Adam Smith as New Founder of The Austrian School of Economics: Reinterpreting Menger's Critique of Smith as An Immanent Critique

Clynton López
Universidad Francisco Marroquín

Although Carl Menger is regarded as the founder of the Austrian School of Economics, I argue that the founding of the Austrian School can be traced directly back to Adam Smith. Rather than transcend Smith's theoretical framework, Menger developed an immanent critique of the Smithian propostion that increasing specialization under the division of labor is the main cause of economic development. I argue that Menger's nascent theory of capital extends, rather than transcends, this Smithian proposition. From this perspective, accumulations of capital are a by-product of more fine-grained specialization under the division of labor.

INTRODUCTION

Adam Smith is considered to be the great father of modern economics. The theme that preeminently makes reference to Smith, in any study of economics, is without a doubt the theory of the division of labor. In his *Republic*, Plato provides a rough outline on a theory on the division of labor, but with very different intent from being a theory on productivity. Adam Smith, in *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776) – hereafter *The Wealth of Nations* – is the first to place the subject of human labour productivity and its relationship with the development of human society at the heart of economics. The famous phrase of the "invisible hand" can imply a teleology that some consider naturalistic and, in the case of the author of this paper, it is considered that it can be regarded as the first great teleology of efficiency and scarcity inherent to the modern age. This phrase and its theoretical implications on the emergence of social order—manifestations of which can be observed, such as the increase in society's wealth and its spillover to the lower social strata—have hidden the relationship capital has with the process of increase in the wealth of a society.

The explanations Adam Smith gives on the growing welfare of the wealth of European nations is based, in the first book of *The Wealth of Nations,* on the theory of the division of labor. Smith's masterful presentation allows for a general understanding of what we can call—as Nozick does—"invisible-hand explanations" (1974, p. 18). Invisible hand explanations are the central feature of the economic tradition that Peter Boettke, in his book *Living Economics* (2012), calls *mainline economics*. The so-called Austrian school will subsequently take this as a crucial feature of its analyses. The explanation on economic growth and the growing welfare of European nations, centered on the growing division of labor, coupled with the explanation of the countries' increased internal and external exchange and the order that emerges from said commercial activity, has left his theory on capital relegated to a secondary place.

Following the teachings of the post-structuralist French schools of the 20th century, it is possible to interpret that every author is a dead author. What this means is that the interpretation of texts, once written, completely escapes the author's original intention and will be interpreted in light of the experiential horizon of the communities that read it. In this regard, the most influential contemporary interpretations of Adam Smith—in part due to some emphasis from Vernon Smith (2016)—have been about how, in some sense, the *Theory of Moral Sentiments* (1759) and *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776) can be interpreted as a continuation of a single work or at least as two complementary works. Probably the two topics relating to Adam Smith most studied today are his view of human beings, their feelings (self-love and sympathy, for example), and of course, the theory of the division of labour with its implications on international trade.

These emphases on Smith's thought—without taking into account all the analysis on jurisprudence, which has also gained strength—in a certain sense have hidden his theoretical development on capital and its relationship with the division of labour, productivity and the growing welfare of European societies.

The main objective of this essay is to reinterpret Carl Menger's critique of Adam Smith in relation to his capital theory as an immanent critique. This implies relocating the emergence of the Austrian School of Economics with Adam Smith's theoretical framework. Although Menger's capital theory emerges as a critique of Smith's, this doesn't transcend Smith's emphasis on specialization under the division of labor as the main cause of economic development. Rather, Menger's nascent theory of capital extends, rather than transcends, Smith. From this perspective, accumulations of capital are a by-product of more fine-grained specialization under the division of labor and, above all, what will later be known in the Austrian School as spontaneous order. The spontaneous order that Hayek develops in the 20th century is nothing other than the invisible hand explanations already present in Adam Smith.

ADAM SMITH: CAPITAL THEORY AND THE DIVISION OF LABOR

In Book II of *The Wealth of Nations*, Smith develops what he calls *On the Nature, Accumulation, and Employment of Stock.* In the introduction of Book II, expounds on this stock (or capital) implying that it is the accumulation of consumer goods. The accumulation of consumer goods is not necessary in a society that is not based on the division of labor; that is to say, a primitive society where each individual provides for himself what he needs and wants. Smith explains it in this way:

> In that rude state of society in which there is no division of labour; in which exchanges are seldom made, and which every man provides everything for himself, it is not necessary that any stock should be accumulated or stored up beforehand, in order to carry on the business of the society. Every man endeavors to supply by his own industry his own occasional wants as they occur (Smith, 1776 [2004], p. 185).

