later. Here, Menger thought it sufficient to mention but only in a footnote (Menger 1892, p. 752, note 1). His larger complaint was directed towards those who regard money as “goods”, as if it had properties like other products. It equates the coin with value and suggests that they are really one and the same; Menger insists the coin has

no intrinsic worth but has value only as a means of exchange (Menger 1892, pp. 752–53). He maintained “Money is no simple *indication* of value”. (“Das Geld ist kein bloßes *Zeichen* des Wertes”). (Menger 1892, p. 754). Instead of talking about money as a good which has value, it is more appropriate to inquire about its function.

In the final section of “Geld”, Menger invokes Adam Smith and his notion that money is related to needs, and as a result, money is nothing stationary but is in circulation. But he built upon Smith’s notion by drawing attention to the fact that the speed of circulation is dependent on a number of factors. These include the nature and the size of the country’s economy as well as the size of the country’s market (Menger 1892, p. 754, note 1, p. 755). Menger ends “Geld” by insisting that money is not a thing and does not possess any intrinsic worth but has a function, and because it is so variable, it only has nominal value (Menger 1892, p. 756).

One thing which is remarkable about the 1892 version of “Geld” is how little regard Menger had for anyone who had written on the subject of money. The listing of the literature in the conclusion of “Geld” is not even one column, and the majority of the sources were in languages other than German (Menger 1892, p. 756). It is slightly different in the footnotes: Menger does not cite very many authors, but he does so with one in particular: Carl Knies. In fact, Menger refers to Knies’ book on money five times (Menger 1892, p. 734, note 1, p. 735, note 1, p. 737, note 1, p. 738, note 1, and p. 739, note 1). Knies published the first edition in 1873 and then a revised edition in 1885. Menger cited both editions, but he seemed more favorable towards the first edition. In particular, he follows Knies’ claims that money is a “means of exchange” (“Tauschmittel”) and that it is not a result of any legal prescription from the state but grew out of societal needs (Knies 1873, pp. 107–8). The other work that Menger cited was his own *Grundsätze* (Menger 1892, p. 734, note 1, p. 742, note 1, p. 751, note 1, where he also cites both Böhm-Bawerk and Wieser). The differences between the 1892 and the 1900 versions of “Geld” are minimal; the differences between the 1892 and the 1909 versions are considerable.

First, there are the formal differences. The 1909 version was no longer printed in “Fraktur” font but in a more normal and far more widespread font. The 1909 version has expanded from 11 sections to 14. The 1909 version has also grown in length; it is now 55 pages of double column—116 in Hayek’s edition. There is one other notable formal change; rather than being the sole essay devoted to “Geld”, it is now followed by a seven-page essay, “Geldtheorie, staatliche”. Not only had Menger failed to rid theories of money of the claim that it is based upon and guaranteed by the state, but the state theory of money had also grown in importance, so it was accorded its own entry. Furthermore, it was written by the leading proponent of the state theory of money, Georg Friedrich Knapp (Knapp 1909, pp. 610–18).

Second, and more importantly, are the differences in substance. The quickest way to compare the 1892 and the 1909 versions of “Geld” is to compare the foci of the sections of the two editions. Of the eight sections of the earlier version, four are about function (II, III, V, and VII). In contrast, many of the fourteen in the new version are on different topics, and while the topic of I is similar in both versions, VI and X are much the same, as are VIII and XI. The main additions are II on the conflict between economic theorists and V, which is on the state. An examination of all of the differences is beyond the scope of this essay; the focus will be on the legal issues that Menger introduced in the third edition.

Section II of the 1909 article carries the lengthy title “Der Streit der Wirtschaftstheoretiker und der Juristen über die Natur des Geldes und dessen Eigenart im Kreis der übrigen Güter”. This rather unwieldy title may be rendered “The Dispute Between Economic Theorists and Jurists over the Nature of Money and its Particularity in the Sphere of Remaining Goods”. This section has two parts. The first one contains the first four words of the section title and is Menger’s investigation into the differences between what economic theorists consider money to be and what legal theorists believe to be the nature of money. When Menger writes about legal theorists, he seems to have in mind thinkers like Knapp.

