The Review of Austrian Economics (2023) 36:289–310
https://doi.org/10.1007/s11138-022-00595-8

Diamonds are not forever: Adam Smith and Carl Menger on value and relative status

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Accepted: 30 August 2022 / Published online: 4 October 2022

Abstract
The differences on value between Smith and Menger may be other from previously alleged if status is included as a need satisfied only by truly scarce goods. Given our innate desire to distinguish ourselves and be admired, Smith tells us that scarcity is what generates value. So, our desire for distinction is what drives our demand for "diamonds" and gives them value. But when "diamonds" become as abundant as "knitted stockings", new forms of scarce status goods must be found. For Menger, value is also a dynamic, evolving "institution" that cannot be understood in a static analysis dealing only with supply and demand at a given moment. But abundance, for Menger, would simply allow us to fulfill higher-level needs. Thus, Smith, but not necessarily Menger, could explain why, as diamond rings, Prada shoes, and Gucci bags can be easily mass produced in identical but "fake" copies, irreproducible goods, such as charity donations and claims on digital art, are taking their place to indicate status in society.

Keywords Adam Smith · Carl Menger · Value · Social status

JEL classifications A13 · B12 · B13 · D46

In November 2021, Colombia saw its first Christie's endorsed auction of "crypto" art. The profits went to charity. Why would anybody buy not a piece of art but a blockchain certificate of authenticity of a piece of art? And why would anybody devolve the profits of the sale to charity? We suggest that different theories of value would generate different answers. In particular, that a Smithian-like theory of value would be able to explain both choices, while a Mengerian-like theory of value would face difficulties in explaining them.

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For Carl Menger, value is a relational link between a good and its ability to satisfy the needs of one individual.[1] For Adam Smith, value may be interpreted as a more complex relation between what satisfies someone's need and others. A need, for Smith, is physical, but most importantly it is social. To explain value, Menger always starts by assuming individuals are on a desert island. Smith's individuals are instead always in society, always social beings, and always in mutual need of social recognition. So, for Smith, a good, not only satisfies a need, but satisfies a need given the presence of others. We claim that this difference in whether an individual can be thought of as an isolated Robinson Crusoe or whether a person is a social being who cannot be thought outside social interactions creates the base of the differences in the theory of value, and their explanatory power, between Menger and Smith.

Often in the literature, since David Ricardo ([1817] 2004; but cf. Schumpeter, 1954, p. 188–89; O'Donnell, 1990), Smith's theory of value is portrayed as based on costs of production, or on some form of a labor theory of value.[2] Menger made his claim to fame in economics for his ability to explain value as subjective. Menger's value theory has been thus purported as different and superior to Smith's (in particular, see Rothbard, 1995). We offer an alternative view.

As we will show below, relative scarcity is key to value for both Smith and Menger. Menger focuses on the priorities that individuals satisfy with more or less scarcity. For Smith, those priorities are not just physical needs, but needs linked with social recognition. This allows Smith to explain decisions that may run counter Menger's logic. Smith's theory of value can explain why people may give up their lives for the pursuit of glory, or why they may ruin themselves for the pursuit of trinkets and baubles. Menger's theory, as expressed in his *Principles*, may run into dead ends when faced with satisfaction of needs within a social context, or needs related to our social beings and our social existence. The subjectivity of needs, which Menger in *Principles* identifies as arbitrariness (Menger, [1871] 2007, p. 119), is not in question here. The nature and definition of those needs is.

[1] Becchio (2014), following the second edition of the Principles, adds Menger's extension of this definition to include "the perception or anticipation of a human need" (p. 249) and the existence of collective goods, those that satisfy the needs of human associations (i.e. public goods), and goods of human associations that assume an independent life and are not reducible to the aggregation of individuals (Becchio 2014, pp.250–1). This extension does not change our argument as it keeps the fundamental relation between a good (common, collective or goods of human associations) and the economic agent (individual, collective or human association).

[2] John Henry (2000, p. 2) gathers textual evidence about this consensus of Smith's theory of value based on costs of production. There has also been an important literature trying to make clear the confusing and confused theory of value in Smith. For an early discussion of these confusions and attempts see S. Kaushil (1973). A recent compilation of this discussion can be found in the 4th virtual issue of the Journal of the History of Economic Thought (2021) (https://www.cambridge.org/core/journals/journal-of-the-history-of-economic-thought/virtual-issues/views-on-adam-smith-s-labor-theory-of-value).

1 Menger's vindication of Smith

This difference from Smith might have gone unnoticed to Menger, who considered the Scottish thinker a central figure of classical political economy and defended his legacy in economics and for political debates of the times. On the centenary of Adam Smith's death Menger ([1891] 2016, p. 474) remarked how classical political economy had come to be considered as "capitalistic, atomistic, abstract, and against the people" in "German science" due to the attacks it had received from figures such as Friedrich List, Ferdinand Lasalle, "scientific opponents of the progressive bourgeoisie" and other "hateful opponents" and "agitators pursuing practical goals". In this hostile environment, the centenary of Adam Smith's death was far from the commemoration of the death of this "great master" (Menger, [1981] 2016, p. 473).

Menger's 1891 press article is to be read, as Erwin Dekker and Stefan Kolev (2016) remind us, within the context of a political battle involving the "roll-back of liberalism, even in the noblest sense of the word" (Menger, [1891] 2016, p. 475). It is clear for Menger that the perceived refutation and dismissal of the "Smithian system", associated with the "decline of the old, and the victory of the new political economy", was "a fact of wide-ranging political significance" (Menger, [1891] 2016, p. 475). The disconnection of the liberal party from political science had meant, according to Menger, the loss of its "footing and leadership in economic matters as well as its belief in its own economic program" (Menger, [1891] 2016, p. 475).

Menger sets out to straighten misunderstandings letting classical political economy speak for itself and avoiding the prevalent confusion between the Smithian system and Manchesterism, asserting that there is not a "substantive contrast between Social-Politik in Germany" and classical political economy (Menger, [1891] 2016, p. 475–81). The one-sidedness of Manchesterism that could be associated with the defense of laissez-faire contrasts with Smith's clear defense of state intervention against legal privileges that "oppress the poor and the weak in favor of the rich and the powerful" (Menger, [1891] 2016, p. 475). This strong stance is not contrary to Smith's praise of individual free initiative in economic matters (Menger, [1891] 2016, p. 475).