When people are free (in regard to time) to procure for themselves any desire they might have and are entirely responsible of providing for themselves everything that they need or want, the provision of goods is not necessary. Asserting this today is an interpretation of what can be called a state of nature, not referring to physical safety or of property, but to the liberty implied by not being tied to a particular productive task.[1] Human life lived in the absence of the division of labor implies a state of nature and not a state of society. It would seem that for Smith, the introduction of the division of labor facilitates the transition from a state of nature to the beginning of civilization.

The moment Smith tries to explain the beginning of the accumulation of stock or capital and its relationship with the division of labor, a paradox is introduced that will be called the origin of capital paradox. In summation, human life without the division of labor does not need the accumulation of capital because each person's labor in freedom is able to provide for the occasional desires (and needs) of each person. The potential paradox is introduced when Smith adds that "*[a]s the accumulation of stock must, in the nature of things, be previous of the division of labour, so labour can be more and more* *subdivided in proportion only as stock is previously more and more accumulated"* (emphasis added, Smith, 1776 [2004], p. 186).

The potential paradox is that without the division of labor, the accumulation of goods (and materials) is not necessary, but the division of labor cannot arise without first having accumulated a certain level of stock (of consumer goods and of materials to carry out his work) that enables a person to subsist (and work) during the time it takes that person to accomplish a job and then sell it.

> A weaver cannot apply himself entirely to his peculiar business, unless there is beforehand stored up somewhere, either in his own possession or in that of some other person, a stock sufficient to maintain him, and to supply him with the materials and tolls of his work, till he has not only completed but sold his web. This accumulation must, evidently, be previous to his applying his industry for so long a time to such a peculiar business (Smith, 1776 [2004], p. 185).

Why is it important to point out this potential paradox? The answer is simpler than can be imagined. In a certain sense, the capital phenomenon and the division of labor can be explained as an equiprimordiality (*Gleichursprünglichkeit*). This means that it is not necessarily a linear sequence of events in time, but a global phenomenon that includes a process of capitalization and the division of labor. Smith, in *The Wealth of Nations*, makes a constitutive contribution to contemporary economic theory. This is what is called "invisible hand explanations" of social phenomena (invisible hand explanations in Nozick's terminology). These explanations facilitate a general understanding of complex phenomena, but these types of explanations cannot, explicit or implicitly, account for the totality of each and every process that occurs within said phenomenon. Using this type of explanation and understanding the economic phenomenon as a totality is Adam Smith's contribution, but as we shall see, a qualification by Menger is helpful in order to better understand it.

Before introducing and assessing the value of Menger's critique, a brief explanation will be provided on the fundamental concepts of capital according to Adam Smith, or what he calls stock. Smith introduces distinctions in the types of capital in Book II (mentioned above). However, in Book I, Chapter I, "Of the Division of Labor," Smith explains the three main reasons why the division of labor increases productivity: (1) the acquisition of skill; (2) the savings in time commonly lost in passing from one type of work to another; and (3) the accumulation of capital, or as Smith puts it, "the invention of a great number of machines which facilitates and abridge labour; and enable to one man to do the work of many" (Smith, 1776 [2004], p. 6).

The preceding point is the first moment when the theory of the division of labor is constituted as the cause of a process of capitalization. From the specialization derived from the division of labor, a process of machine invention is generated "… the use of machinery employed in it [a production process] (to the invention of which the same division of labour has probably given occasion)" (Smith, 1776 [2004], p. 4).

Subsequently, Smith provides an explanation on the possible reasons of the increase in invention that the division of labor can precipitate. In this discussion, it is possible to intuit that Smith recognizes at least two types of capital: fixed capital in infrastructure and technology (in machinery, for example); and based on the first reason of why the division of labor increases productivity, it is possible to infer a precursor to the theory of human capital.