Menger's concern is with thinkers who insist that "money is a good" ("das Geld eine Ware sei") (Menger 1909, pp. 565–66; 1970, pp. 22–23).

The second part of this section has the title "Die Unterscheidung Zwischen 'Geld' und 'Ware' in der Jurisprudence", and this is rather easily translated as "The Difference between 'Money' and 'Good' in Jurisprudence". Menger's arguments included one that legal scholars tended to ignore or misunderstand the history of money and one that held that they were too preoccupied with rules to understand the motion of money in circulation. Menger concluded that the claims that "money is an abstract quantum of value" and that it is an "anomaly in the economy" are actually errors. These misunderstandings and the accompanying conflicts were not matters of differences about words; instead, they revealed a major contrast between economists and lawyers in their thinking about money (Menger 1909, pp. 565–67; 1970, pp. 22–27). Menger took up the legal interpretation in the second part of section II. Part of the problem, as Menger saw it, was that legal theorists were preoccupied with coins, and as such, they regarded money as just another type of physical good. What makes the second part of section II difficult is that the main part is printed in smaller type to indicate its lesser importance and that half of the part is taken up with four footnotes (Menger 1909, pp. 567–68, 567–68 note 1 and note 2, p. 568 notes 1 and 2; 1970, p. 26, and notes 1–3, and p. 27 note 1).

Menger took up the matter of metal money and law again in section V. The title of the section is problematic: "Die Vervollkommung des Geld- und Münzwesens durch den Staat" might be rendered as "The Perfection of Money and Coins by the State". Menger makes his opposition to the state theory of money very clear. He insisted that "Money is not created by law; its origins are not developed by a state; but rather, a societal manifestation". ("Das Geld ist nicht durch Gesetz entstanden; es ist seinem Ursprunge nach keine staatliche, sondern eine gesellschaftliche Erscheinung"). (Menger 1909, p. 574; 1970, p. 41). But Menger's complaint about the state and money was not only about its origins. Rather, he criticized the state for having its own interests at heart, which meant that people's lives were negatively affected by misdirected monetary politics. And he argued that the state's interest in foreign exchange may be justified but that that interest has negative repercussions in terms of economics within the state's borders (Menger 1909, p. 575; 1970, p. 42). Finally, Menger argued that rather than the complicated state theory of money, there should be an account of how money actually functions that could be understood by an everyday worker, if not a child (Menger 1909, pp. 576–77; 1970, pp. 44–45).

Menger returns to the conflict between economic theorists and legal philosophers again in section XIII. The title is again lengthy, unwieldy, and resistant to translation. One version might be "Whether the Compulsory Rate Belongs to the Concept of Money and the Latter can be Gained Perfection Simply Through the Compulsory Rate" ("Ob der Zwangskurs zum Begriffe des Geldes gehöre und das letztere durch den Zwangskurs schlechthin eine Vervollkommnung erfahre"). (Menger 1909, p. 601; 1970, p. 98). Menger again contrasts the legal approach with the economic one. There are two parts: "(a) The Juridical Point of View of the Observation" ("(a) Der juristische Gesichtspunkt der Betrachtung") and "(b) The Economical Point of View of the Observation" ("(b) Der ökonomische Gesichtspunkt der Betrachtung"). Part (a) has to do with how the law decides the legal obligations between the lender and the debtor and it is the judge who determines who has been wronged and to what degree. But Menger's objection is that this approach is legal and is not economics—"it does not belong to the general concept of money". ("er gehört nicht zum allgemeinen Begriffe des Geldes"). (Menger 1909, p. 602; 1970, p. 100). Furthermore, the legal system is not interested in money as an economic instrument but as a means of solving juridical problems. Hence, the notion of a compulsory rate, that is, being compelled to pay a penalty. When one approaches the issue from an economics point of view, this notion of a compulsory rate mostly disappears. This is because money plays no legal role but is purely a means of exchange (Menger 1909, p. 604; 1970, pp. 103–4). Menger concludes with a continuation of the claims that he had made earlier: when the state is involved in economic affairs, it is solely to advance its own interests. Menger insisted that the state

should involve itself in political and legal matters and leave economic issues to economic forces (Menger 1909, pp. 604–5; 1970, pp. 105–6). One can see how von Hayek would have responded favorably to such a demarcation between matters of state and economic issues. One can also see how he would be more inclined to warn against the mixing of the two after seeing the economic devastation that occurred in Europe after the war with high unemployment, massive shortages, and hyperinflation.