On the contrary, a system of natural liberty, that respects individual decisions and allows individuals, in particular, workers to decide where to live and work following their interest and guided by prudence, is the most beneficial arrangement for "the poor and the weak" (Menger, [1891] 2016, p. 476). Defending high wages and even state intervention that preserves fair income for the laborers or when individual or class interests "contradict the general interest", according to Menger ([1891] 2016, p. 476, 480, 482–3), shows that Smith's stance "is sometimes more progressive than that of any modern 'Social-Politiker'", contradicting the prevailing view of a "capitalistic" science "against people" or of Smith as "an enemy of labor" or as a "doctrinaire of 'laissez faire, laissez aller'" (Menger, [1891] 2016, p. 477, 480).

The difference then between classical political economy and the "modern school of Social-Politik" is not related to their concern about the well-being, associated with labor conditions, of wage earners but rather to the level of state intervention needed to counter and dismount existing institutional privileges contrary to this aim (Menger, [1891] 2016, p. 482). Moreover, this difference should be traced to the historical context in which each school developed, explaining Smith's and his disciples' focus on a "negative" rather than a positive program (Menger, [1891] 2016, p. 482–3).

A central point, however, that remains true for Menger and shows the superiority of classical political economy over Social-Politik, is its understanding of the causes of well-being of the working classes, in particular, "the progressive accumulation of capital and [on] the entrepreneurial spirit" (Menger, [1891] 2016, p. 484). Increasing wages depend on "capital accumulation and an increase in productive activities" (Menger, [1891] 2016, p. 484). The important difference, and where the superiority of classical political economy lies, according to Menger, is that it does not advantage any particular class interest and thus avoids "class struggle that, as seen from the perspective of society as a whole, is unproductive" (Menger, [1891] 2016, p. 487).

This neutrality can be associated precisely with the connection between capital accumulation, the advancement of productive processes and the improvement in living conditions and well-being. Menger's vindication of Smith only focuses on the latter's concern for the material conditions of the laboring poor. Menger leaves aside the accusation of Smith's atomism. But it is not only because Smith aims at explaining why market society offers better opportunities and living conditions to wage earners that his theory is not atomistic. It is especially because his theory considers individuals as social beings, beyond being part of a certain social class, that Smith cannot be accused of atomism, even if Menger does not recognize it.

The concern Menger recognizes in Smith about the living conditions of all members of society and which he associates with the connection between capital accumulation, production processes, and living conditions can be found in Menger from the foundations of his explanation of economic laws. Living conditions can be improved when more advanced production processes allow satisfying more needs for more people. This is directly based on his theory of value, which establishes a causal connection between the ability of a good to satisfy human needs and its value.

2 Menger's technical and Smith' relational approaches to value

Menger, as tutor to the Austrian Crown-Prince, drew heavily from Book I of Smith's Wealth of Nations ([1776] 1981) for his lessons, preferring to use well- known economic books rather than his own (Streissler & Streissler, 1994, p. 6). In the introduction to these Lectures, the editors present Menger as a "classical economic liberal of the purest water, an economist, furthermore, who worked from an intimate knowledge of Adam Smith" (Streissler & Streissler, 1994, p. 4). This intimate knowledge is also mixed with omissions and what seem to be minor changes in the presentation which the Streisslers identify as "a fascinating insight into Menger's own priorities" (Streissler & Streissler, 1994, p. 9) even if it implied teaching the "exact opposite" in value theory to what "he had forcefully argued was the only possible correct theoretical position" (Streissler & Streissler, 1994, p. 9).

This opposition would refer to Smith's alleged objective value theory based on costs of production and Menger's subjective value theory based on utility. However, it is possible to advance that this view of Smith's value theory leaves aside a major feature of his explanation of value related to the reasons why individuals value goods. These reasons include the value individuals give to goods because of how they make them appear in the eyes of others. This relational aspect of value seems to be absent from Menger's account.

Even if Menger gives a central role to the social process of discovering and accumulating knowledge about the ability of a good to satisfy needs, this ability is always related with satisfying the direct needs of material subsistence and to improve well-being in a rather individualistic sense. Instead, Smith associates the satisfaction of needs with consumption with others or, more precisely, in the eyes of others.

Richard Wagner (2014), in defining entangled political economy, traces back to the marginalists the detangling of economics from other aspects of human existence and the building of a Robinson Crusoe-like individual. Wagner criticizes the "separate islands" approach, suggesting instead to consider not just one aspect of human beings in isolation but the unavoidable entanglement of them, like Adam Smith did.[3]

Similarly, Smith and Wilson (2019), trace back to the marginalists, with the possible exception of Menger, the creation of a homo œconomicus, abstracted from his context and from others. They look back at Smith, suggesting bringing back the human side of homo œconomicus. They recognize that context matters, that the other matters, that the interpretation of the agent and of others matter. We expand and refine their insights, showing that Menger too is part of that trend that led to the creation of a homo œconomicus conceived as an isolated Robinson Crusoe, while for Smith people remained unconditionally social beings (see also Bee & Sternick, 2022). We show that this difference manifests clearly in their differences in their theories of value.

Menger's explanation of value focuses mainly on the link between the individual's needs and the capacity of an object to satisfy those needs. The same analytical link explains collective goods and the goods of human associations (Becchio, 2014). For Smith instead, the link is not just between an individual and an object, but between a person, an object, and the presence or absence of the approbation of another person. Think for example about the consumption of precious metals and stones. They are valued and wanted because of their beauty as ornaments (WN I.xi.c.31–32: 189–191). But that beauty comes from the attention others pay to them, Smith tells us. Those who can purchase these ornaments are the wealthy who want to parade their riches "which in their eyes is never so compleat as when they appear to possess those decisive marks of opulence which nobody can possess but themselves" (WN I.xi.c.31: 190).

[3] It would not be possible in Smith to separate economic theory from economic sociology, as it might be in Menger. We thank E. Dekker for pointing out that even if Menger's revision of the Principles for the second edition includes some of his views about the social elements needed to improve economic theory, Menger isolated the social dimensions to build an economic theory that accounted for the relation between subject and object, stressing on the institutional rather than the interpersonal process of the formation of needs. Thus, Menger conceives economic theory and economic sociology as distinct analyses of human behavior.