At the beginning of Book II, Chapter I of *The Wealth of Nations*, Smith introduces his discussion on the types of existing capital. Smith himself states that: "In the first chapter, I have endeavoured to show what are the different parts or branches into which the stock, either of an individual, or of a great society, naturally divides itself" (Smith, 1776 [2004], p. 186).

When the accumulation of one person's stock is not greater than what is needed for the consumption of a couple of days, the general conditions do not exist for that person to set her mind to or establish a mechanism to obtain a profit from that stock. It is only when the accumulation of goods is sufficiently great to support the owner for months, or even years, that the general conditions exist to derive some sort of revenue from that accumulation. Therefore, capital is generally divided into two categories: *"That part* *which, he expects, is to afford him this revenue is called his capital. The other is that which supplies his immediate consumption"* (emphasis added, Smith, 1776 [2004], p. 188).

This essay focuses on the latter distinction of capital, which is dedicated to the generation of the capitalist's revenue, recognizing that, implicitly, the primary purpose of capital accumulation is greater future consumption. Only when the accumulation of stock or goods is sufficient for consumption during a prolonged period of time (months or years) is capital allocated for the generation of revenue. At the same time, this revenue can be used to increase direct consumption or to increase capital which ultimately allows for an increase in future consumption.

The primary distinction applied on capital destined for the production of revenue (independently of the use of the revenue produced) is divided in two: circulating capital and fixed capital. Circulating capital is understood as that portion of capital destined to finance (Smith does not use this word) the process of transformation of goods into sales, and that is permanently being used to withstand the portion of time in which this is accomplished. In modern managerial terminology this is what is called working capital. No revenue is extracted from this portion of capital.

> The capital employed in this manner yields no revenue or profit to its employer, while it either remains in his possession, or continues in the same shape. The goods of merchant yield no revenue or profit till he sells them for money, and the money yields him as a little till it is again exchanged for goods. His capital is continually going from him in one shape, and returning to him in another and is only by means of such circulation, or successive exchanges, that it can yield him any profit. Such capitals, therefore, may very properly be called circulating capital (Smith, 1776 [2004], p. 189).

This portion of capital, even if it does not provide direct profitability, allows for the circulation of goods in the market, which is part of the condition of possibility for the fixed portion of generating revenue. Even though there is no explicit connotation on the temporal element and its relationship with capital, it must be noted that time is implicit in Smith`s discussion both in relation to accumulation and also to the circulation and transformation of capital. Fixed capital has a different explanation and function than that of circulating capital. Without fixed capital, circulating capital would not exist (there would be no goods to trade in the market); and without circulating capital, revenue derived from fixed capital could not be generated because goods could not be transferred from the producer to the consumer or distributor.

Fixed capital (from which no transformation is expected) is invested in "improvement of land, in the purchase of useful machines and instruments of trade" (Smith, 1776 [2004], p. 189). The proportion of fixed capital and variable capital depends on the type of industry in which it was put to work. For example, in the steel industry or in a carbon mine the proportion of fixed capital that is needed for melting and extraction machinery is very different to the proportion of fixed capital that a tailor needs. After this distinction, Smith refers to the type of capital a society in general accumulates.

In this section of Chapter I in Book II, Smith can be considered a great precursor of what today is called human capital. First he carries out a broad division in three that includes accumulated capital (accumulated goods) for "immediate consumption, and of which the characteristic is, that affords no revenue or profit" (Smith, 1776 [2004], p. 190). Smith generates in this section what can be understood as consumer goods. It consists of the accumulation of food, clothes, furniture and housing in ownership. In this section, Smith includes the idea of the duration of the consumption of certain goods, not in the sense Menger will introduce in *Principles of Economics,* but in this section Smith makes it clear that capital (as accumulated goods destined for consumption) has a temporal dimension.