Menger continued to study, but he published little after rewriting “Geld” for the 1909 edition. In fact, between 1871 and 1901 Menger had eighty-four publications, including three books, but between 1902 and 1909, he had sixteen publications. However, 14 of these were book reviews, and the remaining ones were mostly brief articles in newspapers and journals. Menger did not publish anything after 1909 (Menger 1970, pp. 325–32).

The fourth and final edition of the *Handwörterbuch der Staatswissenschaften* was published between 1923 and 1929, with the volume dealing with money (“Geld”) appearing in 1927. The fourth edition devoted 80 pages to money but in five areas instead of the two of the 1909 edition. The three new essays were on the history of money, the measuring of monetary value, and monetary reformers. But there were major changes to the other two: Knapp’s “staatliche Theorie des Geldes” was expanded to ten pages and was revised after Knapp’s death by Franz Gutmann (Knapp and Gutmann 1927, pp. 752–62). But the biggest change was with Menger’s “Geld”. It was now entitled “Geld (Theorie des Geldes)” and it was reduced to 36 pages. But the most problematic difference was how much and how far the focus had shifted. Menger had fought for years to explain that money was not an object and had no essence and no intrinsic worth. He had argued for decades that money was functional and its value was determined by transactions. He had struggled from the end of the nineteenth century to show that money was independent of the state. Now, von Wieser was insisting that money was a thing, had its own value, and was regulated by the state (von Wieser 1927, pp. 682–83, 688–89). In “Geld (Theorie des Geldes)”, money now has an “objective value” and a “real value” as well as an “essence” (von Wieser 1927, pp. 684, 686, 688–89, 701). In fact, von Wieser refers to Knapp a number of times and insists that he is the leader of the new way (“Knapp wurde mit seiner staatlichen Theorie des Geldes der Führer auf diesem neuen Wege”) (von Wieser 1927, pp. 701, 711–12, 714). All of these changes must have depressed Hayek, but perhaps the most personal was that his teacher von Wieser not only had become an adherent of Knapp’s state theory of money but that he did not think it important to even mention Menger. If thinkers were gravitating to Knapp and were leaning towards using graphs, charts, and formulae, then it fell to Hayek to champion the ideas that his revered master Menger had about money.

4. Hayek on Money

Hayek wrote about money during the years between 1924 and 1932, but some of this was about American monetary practices and some of this was about practical implications. The former will be of interest to scholars focusing on this history of money in the United States, and the latter will occupy scholars who want to apply theory to practice. That leaves three major works of Hayek that are devoted to the theory of money: First is Hayek’s *Geldtheoretische Untersuchungen*, which was written in spurts between 1925/1926 and 1929/1930 (Hayek 2015, p. 516). It was never published during Hayek’s lifetime, but it does provide a detailed conception of money as value and money in politics. Second is his *Geschichte des Geldwesens*, which was also unpublished. It is not as crucial as the first and third works because it is mostly historical and covers the years 1600 to 1850. However, it does demonstrate how important Hayek thought economic history was—a conviction that he shared with Menger. It also underscores how mistaken critics of the Austrian School of Economics are when they insist that its members did not consider history important to economics. It is misleading to insist that the German School believed only in history and the Austrian School believed only in theory; Menger and Hayek believed both were necessary to understand economics and especially in respect to money. Third, is Hayek’s

“Habilitationsschrift” *Geldtheorie und Konjunkturtheorie*, which was written during 1928 and was published the following year.