3 Robinson Crouse v vanity

Let's first look at Menger's theory in more detail. Menger explains in his *Lessons* to the Crown Prince that "all interests and endeavours of man are directed towards one end, namely satisfying needs in the best possible manner" (Streissler & Streissler, 1994, p. 75). Goods are useful if they satisfy needs. The connection between goods and needs is thus determined by the ability of the good to satisfy a need, and this connection describes the causal link between the need and the good wherein value is found. Thus, even if value "is very difficult to define once and for all", the meanings of value Menger gives in the *Lessons* rely on this causal link (Streissler & Streissler, 1994, p. 73, 75). The diversity of meanings is related to personal standards of value "based on […] most personal preferences" which can only be overcome "according to civilized people's longstanding experience and needs" (Streissler & Streissler, 1994, p. 75). This cumulative process, of understanding and knowing the precise link between needs and goods, leads to fixing values and establishing the influence scarcity and urgency have on the measure of the value of a good. As people learn, social knowledge about the properties and uses of goods increases, and the real value of goods is discovered. This process also allows understanding needs and their order. Needs that arise from material subsistence, from the preservation of life, are the most important, followed by needs related to our well-being, in decreasing order. Therefore, it is more important to satisfy life needs than well-being needs. This is how Menger arrives to his principle of value: "The determining factor in the value of a good, then, is […] the magnitude of importance of those satisfactions with respect to which we are conscious of being dependent on command of the good. This principle of value determination is universally valid, and no exception of it can be found in human economy" (Menger, [1871] 2007, p. 147; cf. p. 116).

Menger's definition of an economic good makes this clear: something is an economic good if and only if it satisfies a human need. Goods can be closer or further apart from the direct satisfaction of the need, meaning that a good can be consumed immediately as is, making it a first order good, or it can be part of a production process that results in the good that is to be finally consumed to satisfy the specific need, the first order good. Menger classifies goods in increasing order according to the greater distance between them and the satisfaction of the need.

As productive processes evolve, higher level goods will be available, adding, following Menger, complexity to Smith's analysis of the division of labor. Menger expands Smith's view on the division of labor set forth in the example of the pin factory by not only considering it within the production process of a first order good, such as pins, but also including the production of higher order goods. Technological change and technical sophistication respond to a discovery process of higher order goods, which can correspond to discovering other uses for what used to be considered only first order goods.

This discovery process also explains Menger's distinction between real and imaginary goods (Menger, [1871] 2007, p. 53–54). An imaginary good for

Menger is a good that allegedly satisfies a need, but, it does not. There is something objective in the ability to satisfy one's need. A witch doctor will not cure anyone. Only a medical doctor will cure someone who is sick. Technological knowledge will allow people to see that a witch doctor is not a doctor, and it will make a medical doctor more and more capable of satisfying sick people's needs. Thus, as human knowledge advances, according to Menger, humans have a better understanding of their needs and of the capacity of a good to satisfy those needs. Therefore, the number of imaginary goods decreases because their true properties or their connection with true needs are discovered and shown not to satisfy the need. When individuals mistakenly attribute properties to goods to satisfy needs they give an imaginary value to those goods that with the advancement of knowledge they will discover is non-existent as there is no relationship between the good and the satisfaction of a need (Menger, [1871] 2007, p. 120).

The value of a good thus changes as human knowledge advances, and individuals discover the real capacity of a good to satisfy a need, that, moreover, can be of higher or lesser importance. In this sense, Menger's value theory is, as Streissler (1972) stresses, an informational theory about accumulation of knowledge under uncertainty. Exploring in the face of uncertainty, acquiring information, changing choices and plans are a central element of Menger's value theory. Menger states learning to recognize the economic value of goods is "one of the most important tasks of economizing men" (Menger, [1871] 2007, p. 231). Recognizing the center of gravity of the value of an economic good means that a person must be able to know when and why the use value of a good is greater or smaller than its exchange value.

Menger explores several causes that explain the possible change in this center of gravity. All these causes refer to changes in the person's situation or tastes, the properties of the goods, or a decrease in scarcity (Menger, [1871] 2007, p. 231–5). It is undeniable that changing circumstances play a major role in determining the economic value of a good. Changing circumstances imply learning, adapting and exploring under uncertainty. Menger does not seem to give room to others or to their approbation or judgement in this process. For Menger, it does not matter where the uncertainty or the new information that allows us to find better means to our ends comes from.

For Menger, a good that satisfies a more important need, those associated with preserving our lives, has greater value than one which satisfies our well-being (Menger, [1871] 2007, p. 147–148). This is because Menger systematically makes the difference between life and well-being, both parts of our existence and development, but one considered more important than the other (Menger, [1871] 2007, p. 116). This ranking is for Menger so objective, that even if there is a margin of error in "relative degrees of importance of different satisfactions", "[t]he importance of a satisfaction to us is not the result of an arbitrary decision" (Menger, [1871] 2007, p. 147).

The order of goods then is given by the order of human requirements, beginning with immediate subsistence: "Human beings experience directly and immediately only needs for goods of first order […] Requirements for goods of higher order are thus dependent upon requirement for goods of first order" (Menger, [1871] 2007,

p. 80). Any good is valued because, in the end, it has a connection with first order goods, those goods that first and foremost satisfy needs linked to subsistence.

The discovery process of value is for Menger a cumulative process that leads to changes and complexity. People discover, through use, how objects can better satisfy needs. Therefore, objects become economic goods as their ability to satisfy needs is discovered through time; but they can also loose their character of goods when there are no new needs for them. This is also true for individuals as they go through different stages in their lives. Children value toys, but young people don't; they value study materials that adults don't; older people don't value the instruments they used in their activities as working adults (Menger, [1871] 2007, p. 232). Human beings can also experience changes in their tastes, making the value of use more or less important than the exchange value of a good (Menger, [1871] 2007, p. 231–2).

Social knowledge accumulates and evolves with human progress (Menger, [1871] 2007, p. 53; 74; 80). We discover the physical properties of things that may satisfy the (also evolving) needs of people. Human needs can grow infinitely in time; there can be an "uninterrupted progress in the development of human needs" (Menger, [1871] 2007, p. 83) as "the magnitude of human requirements[…] increase with the progressive development of civilization" (Menger, [1871] 2007, p. 103), first order goods might be used as higher order goods or other objects might be found to serve as means of production for economic goods becoming economic goods themselves. It is also possible, as mentioned above, that tastes change in such a way that an object no longer satisfies a need, losing its character of good (Menger, [1871] 2007, p. 63–4; 103–106). If, for example, individuals stopped smoking for any reason there would be no more consumption of tobacco or its substitutes nor of those objects used to produce cigarettes or cigars or their substitutes (Menger, [1871] 2007, p. 64). All these goods would thus lose their character as economic goods.

The classification of goods in orders shows that using things is not only consuming them but also producing with them. Therefore, whereas consumer goods are valued based on their direct ability to satisfy needs, productive goods are valued because they participate in the production of goods that are demanded to satisfy needs. As they are used in production other unknown or unrecognized characteristics can be discovered and give them new value.