The second type of accumulation of goods, or capital, is defined as fixed capital. Its characteristic is that "it affords revenue or profit without circulating or changing master" (Smith, 1776 [2004], p. 191). For Smith this is subdivided firstly into useful machinery, instruments that facilitate exchange and that reduce the necessity for labor expenditure. Second, fixed capital includes all the buildings used for productive purposes, not only for the owner of the building who collects the rent, but for the person who pays for the right to use it. These buildings, such as shops or warehouses, are different from dwelling houses, which are consumption in the first division of capital. Third, fixed capital refers to those improvements that enhance the production of the farm. The fourth subdivision of fixed capital consists of, anticipating Gary Becker (1964), "the acquired and useful abilities of all the inhabitants or members of society" (Smith, 1776 [2004], p. 191).[2] Smith goes on to say that "the acquisition of such talents, by the maintenance of the acquirer during his education, study or apprenticeship, always cost a real expense, which is a capital fixed and realized as it were in his person" (Smith, 1776 [2004], p. 191).

The third division of capital accumulation of a society is circulating capital. Its defining feature is that "*it affords a revenue only by circulating or changing masters*" (Smith, 1776 [2004], p. 192). At the same time, Smith subdivides circulating capital into four subcategories: the money used to make goods circulate; stocks of provisions and different types of inventory of goods (goods in process and finished goods).

Later he devotes a chapter to the different uses into which capital can be classified. These are:

> First, the rude produce annually required for the use and consumption of the society; or, secondly in manufacturing and preparing that rude produce for immediate use and consumption; or, thirdly in transporting either the rude or manufactured produce from the places where they abound to those where they are wanted; or lastly in dividing particular portions of either into such small parcels as suit the occasional demands of those who want them (Smith, 1776 [2004], p. 252).

According to Smith, the use of capital in a way that does not fall within these categories is practically impossible.

In essence, this is Adam Smith's theory of capital contained in *The Wealth of Nations*. Potential problems can be found in his theory on the origin of the division of labor. Moreover, there is neither classification of capital according to its time to maturity (risk and profitability), nor does he classify fixed capital for labor-intensive processes or other capital-intensive processes. Presumably, the technological development of the time did not permit a glimpse into the future uses of pure capital, or the other prevailing interpretation, that in Smith capital is subordinated to the processes of the division of labor and their productive effect (besides abridging labor) derives principally from the possibility of deepening that division (considered in conjunction with the size of the market).

MENGER'S CRITIQUE OF SMITH

Carl Menger has two important texts in which he openly criticises Smith. The first and better known is section 5 of Chapter I in *Principles of Economics;* and the other, less known text is *Zur Theorie das Kapitals* (*On the Theory of Capital,* 1888 [2007]). This essay focuses on the open criticism of the first text, although reference will be made to the other without it becoming focal to the analysis.

Adam Smith in Chapter I of Book I of *The Wealth of Nations* makes it clear that the division of labor is at the center of his economic theory. The opulence achieved by European nations, if not in their totality, is dependent in good part on the division of labor, and to a lesser extent to the capacity of accumulating stock (capital) and its relationship with the division of labor as detailed in the previous section.

Menger states: "In such a manner Adam Smith has made the progressive division of labor the central factor in the economic progress of mankind—in harmony with the overwhelming importance he attributes to labor as an element in human economy." He continues and very respectfully says: "I believe, however, that the distinguished author I have just quoted has cast light, in his chapter on the division of labor, on but a single cause of progress in human welfare while other, no less efficient, causes have escaped his attention" (Menger, 1871 [1997]).

Subsequently, Menger elaborates the classical exposition on the primitive Australian tribe that could divide the tasks of its members according to the principles of the division of labor. This tribe, even though it would divide the work according to established theoretical principles, could surely increase its product and at a lower cost, "But this improvement is very different from that which we can observe in actual cases of economically progressive peoples." (Menger, 1871 [1997], p. 72-73)

Why does Menger assert that the division of labor by itself does not permit the achievement of the prosperity of progressive economies? This is where the Mengerian critique of Smith is developed. For Adam Smith, the prerequisite of the division of labor is a certain degree of accumulation of stock that makes it possible to "finance" the process of transformation of labor into goods ready for consumption. In Mengerian terminology, this accumulation is simply of goods of the first order, or consumption goods. This accumulation will only make possible, in any case, the division of labor, but will not increase its productivity.