Hayek’s *Geldtheoretische Untersuchungen* is incomplete and unpublished. It has two main parts which are very different in length. The first part on the essence of monetary influences on price development is more than eighty pages in length. In contrast, the second part on the significance of the value of money and the general price level is not even eight pages. In fact, the forward and the introduction combined are half of the second part. The “Vorwort” indicates Hayek’s preoccupation with the influence of monetary politics on the value of money, but he insisted that any discussion of how monetary politics should be conducted was clearly outside the scope of his investigations. Hence, he warned that his study was largely negative and rather restricted (Hayek 2015, pp. 198–99). Yet, in his “Einleitung”, Hayek takes pains to emphasize how his study is not just critical but that he intends to explore the relationship between lenders and debtors and how that impacts monetary changes, in terms of value, supply, and demand (Hayek 2015, pp. 200–1).

The first chapter of part one is an exploration of the origins and the organizational conditions which determine the foundations for prices. Hayek emphasizes the importance of price for economic theories, not just in simple exchanges but in a much broader sense of economics. But he adds that it must take into consideration the needs of individuals. It may be attractive to think of economics as the mechanical economics of trade and exchange and that it functions freely and without any problems or outside influences. However, that is not how real economic activity functions. In light of this, the economic theorist needs to take into consideration many additional factors (Hayek 2015, pp. 202–3). This is especially the case in considering how money influences exchange and how exchange modifies the value of money (Hayek 2015, p. 204).

The second chapter is mostly historical but is wide ranging. Hayek referred to David Hume but also to Irving Fisher. He also mentioned John Maynard Keynes and Gustav Cassel. There is little need to say anything about Keynes other than the claim that they were adversaries is an oversimplification. Cassel is probably a name that is unfamiliar to most, but he was one of the most well-regarded economic theorists in the early part of the twentieth century. Hayek’s main complaint about these modern thinkers was that their inclination to involve policy decisions influenced their scholarly investigations. Their intentions may be praiseworthy, but the effects are often different from what they had hoped to achieve (Hayek 2015, pp. 210–13). The next chapters had little to do with money—instead, they dealt with price and exchange.⁶ There are two notable things about chapter 5—it contains a figure of the chain of exchange, and he emphasized the impact that time had on the fluctuation of prices (Hayek 2015, pp. 230, 234–39). It is also noteworthy that the notion of time recurs in chapter 8 with the increase in production (Hayek 2015, pp. 240–50). Another point that is worth commenting on is Hayek’s concern about estimations: not just about raw material and end products but also regarding the foreseeability of the price (Hayek 2015, pp. 252–57). Towards the middle of the chapter, Hayek included three more figures, but these are graphic representations of the steps of production and consumer goods. Money is briefly reintroduced, but it is mostly in terms of payment for these goods (Hayek 2015, pp. 260–63). He acknowledged that it is difficult to determine production numbers, but it is even more difficult to arrive at the most reasonable and optimal price. This is often because the data are missing or incorrect. The result is often the need to reduce capacity, and this means reducing the number of hours worked. It also means the need to reduce the price of the goods in order to make them more marketable again (Hayek 2015, pp. 268–74, 276–79). Hayek concludes in his “unavoidably tedious investigations” (“unvermeidlich langwierigen Untersuchungen”) that it should be clear that the connection between rising production and rising prices and that between dropping production and dropping prices are not as self-evident as many economists have claimed. Similarly, the attempts to offer a simple theory of money is bound to fail because there are so many variables which need to be taken into consideration: material expenses, production costs, price instability, and consumer interest, as well as the amount of money in circulation and

the change in the value of the currency. It is misleading to think of the money economy as anything resembling the “natural economy”. This is because in the “natural economy” there are direct exchanges, but in a money economy the use of money not only means an indirect exchange but that the process can be extended: money is the means of paying for something later (Hayek 2015, pp. 283–87). Hyperinflation showed that money does not always have a fixed and stable value, so it is important to make economic decisions based on many factors, including what the currency is worth.