Note that in Menger's understanding of value, an individual does not need an "other". Yes, we need others in the sense that one individual alone will not be capable of developing the knowledge of generations of individuals. It is also true, as in the case of family goods that are passed on from generation to generation as a token of affection that the center of gravity of their value is in their use value as memories family members share (Menger, [1871] 2007, p. 232). If the memory persists, the good will not be sold because the use value for the person who receives it lies precisely upon its capacity of reminding them of gone relatives. In this case, we have an inter generational model of the preservation of use value, as if an infinite living individual had this information about the center of gravity of the economic value of this good.

But if, as a mental exercise, we stretch the life of our Robinson Crusoe over multiple generations and give him multiple experiences, it is possible to at least imagine, that alone, Robinson Crusoe could realize that a witch doctor is not a real doctor, and that he himself could develop the technological knowledge that allows a good to better satisfy his needs or that a good preserves memory of past generations. Needs can be and are satisfied in isolation.

It may not be an accident that Menger uses "an isolated economizing individual [who] inhabits a rocky island in the sea" (Menger, [1871] 2007, p. 133) as the primary example in his theory of value. And even when he explains value in use and value in exchange, he still uses an "isolated household" and an "isolated hunter" (p. 227). For Menger, individuals are truly individuals. Even in exchange, which does require another individual, the other is simply a kind of technology to acquire more goods.

Consider moreover how Menger explicitly extends his analysis of relative scarcity from isolated individuals to society. He states, that "the phenomena of life that result from the fact that the requirements of men for many goods are greater than the quantities available to them in a very general way […] applies equally to an isolated individual and to a whole society" (Menger, [1871] 2007, p. 96). The only difference is that considering the whole of society brings to view the "joint economic origin" of human economy and property based on the "so-called *protection of ownership*" (Menger, [1871] 2007, p. 97). The reason is that the competition that scarcity brings to secure the goods needed to satisfy each individual's needs results in a struggle that makes necessary the protection of those individuals who possess goods "against all possible acts of force" (Menger, [1871] 2007, p. 97). The only social relationship is property defending the haves from the have-nots.

Smith, like Menger, claims that the property of the haves requires protection from the have-nots. But his argument is different. The difference seems subtle, but it is deep. It is not just scarcity or competition for the scarce resources that drives the otherwise violent attempts to gain what belongs to others. For Smith, it is "indignation" and "envy", not just "want" that drives the poor to "invade" the possession of the rich, requiring the emergence of a civil magistrate to protect property (WN V.i.b.2, p. 710). Envy is not driven by material competition for scarce resources per se, but by competition for relative status. The poor compare themselves with the rich and become indignant, not because of their lack of resources per se, but because of their lack of status. Envy is a relational passion, that plays an important role in the definition of consumption patterns and self-image (Pignol & Walraevens, 2017). Robinson Crusoe cannot be envious. Envy requires the presence of the other. Envy—and thus an other—is absent in Menger but it is fundamental in Smith's argument.

For Smith, indeed, Robinson Crusoe is not conceivable. The only time Smith uses an example of a "human creature" that grows "up to manhood in some solitary place, without any communication with his own species" (Smith, [1759] 1982 TMS III.i.3, p. 110) is to make an *ad absurdum* argument to prove humans are social beings and cannot be in isolation. To form our moral characters, that which makes us humans, others are necessary because it is within social interactions that we, for one, form our characters, and, for the other, reflect upon our passions, which is the first step in the possibility of judging our own character. The other is the mirror with which we can see ourselves, and with which we define ourselves (TMS III.i.3, p. 110). It is not accident that for Smith solitary confinement is the most dreadful punishment (TMS II.ii.2.3, p. 84–5).

The Robinson Crusoe Menger has in mind, that is, the individual whose whole attention is focused on external objects that satisfy needs, is “a stranger to society” in Smith’s words, who can experience no reflective passions because this individual is incapable of thinking beyond the immediate experience of satisfying needs with goods (TMS III.i.3, p. 110). For Smith, we need others–always. People need each other to be human. Human beings are social beings; they do not exist in isolation; they do not consume in isolation, nor do they satisfy their needs considering exclusively the connection between the good and an individual need. Their social nature is expressed, among other forms and in the form relevant here, in the love of distinction. So, it is this admiration that others give us that defines value for Smith.

Another person who looks at us, for Smith, plays a role in defining needs and the way to satisfy them. Another person is the mirror that society places before us to allow us to see ourselves, to allow us to see how others see us, to judge of the beauty and deformity of our characters, to understand how others see us. The mirror of society allows us to become and be lovable (TMS III.2.1, p. 114) or to be beloved, from which arises “the chief part of human happiness” (TMS I.ii.5.1, p. 41). To understand how goods and which goods contribute to this main purpose of human life, individuals must interact with their fellow-beings. An isolated individual might not perceive how conveniencies “contribute most to his happiness and enjoyment.” But when someone is in society, there is no doubt “because in this, as in all other cases, we constantly pay more regard to the sentiments of the spectator, than to those of the person principally concerned, and consider how his situation will appear to other people, than how it will appear to himself” (TMS IV.I.8, p. 182).

So, for Smith, we need others to satisfy our needs, and for our needs to change. We cannot do much by ourselves, not even as a mental exercise. We do not need just food, we need food that can distinguish us from our neighbors (WN III.iv.5, p. 413). We do not need just a teapot, we need a silver teapot, even better, a golden one, which only a few can have (WN I.xi.c.31, p. 190). We need nail clippers, golden toothpicks, and so many other trinkets and baubles of frivolous utility that we do not even know how to carry them around, so we need to have extra pockets in our clothes to accommodate them (TMS IV.i.6, p. 180 and TMS IV.i.8, p. 182). We are willing to undergo the “fatigue of bearing the burden” of carrying around our trinkets in all the pockets we contrive in our clothes (TMS IV.i.6, p. 180) to show them off. We do not want just shoes; we want shoes with diamond buckles. A regular shoe would probably fulfill the need of protecting one’s foot just as well as, if not even better than, a shoe with a diamond buckle. Yet, we want the diamond buckle one (WN III.iv.10, p. 419).

Why? Because we want to show off. “[L]overs of toys” are fascinated by the “aptness of the machines” that satisfy their taste of beauty (TMS IV.i.6, p. 180).[4] Because we want others to look at us. We want others to admire us. Because we are “mortified” if nobody looked at us (TMS I.iii.2.2, p. 51). Because it is only through the eyes of others that we can see ourselves.

[4] Beauty, consisting of proper variety, easy connection and simple order also requires social references (TMS V.2.1, pp. 199–200). We will come back to the taste of beauty in Section 5.