Menger calls goods of the second order—and third and fourth (so on and so forth)—those goods that have no direct relationship with immediate consumption, but that are nonetheless goods. These goods have a causal relationship with consumer goods. These goods can be referred to today as capital goods. In Joseph Keckeissen's words—Ludwig von Mises seminar alum—"they are machines that produce machines". Capital goods are those goods destined for the production of other goods that have a mediate relationship with consumer goods. In Smith, the closest one gets to this concept appears in the section of the basic division into types of capital and what he refers to as fixed capital destined for the generation of revenue or profit. Under the subdivisions he includes machinery, buildings, improvements to farms, and job skills (i.e. human capital). From the way that Smith explains it, it is not possible to discern (nor is it clearly shown) a process of production of **capitalization** in capital goods, or what Menger calls goods of higher order. These goods of a higher order, accumulated thanks to the sacrifice of present consumption, allow a society to become more productive in the long term and to increase its general welfare.

Menger explains that another factor that is extremely important in the growing welfare of developed or European nations—in the text it is possible to sense what will subsequently be called, from French post-structuralism onward, Eurocentrism—is due also to a large extent to the accumulation of capital goods or goods of higher order:

> Assume a people which extends its attention to goods of third, fourth, and higher orders, instead of confining its activity merely to the tasks of a primitive collecting economy—that is, to the acquisition of naturally available goods of lowest order (ordinarily goods of first, and possibly second, order). If such a people progressively directs goods of ever higher orders to the satisfaction of its needs, and especially if each step in this direction is accompanied by an appropriate division of labor, we shall doubtless observe that progress in welfare which Adam Smith was disposed to attribute exclusively to the latter factor (Menger, 1871 [1997], p. 73).

Menger, contrary to Smith (who in the explanation of the origin of the division of labor and the increase in the standard of living of European nations, attributes it to a *simple* cause), develops an invisible hand-like explanation of capital formation, as a precursor to what Hayek would call spontaneous order or cosmos, and in a certain sense a continuator (in a different way, but in the same tradition) of the invisible hand explanations of Adam Smith.

> The further mankind progresses in this direction, the more varied become the kinds of goods, the more varied consequently the occupations, and the more necessary and economic also the progressive division of labor. But it is evident that the increase in the consumption goods at human disposal *is not the exclusive effect of the division of labor. Indeed, the division of labor cannot even be designated as the most important cause of the economic progress of mankind. Correctly, it should be regarded only as one factor among the great influences that lead mankind from barbarism and misery to civilization and wealth* [emphasis added] (Menger, 1871 [1997], p. 73).

Menger's interpretation is manifested in the previous quote, in which—despite the emphasis of this author on capital—he makes clear that it is not possible to place in a sole or simple phenomenon the cause of the growing wellbeing of developed (or European) countries.

Menger's central critique of Smith is that the division of labor is necessary, though not sufficient, for the opulence of nations. He never denies that the division of labor increases output and abridges labor, but explains that without the accumulation of goods of higher order (capital goods) dedicated to the production of other goods, the sustained increase in opulence is impossible. With greater specialization under the division of labor, capital accumulation and a lengthening of the structure of production emerges as a by-product to further generate even greater refinements in the division of labor.

In *Principles of Economics,* Menger does not develop a direct critique of the theory of capital. He only develops a critique of the consequences of positioning capital in a subordinate place to the division of labor. In his text *The Theory of Capital* of 1888 he does develop a critique of Smith's theory of capital. Among several elements under discussion, a fundamental critique is Smith's attempt to explain capital as productive assets that generates a third form of revenue for societies:

> …the intention that led Smith to his doctrine on capital, did not consist in determining the real concept of capital, rather it was his desire of establishing a third source of income (the one referring to the product dedicated to subsequent production), opposed to the pure nature factor and to labor without costs of capital, and place it in his theory of rent.[3]

This critique of Smith is aimed at his incapacity to recognize capital goods as Menger understands them; that is to say, goods of a higher order. These goods of a higher order take time to form and mature. A perfect contemporary example is human capital[4]. Smith recognizes this, but he cannot envisage that dimension of capital goods as producers of other goods dedicated to production. Menger introduces the distinction of capital as heterogeneous and disqualifies Smith's classification of capital destined for consumption (fixed and circulating). According to Menger, these distinctions generate more confusion when they get mixed up with the discussion of money. Menger recognizes that Smith's investigative work could not foresee the emergence of a capitalist society as he sees it in 1888. The descriptions—almost phenomenological—that Smith puts forth on the division of labor, the effect of foreign trade and the rudimentary use of capital are circumscribed in a practically pre-revolutionary era:

> Finally, I would have to mention that the problems of the economic theory as proposed by the Physiocrats and Adam Smith—in part following and in part opposing them—were not the result of the analysis of the economy in its current development; rather, the analysis was centered mainly in small and medium sized businesses and in the technical aspect of production as determinant cause of the economic success of said businesses. An interpretation of capital, the distribution of income and price phenomena as found in Smith's work, a result of a hasty interpretation of the capitalist era, would be unthinkable today[5].