It is even more important to keep in mind the hyperinflation that plagued Germany during 1922 through 1924 when reading the second part of *Geldtheoretische Untersuchungen*. This is because the notion of monetary stabilization is also prominent in that part. But Hayek warns of any attempt to absolutely fix the value of money. Hayek complained that older authors did not fully comprehend the dangers in artificially manipulating the value of currency, but he also suggested that modern scholars were not much better at recognizing the folly of too much intervention (Hayek 2015, pp. 288–91). In particular, he warned of instituting specific rules which were intended to achieve particular results. What Hayek has in mind is the attempt to stabilize prices through rules rather than letting the supply and demand work prices out (Hayek 2015, pp. 201–93). Much of the problem is that modern economic theorists have forgotten the importance of understanding value as subjective. Furthermore, they have tended to forget that there is no general consensus regarding the value of money; instead, there are a vast number of individuals who consider the value of money and exchange from their own subjective point of view. He reminds us that when we forget Menger’s conclusions, it is to our detriment, and he asks us to recall the devastation caused by inflation during 1923. Price stability is a desirable end but not at any cost (Hayek 2015, pp. 293–95).

At first glance, Hayek’s “Geschichte des Geldwesens” may not offer much that is valuable in terms of his theory of money. This is partly because it is historical, partly because it ends with the year 1848, and partly because it was not deemed important enough to be published. Nonetheless, there are crucial points to be gleaned from this work, points which underscore how much Hayek believed that studying the history of money yields a better understanding of what money is and how money functions. There are four chapters of which two chapters cover much of the same period of one to two centuries and two chapters which are each devoted to just under a thirty-year period.

The dispute about how paper money was not equal to coins was concluded decades before Hayek wrote his history. However, he was convinced that understanding how metal coins were considered and how they were governed by the early banks would be instructive. Hayek began his survey of metal money in the middle of the seventeenth century with the coin reform of 1666. One problem was how to determine the value of silver—to consider it an inferior money to gold? Another problem was the different quality of coins—which was determined by the quality of minting. Another problem was how coins were circulated—this began to involve banks. It was in 1694 that one of the earliest banks opened and, while it provided a means of exchange and a place for storage, there were questions about the quality and quantity of coins. Hayek pointed first to William Petty who, in 1682, wrote one of the first treatises on money. Hayek noted that Petty was famous largely because he was the founder of “political arithmetic”. It was Petty who addressed the issue of the value relation between gold and silver and how it was not stable but was subject to changes. It was not that money was determined by its weight but that the time and the effort that went into minting the coin also determined the coin’s value (Hayek 2015, pp. 388–95). Hayek regarded Petty as the first “theorist of money” (“Geldtheoretiker”) (Hayek 2015, p. 397).

Hayek then moved to discussing John Locke. Locke is famous for his two treatises on government and his plea for tolerance, but Hayek was referring to his writings on money. In particular, Hayek credited Locke with the observation that the value of money should be stable in respect to goods (Hayek 2015, pp. 398–99). He noted that Locke was not entirely correct, but he praised him for his clear and compressed presentation. After a lengthy and

detailed account of coin weight, Hayek moves from the late 1690s to the second half of the next century.

Here, Hayek displayed his knowledge of David Hume's and Adam Smith's writings on political economy. Almost everyone is familiar at least with the title of Smith's masterpiece even if they know it only as the *Wealth of Nations*. But not very many people are familiar with Hume's writings on money. Yet, both Hume and Smith were Scottish Enlightenment thinkers and were concerned with the steady improvement in people's lives. Hayek emphasized that Hume was concerned with balancing the mercantilist overestimation of the power of money and that Hume insisted money was not an object but an instrument. Hume may not have expressed his thoughts in the clearest manner, but his ideas about money and international exchange would resurface at the beginning of the nineteenth century (Hayek 2015, pp. 405–10).

Hayek wrote that he would return to that topic in the third chapter. The second chapter is a rather perplexing combination of an extended discussion of John Law's concept of money and the French debate over the introduction of paper money. It ends with an observation regarding the astonishing speed with which coins continued to be used in circulation and the suggestion that paper money needed to have a more fixed value in order to achieve a better balance between the lender and the debtor (Hayek 2015, pp. 429–30).