For Smith, in fact, we are naturally driven, from birth to death (WN II.ii.28, p. 341), to better our conditions because we want to be seen, we want to be looked at, we want to be admired:

"To be observed, to be attended to, to be taken notice of with sympathy, complacency, and approbation, are all the advantages which we can propose to derive from it. It is the vanity, not the ease, or the pleasure, which interests us. But vanity is always founded upon the belief of our being the object of attention and approbation. The rich man glories in his riches, because he feels that they naturally draw upon him the attention of the world, and that mankind are disposed to go along with him in all those agreeable emotions with which the advantages of his situation so readily inspire him. At the thought of this, his heart seems to swell and dilate itself within him, and he is fonder of his wealth, upon this account, than for all the other advantages it procures him" (TMS I.iii.2.1, p. 50–51).

To obtain and maintain the admiration of others, "to be respectable and respected […] [t]o deserve, to acquire, and to enjoy the respect and admiration of mankind" we can either follow the road of wisdom and virtue or strive to acquire wealth and greatness (TMS I.iii.3.2, p. 62). Fortunately, states Smith (TMS I.iii.3.5, p. 63), for most people, those in "the middling and inferior stations of life, the road to virtue and that to fortune […] are […] very nearly the same" (TMS I.iii.3.5, p. 63). So, people strive to acquire goods to make themselves agreeable to others.

We long for the praise of our fellow-beings, but not only out of vanity. We want to deserve their praise, which can make us prudent. Prudent and agreeable in their eyes, and external goods help us achieve this goal. They are a signal of our qualities and make us visible.

In a symmetrical manner, those who cannot afford those goods will hide, they will abstain from social life, fearing the contempt of others (see Álvarez & Hurtado, 2015). As the marks of higher status distance common folks from the rich, people sink into obscurity, making them invisible to others, and thus excluded from social life, and in most extreme cases, from humanity (TMS I.iii.2.1, p. 51). It is thus not an accident that people might take big risks in the attempts to improve their status (TMS I.iii.3.7, p. 64. See also Garrido, 2021; Levy, 1995; Paganelli, 2009). For Smith, we do not want just to live, we want to live a life of praises.

Therefore, for Smith, we need others in our definition of need, and we need others in our fulfillment of need. Without the presence of others, we would not be envious, we would not desire to better our condition, we would not care about the diamond buckle. But we are envious, we are ambitious, and we do care about the diamond buckle. We need the diamond buckle, because others are observing us, and we know it. So, we want to be seen, we want to stand out of the crowds. And the diamond buckle will distinguish us from others because we have something that nobody else has and everyone admires (WN III.iv.10, p. 418–9).

For Menger, instead, we simply want to live. Not that we want a simple life. We want a life that, firstly, is free of life-threatening lacks and then, is comfortable and might even include abundance. However, this life, this comfortable life, can be lived in complete isolation from others. In our mental exercise, a never-dying Robinson Crusoe can accumulate the knowledge of how to best satisfy his needs developing higher order production processes and count on increasing quantities of goods to satisfy his increasing needs, but he can do this by himself. His increasing needs might be the result of his will or of habits he develops but he does not need the approbation of others, he does not need to become loveable or have the admiration of others to value the goods he has. Robinson Crusoe values those goods because they satisfy his solitary needs.

4 Life v glory

But it is the desire to receive the look and approbation of others that allows Smith to explain things that Menger may not be able to. For Smith, people are willing to sacrifice their lives for the approbation of others. They may not be willing to just live, but rather they may be willing to die in exchange for the glory that others will give them—or the idea of it. Young men, in Smith's account, enroll in the military following dreams of vain glory (e.g. TMS IV.2.10, p. 191, TMS VI.ii.3.4, p. 236, and WN I.x.b.29- 30, p. 126). Some people may even be willing to die for the deserved, and even undeserved, shame others give them (TMS III.iii.5, p. 138). An individual feels piacular, which according to Smith is a "fallacious sense of guilt" (TMS III.iii.3.5, p. 107), when they are the involuntary cause of another's harm and might go to great lengths to restitute the one they harmed with no intention.[5] This is how Smith explains Oedipus taking his life for a shameful act that he unintentionally did (TMS III.iii.3.5, p. 107). How one appears to the eyes of others is what explains one's actions.

So, if one is a social being, as in Smith's framework, life per se may not be the most important need to fulfill, but instead, how one's life is perceived in the eyes of an other may be the most important need. For Menger, on the other hand, life is the most important need an individual has. In Menger's hierarchy of values, life is always on top. And it makes sense if one is conceived as "an isolated individual."

Menger's theory of value may also have an objective component, which makes challenging the priority of life over all other needs more difficult. Menger indeed asserts that value is not arbitrary even if the origin of our needs "depend upon our will or on our habits" (Menger, [1871] 2007, p. 119). But "[o]nce these needs have come into existence […] there is *no further arbitrary element* in the value goods have for us, for their value is the necessary consequence of our knowledge of their importance for our lives and well-being" (Menger, [1871] 2007, p. 119, italics in the original).

Therefore, the origin of needs might be arbitrary, as they depend on subjective and contextual factors, although their order of importance is not. Needs related to our material subsistence which makes life possible are more important than needs related to our well-being. Life always is more important than well-being.

Moreover, for Menger, also the value of goods is not arbitrary, because it depends upon the causal connection between the good and the satisfaction of a need, which is discovered through the evolutionary process of increasing human knowledge about

5 On the piacular in Smith see Schliesser (2013).

the real properties of goods. An objective factor is at play in the determination of value. This objective factor has to do with the extent to which "different satisfactions have different degrees of importance to us […] which satisfactions of concrete needs depend, in each individual case, on our command of a particular good" (Menger, [1871] 2007, p. 122).

The subjective character of value (Menger, [1871] 2007, p. 121) has to do with the increasingly better-informed judgment of "economizing men […] about the importance of the goods at their disposal for the maintenance of their lives and well-being". This subjective factor orders needs, putting those related to the maintenance of life in the first place, and the others "in the magnitude of importance according to the degree (duration and intensity) of pleasure dependent upon them" (Menger, [1871] 2007, p. 123). Individuals will prefer goods that provide a longer duration of pleasure or a higher intensity of pleasure over other goods. In determining the duration and intensity of the pleasure goods provide, Menger does not include enjoyment with others but rather examples of goods that make an individual's life more comfortable. First order goods appear to be simple goods, in the sense that they are not elaborated or sophisticated, be them foodstuff or clothing or shelter.