MENGER AND SMITH: A HEGELIAN VERSION.

Carl Menger is usually considered the father of the Austrian School of economics, above all in his debate on method with Gustav Schmoller of the German Historical School. After Menger, new thinkers emerged such as Wieser, Bohm-Bawerk, and subsequently Mises, Hayek, Rothbard, and Garrison—to name a few important writers. Perhaps the main point of this section of the essay is to propose a hypothesis to be developed in the future, on the origin of the Austrian school. The origins (as interpreted from a Derridarian perspective) appear to be not so simple. The case of the Austrian School is not an exception. Menger (contrary to Rothbard, for example) can be considered a Smithian in economics. From this point on, it can also be understood—in a certain sense—that Menger's critique of Smith regarding capital and its implications, is an immanent critique and therefore, the origin of the Austrian school of economics can be placed in a Smith-Menger duality.

Menger, contrary to other Austrian writers such as Mises or Hayek, was not a prodigious writer. His *Principles of Economics* and *Investigations into the Method of the Social Sciences* (1883 [1985])—plus the essay on capital—sum up effectively the totality of his written work. The references to Smith and the Smithian school—as he calls it—in all his work allow for an interpretation of his œ**uvre** as a constant dialogue with Adam Smith.

Menger, when he was tutor of Prince Rudolf of Austria chose, among the existing theoretical material available for the economic tutoring of the prince, Adam Smith. Menger was in a difficult position: he had to educate the crown prince in a conservative environment, probably anti-liberal, and he knew, therefore, that the topics would be controversial. In this environment, Menger did not choose Karl Heinrich Rau's text (the equivalent in Austria to Samuelson's *Economics);* rather, he used *The Wealth of Nations* in place of the classical German text on economics.

> The whole framework of the lectures and most of the arguments are taken from Adam Smith´s *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776) … Was it because someone … had suggested Adam Smith as an appropiate source? Or was it because Menger himself admired Adam Smith so much that he thought one could not better him in essentials? (Streissler y Streissler, 1994, p. 6).

Within the political context of the time, for the supervisors of the prince's education (the conservative groups) during an economic recession in Austria it could be interpreted as a safe choice to use *The Wealth of Nations* as the main text for the education of the prince. However, in a broader context, Menger's work can be interpreted differently. It is likely that Menger was in a way a Smithian; from where (without it being the only point of departure of his economy) he develops a new economy and, in a certain sense, a very traditional one.

> Still, to stick as closely to Adam Smith as Menger did was quite unnecessary; Rau, who was very strongly influenced by Adam Smith, had not done so. Close study of the Notebooks shows that in fact they follow mainly Book I of Adam Smith´s Wealth of Nations with minor variations, and a little else. Frequently, the exact idea and the exact course of argument of Smith are presented, so that one can be absolutely sure that Menger consulted and used this work (Streissler y Streissler, 1994, p. 7).

Could Menger's position on capital in relation to Adam Smith be interpreted under a Hegelian perspective? That is to say, as an antithesis, and therefore, an immanent development? If these questions can be answered, tentatively, with a yes—as a hypothesis, and as a function of dedicated research**—**it could be **argued** that the father of the Austrian school of economics would be Adam Smith.