As promised, Hayek returned to his discussion of Hume's monetary theory in the third chapter. Again, he tended to discuss Hume in connection with Adam Smith. While there were French authors such as Montesquieu and Turgot, whose works were being translated into English, their impact was largely overshadowed by the incredible success of Smith's *Wealth of Nations* (Hayek 2015, p. 431). Despite Hayek's promise, Hume almost disappears from the discussion. The lengthy third chapter has two components. The first and more interesting component contains Hayek's comment that Adam Smith rested his examination of the problem of money on the question of the general value. It was to Smith's credit that he provided an extensive overview of the massive variations in the value during the previous three centuries. Hayek drew two points from this: first, that Adam Smith saw that one of his major tasks was to show the weaknesses and errors of the mercantilist monetary theory and, second, that the claims that paper money could not have the value guarantee of metal money were unfounded (Hayek 2015, pp. 432–33). The bulk of the chapter is devoted to the second component, which is the English banking crisis and the monetary repercussions of the French Revolution. The final seven pages were devoted to David Ricardo's theories about bullion and coins. Despite this length, it does not seem that Hayek regarded Ricardo with nearly the amount of respect that he had for Adam Smith (Hayek 2015, pp. 458–65).

Hayek began the fourth chapter by indicating that it would proceed much as the previous one had and that the following two chapters would follow suit. The fourth chapter covered the years 1821 to 1848, while the fifth and sixth chapters were intended to run from 1849 to 1873 and from 1873 to 1896. Hayek may have written these chapters, but they have not been found, and he gave no explanation to why he was ending his study in 1896. Furthermore, most of chapter four is not concerned with money per se but with money politics and that largely meant banks. But Hayek did mention the splendid performance of William Senior who had been appointed to the new chair at Oxford devoted to political economy. In Hayek's estimation, Senior's lectures on the theory of money were extremely effective and quite brilliant (Hayek 2015, pp. 472–73). The other thing worth mentioning is that the British banking controversy was partially the reason why John Stuart Mill wrote his *Principles of Political Economy*, which became "the Bible of the national economists of the following decades" ("die Bibel der Nationalökonomien der nächste Jahrzehnten") (Hayek 2015, p. 492). Hayek does not discuss Mill's classic and instead abruptly ends his treatise.

The third and final work of Hayek on money had a better fortune. While *Geldtheorie und Konjunkturtheorie* did not achieve the fame that *Preise und Produktion* did, it was published in 1929 by Holder-Pichler-Tempsky. It was reprinted in 1976 while Hayek was in Salzburg, and the later addition has a forward which is a means to approach this work. Hayek noted

that the work grew out of his lengthy stay (1923–1924) in New York and his intention to write a Ph.D. dissertation at New York University (see Hayek 2015, pp. 529–30). But that thesis was not much more than an outline, and when Hayek returned to Vienna, he returned to the university but only for a short time until he began working for Ludwig von Mises at his business institute. In 1928, he wrote much of *Geldtheorie und Konjunkturtheorie*, and it was published the following year (Hayek 2016, pp. 6–8). Just as importantly, it was accepted as his “Habilitationsschrift”, which accorded Hayek the right to teach as a professor at Austrian and German universities. More than forty years after he wrote it, he still thought it an important academic work and one that had some continuing relevance.

Geldtheorie und Konjunkturtheorie is ostensibly about the theory of money and the theory of business cycles; however, of the five chapters, only one of them is actually devoted to the theory of money. The first chapter is introductory, and the fifth chapter points to future investigations. The second chapter is largely about price, whereas the fourth chapter is mostly about credit. It is chapter three that is most relevant to Hayek’s concept of money and is the focus of this section. But even in chapter three, Hayek placed limits on what he thought could be discussed. He maintained that he could not provide a full discussion of how and why monetary disruptions occur. Hayek was not just interested in economic fluctuations as a theoretical problem; he was concerned about them because of the practical problems that monetary changes and swings exerted on people. The Great Depression was still in the future, but Hayek had witnessed firsthand the terrible consequences of hyperinflation. It was not quite as bad in Austria as it was in Germany, and Hayek was in America during its height in 1923. Nonetheless, he knew about it from letters from his family. Plus, he continued to see evidence of how monetary changes affected everyone with respect to supply and demand and the changes in prices (Hayek 2016, pp. 41–42). Hayek offered a number of complaints and criticisms: that there could be a general theory that would be applicable under all conditions; that there could be a general price level; that there could be a “normal condition”; and that there could be a justification for the presupposition that there is an equilibrium in the value of money (Hayek 2016, pp. 42–43). Hayek granted that Ludwig von Mises had made some improvements about fluctuation in his theory of circulation, but he insisted that he could not go into the matter at this point. However, in a very lengthy footnote, Hayek made some revealing comments.