For Menger, the way individuals allocate goods to the satisfaction of needs, which explains the decreasing marginal utility of goods, illustrates this clear priority of life and individual-isolated needs in Menger. The marginalist elements in Menger, related with a changing intensity of satisfaction, can be translated into decreasing marginal utility. Our Robinson Crusoe (Menger, [1871] 2007, p. 133–36) who "inhabits a rocky island in the sea" finds water. He uses water first for his most important needs, preservation of life, and then only after he secured his life, he will use water for gardening. So, the more water one has, the more "relatively insignificant" things one does with it in order of importance: the first unit for the most important need, the second unit for the second most important need, and so on. There is a decreasing and unequal importance of satisfying needs "being graduated from the importance of their lives down to the importance they attribute to a small passing enjoyment" (Menger, [1871] 2007, p. 125). There is also a decreasing importance in the satisfaction of a specific need "until eventually a stage is reached at which a more complete satisfaction of that particular need is a matter of indifference" up to the point where the satisfaction of that need "is rather a burden and a pain" (Menger, [1871] 2007, p. 125). This decreasing utility is individually judged, in isolation from others, and always sees the preservation of life as a priority.

5 Decreasing marginal utility v decreasing status

There is no Mengerian-like decreasing marginal utility in Smith. Even when Smith deals with basic needs, such as the consumption of food, Smith always handles them in a status seeking framework (for a possible exception for the value of goods used to accumulate capital, see Meacci, 2021). Smith recognizes that the need for food is limited by the size of the human stomach. The stomach of a rich person is about the same size as the stomach of a poor person. But the strive for distinction induces the rich to prepare their food differently, and to present it in fancier ways (WN I.xi.c.7: 181).

As a matter of fact, for Smith, all basic, first order goods, must be transformed and accommodated to the "delicacey" of human nature. Smith considers that the satisfaction of human natural needs always requires transformation because humans are the only living beings that do not find anything "adapted to [their] use that it does not stand in need of improvement and preparation to fit it for [their] use" (Smith, [1762–3; 1766] 1978, LJ(B) vi.9, p. 334). The improvement and preparation include features of goods "which no way affect their real substance or give them no superior advantage in supplying the wants of nature" (LJ(B) vi.14, p. 335). These seemingly superficial characteristics, such as "colour, form, variety or rarity" (LJ(B) iv.16, p. 336) explain the increasing diversity and sophistication of goods that satisfy human needs including the taste of beauty.

The beauty one sees in an object, in Smith's account, is, again, a social construct, in that our sense of beauty and our standards of beauty depend on others. The hypothetical man in isolation not only would not be able to develop a sense of morality, but not even a sense of beauty, if he truly somehow grew up by himself, because he would have nothing and nobody to compare himself to. "I judge of your sight by my sight, of your ear by my ear, of your reason by my reason" (TMS I.i.3.10, p. 19), Smith tells us.

Smith also tells us that even if our sense of external beauty depends upon the "utility of any form, its fitness for the useful purposes for which it was intended" (TMS V.i.9, p. 199–200), custom, habit and fashion influence "our sentiments concerning beauty of any kind" (TMS V.2.1, p. 200). We consider objects beautiful because those around us also do, and we all agree on what is beautiful because we share a taste for proper variety, easy connection and simple order (LJ(B) 208, p. 488) and custom has made us connect certain characteristics of things with the satisfaction of that taste.

Useful objects can be esteemed beautiful, but they can also be considered even more beautiful and valuable if they are scarce, making their consumption possible only for the few. Social recognition is achieved when one has things that others do not have. Indeed, for Smith, the greater quantity of something there is, the less that thing is a sign of distinction, and thus the less valuable it becomes.

Even gold is most valuable when only few can have it. If many have abundant gold, gold loses its allure and its role as signal of status. This is clear, for example, in Smith's description of the reaction of the "poor inhabitants of Cuba and St.Domingo, when they were first discovered by the Spaniards" […] "[t]hey were astonished to observe the rage of the Spaniards to obtain [little bits of gold]" (WN I.xi.c.36, p. 192–93). Whereas food was scarce for the inhabitants of those islands, gold was scarce for the Spaniards. The former wore gold as decoration but where willing to give away those "glittering baubles", which they all used, in exchange for food "as much as might maintain a whole family for many years" (WN I.xi.c.36, p. 193).

The same logic of scarcity as a sign of status and thus creating value works for custom and fashion. Fashion, in particular, is set by the higher ranks of society and it is one way through which they distinguish themselves from the common people.[6] The higher ranks set fashion because they are admired for their magnificence, because people believe they possess more means to be happy than any other. They

6 On Adam Smith on fashion see Smith (2013, 2016).

possess goods that make them standout, that distinguish them, that are scarce and only they can buy. Fashion, according to Smith, is not what everybody consumes, it is not what everybody wears, it is only that which those of "a high rank, or character" use (TMS V.i.3, p. 194). Because they use those things, they are "connected in our imagination with something that is genteel and magnificent, and though in itself it should be indifferent, it seems, on account of this relation, to have something about it that is genteel and magnificent, too." (TMS V.i.3, p. 195). People of lower ranks want to imitate those of high rank to share in the admiration these fashionable people enjoy. Hence, they start consuming similar things as those things become available. But the "man of fashion" abandons the use of the now abundant items and starts using something else that nobody has, and that everyone would admire. As soon as the rich and fashionable stop using something and the good is "used only by the inferior ranks of people, [the good] seems to have something of their [lower ranks] meanness and awkwardness." (TMS V.i.3, p. 195).

The dynamics becomes more evident with the introduction of manufactures. Manufactures will decrease prices, which makes things not good items of social distinction. Indeed, Smith tells us, Queen Elizabeth was the first person to have worn stockings in England. They were presented to her as a gift from the Ambassador of Spain, when "the art of knitting stockings was probably not known in any part of Europe" (WN I.xi.o.11, p. 262). But then, knitted stockings were no longer an extravagant and unique thing. Everyone eventually had knitted stockings, so they were no longer a sign of distinction for a queen. Similarly, medieval landlords were willing to sell their birthrights to get a diamond buckle, because they would be the only ones to own one (WN III.iv.10, p. 418–19). Their vanity drove their decisions. But if everyone can get a diamond buckle, like everyone can now get knitted stockings, then the landlords would not care about diamond buckles anymore, just like knitted stockings would not be appropriate as a gift for a queen.