Under contemporary philosophy (especially Continental) the issue of identity—be it cultural, philosophical or economic—is constituted from differences. One understands oneself with an identity in relation to the differences compared with another. Is the Austrian school of economics founded by Menger equal to itself? That is to say, is it a completely original creation emanated from Menger's subjectivity? Zizek, while developing a different topic, refers to identity (as mentioned above) in order to solve the problem of identity (and in this case the origin):

> ***[The theoretical purist] is not able to understand that each one of the two active cultures in this communication is prisoner of an intimate antagonism that precludes it from becoming itself fully…*** **Does this mean that the solution lies on admitting the hybrid character of identity?[6] (Zizek, 2012, p. 61)**

Before focusing attention on the solution, the problem must be explained. Basically, the problem consists of considering the Austrian school as a purely theoretical constitution, removed from the theoretical developments of the classical school. This position alienates it from what Boettke calls mainline economics and reduces its influence on today's world of economics. The central point of Menger's critique of Smith's theory of capital serves to exemplify the intimate relationship and that in a certain sense (the invisible hand explanations) the theories of the Austrian school rooted in the Menger tradition are a continuation of the Smithian school. Viewed differently, the Austrian school was founded by Adam Smith and its continuators are Carl Menger and Hayek.

This interpretation will conclude with the radicality the Austrian school can take and that alienates it from contemporary economy's sphere of influence. This hypothesis or interpretation of the intimate relationship between Menger and Smith is only the beginning of a new investigation.

CONCLUSIONS

Adam Smith, in his intellectual relationship with mercantilism and the physiocrats, can be understood, in a certain sense, as the founding father of the Austrian school. Menger can be understood, in a way, as an economic theorist closely related to Adam Smith and what is called the Smithian school. Menger's work can be understood as an intimate reaction the Smith's thought and, therefore, the Austrian school—**which derives from his studies—**as a continuation of the Smithian school; or it is possible to view Adam Smith as the father of the Austrian school. Dominant versions on the Austrian school of economics call for some degree of purity in said school in relation to other economic schools, including from Adam Smith himself. A concrete example of this is the case of Murray Rothbard. Highlighting these recent tendencies radicalize the Austrian school and limit the dialogue it can have with *mainline economics* and exclude it from the spheres of influence in economics. Further research on Menger's œuvre (beyond only the theory of capital) remains open in order to be able to interpret with a higher degree of plausibility this hypothesis of Adam Smith as father of the Austrian school. The loose Hegelian interpretation of dialectic exemplified in Zizek's idea of the hybrid identity—and the contribution of the French post-structuralism—allows Adam Smith, Carl Menger and the Austrian school of economics to be seen in a new light.

At present, Adam Smith's theory of capital in relation to Menger's theory of capital have fallen in disuse (even though the contemporary Austrian school uses the theory of capital as a distinctive feature). Reading them again in their intimate yet contradictory relationship can revive these important ideas of history economic thought and serve as guides for new theoretical developments today.

It is not only the tradition of experimental economics pioneered by Vernon Smith that can claim direct lineage back to Adam Smith. The Austrian tradition can also claim a direct link with the founding father of modern economics and therefore—as an unintended consequence—an intimate yet contradictory relationship between the Austrian school of economics and the experimentalist tradition.

Several avenues of exploration remain open for the rereading of Adam Smith.