First, Hayek suggested that von Mises was largely in agreement with Carl Menger about the relationship between money and prices but that von Mises departed from typical usage when he wrote about all of the impacts that money exerted on prices. Second, he suggested that there was a contrast between the absolute height of the price of money in contrast to the relative height of the price of an individual good. Third, he pointed to the conflict between someone who was a convinced nominalist like Georg Friedrich Knapp in his *Staatliche Theorie des Geldes* and someone who was not such a convinced thinker, such as von Mises. In an addition to this footnote, the editor Hansjörg Klausinger clarified that Hayek was drawing a distinction based upon von Mises between “money value theory” (“Geldwerttheorie”) and “money essence theory” (“Geldwesenstheorie”) (Hayek 2016, p. 48, note 18).

For Hayek, a “general value of money” (“allgemeine Geldwert”) is meant in the sense of the “purchase power of money” (“Kaufkraft des Geldes”). His point is that it is misleading to think that the price of something is determined just by the seller or the buyer or by a combination of the two. The price is also influenced by the value of the money. While we may like to think that the value of money is stable, there are many factors which influence that currency’s value. This is evident in the international exchange rate, but it also applies in terms of one’s own currency. These factors may include the amount of money and the rapidity of it in circulation, as well as economic and political factors. It can also be impacted by the demand as well as the supply reacting to changes in the demand. He also adds that the change in price and the amount of interest required can also influence the value of that money (Hayek 2016, pp. 49–51). Hayek returns to his discussion about the theory of conjuncture before coming back to the concept of money. He not only

bemoans the lack of a credible theory of money; he complains that economic theorists tend to conceive of the “money economy” (“Geldwirtschaft”) as being similar to the ideal of the “natural economy” (“Naturalwirtschaft”) (Hayek 2016, p. 53). Hayek concludes with some observations about how erroneous it is to think that the value of money is stable; after all, economics shows that there are major swings in terms of prices, costs, and interest rates as well as differences in production capacity and the rate of capital investment. Hayek insists that these factors are sufficient to indicate that there is no closed economic system. As a result, he concludes “These effects no longer reside within the narrow area of monetary theory even if they are determined by monetary causes”. (“Diese Wirkungen liegen aber nicht mehr in dem engeren Gebiet der Geldtheorie, wenn sie auch durch monetär Ursachen bedingt sind”). (Hayek 2016, p. 55). With that, Hayek concludes his examination of the theories of money and spends the remainder of his work on banks, credit, price, interest, and finally, banking statistics (Hayek 2016, pp. 60–71, 72–73, 77, 82–93, 98–99). Hayek would continue to mention money with respect to other issues, like the notion of “neutral money”; however, he no longer was preoccupied with developing a theory of money.

5. Concluding Thoughts

There are a number of tantalizing questions which remain from this exploration of Menger’s and Hayek’s views on money. Why did Menger retreat from the public view when he retired in 1903? What did he think about the inclusion of the article on the state theory of money in the 1909 edition of the *Handwörterbuch der Staatswissenschaften*? Finally, what would he have said had he lived to see his “Geld” article replaced by von Wieser’s article? What would Menger’s reaction have been to learn that his disciple not only accepted but that von Wieser appeared to have endorsed the state theory of money? This was not some minor issue but a major battle that Menger had fought against for years. These questions are difficult to answer, but one might suggest that it was because of personal reasons that Menger did not wish to be involved in public disputes and he would have been disappointed to learn that his article on money had been replaced. Most importantly, Menger would most likely have been appalled that his theory was replaced by the statist theory of money.