It follows that the value of an object is highly contextual. Not only does it change in time, especially in the case of dress and furniture, it also changes with the specific context in which the good is used. Modifying slightly the example Smith gives at TMS V.i.5 (p. 196), a working poor with a pair of knitted stocking at the time of Elizabeth would have been just as awkward as gifting a pair of knitted stockings to the queen today. This is because it is not the good in itself or its direct ability to satisfy an individual need alone that renders it valuable. Scarcity and the relation of the good with those who consume it, and the context in which they are consumed, have a direct influence on their value. These characteristics go hand in hand so that "[a]s the idea of expence seems often to embellish, so that of cheapness seems as frequently to tarnish the lustre even of very agreeable objects" (Smith, 1985, Imitative Arts I.14, p. 183).

For Smith, it may be childish to sell one's birth rights to buy a diamond buckle. But the diamond buckle will distinguish its owner from others effectively—at least until he ruins himself or we have zircons. Indeed, it is the "appearance of great expence, of being what few people can purchase, of being one of the surest characteristics of great fortune" that recommends goods and their production (Imitative Arts I.13: 183). But if a jeweler were to "whisper in our ear" that the diamonds adorning an unknown lady's head-dress "are all false stones, not only the lady will immediately sink in our imagination from the rank of a princess to that of a very ordinary woman, but the head–dress, from an object of the most splendid magnificence, will at once become an impertinent piece of tawdry and tinsel finery" (Imitative Arts I.13: 183). Goods and their owners are not separable; value and status go hand in hand and depend upon the effect they produce on others. Consumption for social beings has no sense in isolation; satisfying material subsistence is not enough to satisfy the needs of a human life.

To further see the difference between Menger and Smith, let's introduce a technology that multiplies diamonds. For Menger, when diamonds are scarce, one would use the first diamond only for the most important need. The additional diamonds will go to fulfill increasingly higher order needs. And his account would end here. For Smith that is not the end. If diamonds are so cheap because of the new technology, their value does decrease, yes, not because one can now use them to fulfill less important needs, but because more and more people can have them. Now everybody can have diamond buckles. They fail to distinguish one's status from others'. So, one needs a new kind of "diamond," one that only a few can have.

For Smith, our desire for social distinction "cannot be satisfied, but seem[s] to be altogether endless" (WN I.xi.c.7: 181). Hence, our "desire of the conveniencies and ornaments of building, dress, equipage, and household furniture, seems to have no limit or certain boundary" (WN I.xi.c.7: 181). For Smith, decreasing scarcity of a good does not necessarily imply that one uses it for less and less important uses, like for Menger. It means that more and more people use it, thus losing its properties of bringing social distinction. This is because the value of status goods depends directly on the association people make between the object and the status of those who consume it. Their value lies in the eyes of others.

It may not be an accident that, today, as it becomes more and more difficult to distinguish between a real diamond and a zircon, between a real pair of Prada shoes or Gucci bag and their knock-off versions, new forms of social distinctions emerge, which are irreproducible.

Charity, for example, cannot be faked.[7] One really needs to have the money to give away to give it away. Charitable donations are increasingly becoming a sign of status (for example Nicholas, 2010). The same may be true for NotFungibleToken (NFT) art. In March 2021 an artist who calls himself Beeple sold "Everydays: the first 5000 days", the first work of NFT art, for $69.3 million. The work is a composite of other major artworks, all reproducible, and itself reproducible. But the rights of the original copy are inscribed on blockchain, and thus irreproducible. "The buyer of "Everydays," an investor who goes by the name Metakovan, may well be remembered as the first patron of digital artists. That is a legacy you cannot buy for any sum in most other walks of life. You can become a kind of Medici of the blockchain" (Cowen, 2021).

The Mengerian apparatus struggles when faced with situations like these, where people's primary motivation is relative status. In a different context, Schneider (2007) recognizes that "Such an economy [a Robinson Crusoe economy]

[7] We owe this idea to Tyler Cowen, even if he does not remember making this claim.

cannot accommodate the concept of positional goods" (p. 76). The Smithian one handles them smoothly. In a sense, one can think of the Mengerian value apparatus as more appropriate to explain why the University of Edinburgh put the first edition of the *Wealth of Nations* on the floor and used it as a step to reach books on high shelves when later editions were acquired (or Cambridge University allegedly threw away Newton's first edition of *Prinicipia* when copies of newer editions were purchased), than why Adam Smith's *Wealth of Nations* first edition sells for around $300–400,000 while the second edition of the same book ranges around $30–40,000. Robinson Crusoe needs just a book to read. A social being needs a first edition to show it off.

6 Pseudo-sociality v genuine sociality

A possible objection to our analysis is that Menger does recognize the social aspects of individuals because he does mention the use of jewelry and the "desire to stand out."

One can infer that fashion goods for Menger would have less value because they are not needed to sustain (physical) life but rather to satisfy our well-being. Menger recognizes jewelry as a good because there is a direct causal connection between the object and "one of our needs" (Menger, [1871] 2007, p. 56). But he does not elaborate further. Diamonds are mentioned as part of the water diamond paradox, and they are dealt with as a marginal utility problem. But replacing diamond with truffle would not have made any difference in Menger's argument.

The only place where Menger mentions "the desire to stand out" is in his account of the emergence of gold and silver as money (Menger, [1871] 2007, p. 266). According to this account, before becoming metal money, copper, gold, and silver were used to build vessels and ornaments. Copper was of very general use and "gold and silver, as the most important means of satisfying the most universal passion of primitive men, the desire to stand out in appearance before the other members of the tribe" (Menger, [1871] 2007, p. 266). Here again he does not elaborate. He simply replicates the wording that everyone else who wrote on gold emerging as money used. Ferdinando Galiani (1751), for example, spends paragraphs and paragraphs explaining how gold helps us stand out, because it shines, thus attracting people's attention. Menger gives no explanation whatsoever. Nevertheless, his wording is significant. The desire to stand out, using gold and silver ornaments, is associated with a passion of "primitive men". These metals were almost exclusively used to satisfy this primitive desire, until the gradual expansion of the use of metallic money in exchanges. When the raw metals begun to be used to coin money, then copper, gold and silver, became higher order goods as money, and their value was attached to this use. As social knowledge grows and advances, this other property of gold and silver came to be established. Menger says nothing about what happens with the passion of primitive men, but it is not excluded that with the development of primitive men into civilized men, the passion and the need associated with it disappear.

Few pages later, again when talking about money, he says one cares about the other because one wants to use as money something that others will accept. But this is more an instrumental value (money is just a technology to produce/consume more) than desire of esteem. What makes money money is precisely its specific character as a higher order good that is only used in exchange, participating in the production of lower order goods and, in the end, the satisfaction of first order needs. Money satisfies the need to valuate commodities and "accumulate funds for exchange purposes" (Menger, [1871] 2007, p. 280), and metals, because of their characteristics, are best suited to be money.[8] None of the needs money satisfies implies consuming in the eyes of others or caring about how others see us. This is the essential point of consumption, and hence of value, in Smith.