ENDNOTES

1. In the Marxist tradition, the division of labor is interpreted as an imposition of the productive structure on the mind of man. Limited to dedicating his mind, time and life to one activity, man is prevented from turning his mind, his time and his life to an innumerable number of activities that he could undertake. Marginally, this assertion by Smith could be the one of the sources of the Marxist tradition's interpretation.
2. It is important to mention that Solow (1988), in his conception of technology (broadly defined), for his theory of economic growth includes also what can be called human capital. This can be traced back to his seminal article, "A Contribution to the Theory of Economic Growth" (1956).
3. My own translation from the following Spanish version: "la intención que condujo a Adam Smith a su doctrina del capital, no consistía en determinar el concepto real del capital, sino que fue más bien su afán de establecer una tercera fuente de ingresos (la del producto dedicado a la producción posterior), opuesta al factor de la naturaleza puro y al trabajo sin gastos de capital, y colocarla dentro de su teoría de la renta (Menger, 1888 [2007], p. 201)."
   Menger offers this explanation on the third origin of a source of income because he sees in the Smithian school a potential problem. This potential problem is derived from the theme of what is natural. On this Menger states: "What Adam Smith and his school ignored is above all the important fact that the classification of goods into pure things derived from nature and into products, are in effect significant in regard to questions of the technical origin of the goods, but irrelevant, however, in the economic sphere." (p. 198)
   Own translation from the following Spanish version: "Lo que Adam Smith y su escuela pasaron por alto es sobre todo el importante hecho de que la clasificación de los bienes en cosas puras de la naturaleza y en productos, en efecto es significativa en las cuestiones de origen técnico de los bienes, pero irrelevante sin embargo en el sentido económico."
4. Menger, in the footnote in page 16 of On Capital—Sobre el capital in Spanish—says: "While A. Smith as a rule recognizes as goods only material objects, nonetheless refers to as capital, in an inconsequent manner, the professional training of the labor force originated by labor expenses and capital expenses." Previously, Menger states: "I do not want to discuss here whether the ability to work in general can be interpreted as an asset or as capital." (Menger, 1888 [2007], p. 194)
   (Own translation from the Spanish version. The Spanish version is as follows: "Mientras A. Smith por norma, reconoce como bienes sólo cosas materiales, denomina no obstante capital, de forma inconsecuente, a la formación profesional de la fuerza laboral originada por gastos de trabajo y gastos de capital". Anteriormente Menger dice: "No quiero discutir aquí si la capacidad de trabajar en general puede ser interpretada como patrimonio o como capital".)
5. Own translation from the Spanish version: "Finalmente tendría que mencionar que los problemas de la teoría económica como los plantearon los fisiócratas y Adam Smith —en parte siguiéndolos y en parte en oposición a ellos— no eran el resultado del análisis de la economía en su desarrollo actual, sino que el análisis se centraba principalmente en las pequeñas y medianas empresas y en el aspecto técnico de la producción como causa determinante del éxito económico de dichas empresas; una interpretación del capital, de la distribución de la renta y de los fenómenos de los precios como se encuentra en la obra de Adam Smith, resultado de una interpretación precipitada de la época capitalista, sería hoy impensable (Menger, 1888 [2007], p. 207)."
6. Own translation from the Spanish version: [El purista teórico] no consigue comprender que cada una de las dos culturas activas en esta comunicación es prisionera de un antagonismo íntimo que le impide llegar a ser plenamente sí misma … ¿Significa esto que la solución está en admitir el carácter híbrido de toda identidad? (Zizek, 2012, p. 61).

REFERENCES

Alter, M. (1990). What do we know about Menger? B. J. Caldwell (ed.), *Carl Menger and his legacy in economics,* Durham: Duke University Press.

Boettke, P.J. (2012). *Living economics: Yesterday, today and tomorrow*, Oakland and Guatemala City: Independent Institute and Universidad Francisco Marroquín.

Becker, G.S. (1964) *Human capital*, New York: Columbia University Press.

Menger, C. (1871) [1997]. *Principios de economía política,* Madrid: Unión Editorial.

Menger, C. 1883 [1985]. *Investigations into the method of the social sciences*. New York: New York University Press.

Menger, C. (1888) [2007]. Sobre la teoría del capital. *Procesos de Mercado,* 4, (1), 177-228.

Menger, C. (1994). *Carl Menger's lectures to Crown Prince Rudolf of Austria*, E.W. Streissler & M. Streissler (eds.), Aldershot: Edward Elgar.

Nozick, R. (1974). *Anarchy, state, and utopia*, New York: Basic Books.

Rothschild, E. & Sen, A. (2006). Adam Smith's economics. K. Haakonssen (ed.), *The Cambridge Companion to Adam Smith*, New York: Cambridge University Press.

Smith, A. (1759) [2004]. *La teoría de los sentimientos morales*, Madrid: Alianza Editorial.

Smith, A. (1776) [2004]. *The wealth of nations*, New York: Barnes & Noble.

Smith, V.L. (2016). The fair and impartial spectator. *Econ Journal Watch*, 3 (2), 330-339.

Solow, R.M. (1956). A contribution to the theory of economic growth. *The Quarterly Journal of Economics*, 70 (1), 65-94.

Solow, R.M. (1988). Growth theory and after. *American Economic Review*, 78, (3), 307-317.

Streissler, E.W. (1990). Carl Menger on economic policy: The lectures to Crown Prince Rudolf. B.J. Caldwell (ed.), *Carl Menger and his legacy in economics*, Durham: Duke University Press.

Zizek, S. (2012). *En defensa de la intolerancia,* Madrid: Ediciones Sequitur.