Hayek’s views also raise a number of questions. Why did the investigations into money remain incomplete? What would the scholarly community have said of Hayek’s *Vom Ziel der Geldpolitik* if the publisher Gustav Fischer had accepted it? (Hayek 2015, pp. 531–32). More importantly, how would economic theorists have responded to Hayek’s *Geld und Kredit als Grundlage der Verkehrswirtschaft* had Oskar Siebeck agreed to Hayek’s proposal? (Hayek 2015, pp. 533–34). Finally, what would have Hayek’s “big textbook on money” looked like if he had written it?⁷ Again, answers to these questions are speculations, but one could suggest that Hayek was diverted from finishing this work. There is almost no way of guessing how other economists might have responded to Hayek’s theories. But there is little doubt that if he had written his “big book” on money, it would have caused some controversy. There is no question that Menger and Hayek were two of the greatest economic theorists of all time, and they rank as two of the most important thinkers to attempt to construct a credible theory of money.

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Notes

- ¹ In *Hayek A Life*, Bruce Caldwell and Hansjoerg Klausinger mention Menger and money only once, although there is a listing in the Index for a second time, (Caldwell and Klausinger 2022, p. 137) and the missing one is listed as 208. In *Friedrich August von Hayek. Die größten Ökonomen*, Klausinger does not mention Menger’s numerous writings on “Geld”. (Klausinger 2020). In his “Nachwort des Herausgebers”, Klausinger mentions Menger twice, but there is no reference to Menger’s theory of money. (Hayek 2015, pp. 513, 520). In his intellectual biography of Hayek, Caldwell does discuss Menger’s notion of money. However, he focused on the English translation of Menger’s *Grundsätze* and neglected the volume on money that Hayek edited (Caldwell

- 2004, pp. 23–24). I single out Caldwell and Klausinger only because they are among the best scholars who have written on Hayek and would have knowledge of Menger’s writings on money.
- 2 A number of other points need to be made. The complexity of the topic and the style of the German contribute to the lack of clarity. In addition, Menger is sometimes even willing to acknowledge that his account leaves something to be desired. Finally, I want to emphasize that my approach is not as a modern economist but closer to what Menger and the young Hayek were—political economists.
 - 3 Hayek makes his differences with von Wieser clear in his biographical introduction to his edition of von Wieser’s essays. Hayek indicated that von Wieser’s main preoccupation was with the notion of “value” (“Wert”) and that he did not have much regard for the “doctrine of method” (“Methodenlehre”), much to Menger’s disappointment. See Hayek’s “Friedrich Freiherr von Wieser” in (von Wieser 1929, p. XIII). Von Wieser acknowledged the importance of Menger’s *Grundsätze der Volkswirtschaftslehre*, but he did not accord Menger’s *Untersuchungen über die Methode der Sozialwissenschaften* the same importance. Menger’s second book was notable for von Wieser only for its position in the “Methodenstreit” between Menger and Gustav Schmoller (von Wieser 1929, p. 123). Von Wieser’s appraisal is found in (von Wieser 1929, pp. 110–25). It is entitled “Karl Menger”, but it is about Carl Menger and not Carl’s son, Karl Menger.
 - 4 For the history of Hayek’s involvement with Oskar Siebeck regarding the proposed volume see (Caldwell and Klausinger 2022, pp. 251–52). Weber’s own contribution to his series was to be *Wirtschaft und Gesellschaft*, but he had seen the page proofs of only the first three chapters when he died in June 1920. The inside of the cover of my copy of Hayek’s edition of von Wieser’s essays has an entire page proclaiming the second editions of the first volume, which was split into two, with the second volume containing von Wieser’s *Theorie der gesellschaftlichen Wirtschaft*. It also contains an announcement for the second edition of Weber’s *Wirtschaft und Gesellschaft* (von Wieser 1929).
 - 5 It seems fitting that when Hayek wanted his Menger collection reprinted, it was done so by Siebeck. It is also fitting that the Mohr Siebeck company has published Hayek’s German language works.
 - 6 The chapters are not sequential because some of them are missing. See (Hayek 2015, p. 223, note 11).
 - 7 In Hayek’s “Introduction” to *Money, Capital, and Fluctuations: Early Essays*, he wrote that numerous interruptions prevented him from starting and even finishing a number of efforts. He listed his trip to the US, the need to steep himself in monetary history, his appointment to Mises’ institute, and his move to England. The rise of the Hitler regime finally forced the German publisher to abandon his plans for Hayek’s “big textbook on money”. (Hayek 1984, p. 3).

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