With this we do not imply that Menger did not think about the social aspect of individuals, but that he did it in what resembles more a neo-classical fashion than an intersubjective Smithian one. The interest that Menger had in society, even if differently from the social nature of the Smithian beings, is highlighted in two additional places.

First, Yagi (2011) reports that in Menger's notebooks, where he drafted his plan for *Principles*, there was a section on "A. Man as an Individual" as well as a separate one on "B. Man as a member of society". In "B. Man as a member of society", "Man in competition with other" is one of the three subcategories. "The individual part, "A. Man as an individual," seems to correspond to the first three chapters of the *Grundsätze*. However, we do not find chapters corresponding to the projected societal part in the *Grundsätze*" (Yagi, 2011, 43).

Second, the second edition of *Principles* may have explicit treatments of the more social aspect of individuals, but again, far from the Smithian understanding of social beings. The second edition is a problematic work. It was edited by Carl Menger's son Karl and it has never been translated into English. Friedrich von Hayek did not incorporate it in Carl Menger's *Collected Works* in the LSE Reprint Series (1934–36) claiming:

"An inspection of his manuscript has shown that, at one time, considerable parts of the work must have been ready for publication. But even after his powers had begun to fail he continued to revise and rearrange the manuscripts to such an extent that any attempt to reconstruct this would be a very difficult, if not an impossible task. Some of the material dealing with the subject-matter of the *Grundsätze* and partly intended for a new edition of this work, has been incorporated by his son in a second edition of this work, published in 1923. Much more, however, remains in the form of voluminous but fragmentary and disordered manuscripts, which only the prolonged and patient efforts of a very skillful editor could make accessible. For the present, at any rate, the results of the work of Menger's later years must be regarded as lost. (Hayek, 1934: p. xxxiii).

Yagi agrees with Hayek's evaluation (p. 31). Giandomenica Becchio (2014), after further examination of Menger's archives, suggests instead that the second edition reflects Carl Menger's clear thinking and that Hayek instead actively set

[8] On money as spontaneous order see Horwitz (2001).

it aside for ideological reasons. The later Menger could have been interpreted as moving away from the individualism that Hayek endorsed. Regardless of the reason why the German-only second edition has been correctly or not dismissed, it contains Menger's understanding of social needs.

Social needs for Menger, as Becchio describes them, are "common needs" (needs shared by many individuals), "collective needs" (public goods), and "needs of human associations" (associations as independent economic agents with their own needs). Erwin Dekker (2021) suggests that this new understanding of needs that Menger presents in the second edition is a useful tool to better understand the difference in public goods between Musgrave and the Ostroms. This kind of understanding of social needs, as useful or challenging as it may be, is far from Smith's understanding.

For Smith instead, needs are always explicitly social, but have little to do with public goods. The human tendencies or the principles of the human mind that constitute the building blocks of Smith's theory show the impossibility or the little use of thinking about isolated individuals. He dismisses the existence of a state of nature and attacks the selfish hypothesis that founds Hobbes' and Mandeville's systems. To understand society and any social phenomena, including market exchange and thus value, humans must be understood as they are: social beings. The tendency to barter and exchange, sympathy, the desire of bettering our condition, the taste of beauty, the natural inclination to persuade, all human traits that point to the existence and need of an other, are the principles of the mind Smith uses to explain every and any social phenomenon. Therefore, needs cannot be understood separately from social interactions and value cannot be grasped without taking these interactions into account. These interactions determine what is valued and why it is valued.

The closest argument we found where Menger is presented as having a theory of intersubjective need is from Toru Yamamori. Yamamori (2017) recognizes an intersubjective aspect of Smith, as well as in development of Menger's theory of needs from the first to the second edition of *Principles* (Yamamori, 2020). But the way in which Yamamori shows Menger's intersubjectivity is not with Menger's arguments or words, but by claiming that the intersubjective (or collective) identification of needs makes it objective. And since Menger presents objective aspects, he also has an intersubjective theory of needs. The accusation of atomism held against Smith that Menger reminds in the centenary of Smith's death is thus misplaced. Sociability is essential to Smith's theory and economic activity would have a completely different sense if considered as an isolated endeavor to satisfy individual needs linked to material subsistence. "The whole industry of human life is employed not in procuring the supply of our three humble necessities, food, cloaths, and lodging, but in procuring the conveniences of it according to the nicety and [and] delicacey of our taste." (LJ(B) 209: 488). Even if all goods, in the end, satisfy the three basic needs, which following Menger correspond to the use of first order goods, Smith explains that these first order goods that he calls necessaries go beyond those that are indispensable "for the support of life" (WN V.ii.k.3: 869–70). Necessaries, the most important needs for Menger, include "whatever the custom of the country renders it indecent for creditable people, even of the lowest order, to be without" (WN V.ii.k.3: 870).

Determining what those goods are is a social matter. Robinson Crusoe would have no idea of the variety of goods that are needed to satisfy the most basic needs of a social being. He wouldn't mind not having a linen shirt or leather shoes because he has no idea of what appearing in public without shame can possibly mean.

7 Conclusions

Menger's theory of value is often portrayed as a break from Smith's. We agree, but for different reasons than the ones usually offered. We suggest that Menger departs from Smith's understanding of human beings as deeply and inevitably social beings, assuming instead that individuals, or at least "economizing men", are atomistic creatures who function in isolation from each other. Menger thus sees value as a function of the relation between an (isolated) individual's (physical) need and the means of fulfilling that need. For Smith instead value is a relational link between different people, between a person, and their observers who judge them and offer them approbation or disapprobation. For Smith, value therefore comes from the praise of others in the ways in which one fulfills their needs, in particular one's need for social distinctions.

While for Menger the decrease of scarcity allows us to use the good for multiple uses, the decrease of scarcity for Smith decreases the ability of a good to be an instrument of social distinction. Diamonds may not be forever after all.

Acknowledgements Thanks to Tyler Cowen, Craig Smith, Bart Wilson, and the participants of NYU Menger symposium for valuable comments on earlier drafts.

Funding Open Access funding provided by Colombia Consortium Funding was received to present a first version of this paper at the virtual workshop organized by New York University. Jimena Hurtado is co-editor of the Journal of the History of Economic Thought, member of the Executive Committee of the History of Economics Society and of the board of the International Adam Smith Society. Maria Pia Paganelli is Vice-President of the History of Economics Society, and President of the International Adam Smith Society.

Declarations

Conflict of interests The authors declare they have no financial interests.

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