

Carl Menger and the birth of subjective methodology in the Economic Science

Carl Menger y el nacimiento de la metodología subjetiva en la Ciencia Económica

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Resumen: Carl Menger desafió los fundamentos metodológicos de la Escuela Histórica Alemana de Economía en un debate que se conoce como *Methodenstreit*. El objetivo de este artículo es mostrar cómo su trabajo metodológico provocó un cambio radical en la comprensión de la metodología de la economía. Además, pretendemos demostrar cómo estas contribuciones son la base sobre la cual se construiría lo que más tarde se conocería como la Escuela Austriaca de Economía. Nos centraremos en particular en la conexión entre las contribuciones de Menger y la teoría económica de Ludwig von Mises, quien fue el principal exponente de esta escuela.

Abstract: Carl Menger challenged the methodological foundations of the German Historical School of Economics in a debate that is known as *Methodenstreit*. The aim of this paper is to show how his methodological work brought about a radical shift in the understanding of the methodology of Economics. Additionally, we aim to demonstrate how these contributions are the basis upon which Austrian School of Economics would be built. We

will focus in particular on the connection between the contributions of Menger, with the economic theory of Ludwig von Mises who was the prime exponent of this school.

Palabras clave: Carl Menger, metodología, Methodenstreit, Escuela Austriaca de Economía, Escuela Histórica de Economía, subjetivismo.

Keywords: Carl Menger, methodology, Methodenstreit, Austrian School of Economics, Historical School of Economics, subjectivism.

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I. INTRODUCTION

Towards the end of the nineteenth century, the Historical School of Economics found itself caught up in a polemic with Carl Menger (1840-1921) and his followers, concerning the methods of Social Sciences. The first group defended a strictly empirical theory and denied the existence of one set of universally valid economic laws. The latter claimed that economic laws could be deduced through the use of logic and, what is more, that these laws had universal validity.

The aim of this paper is to show how the methodological work of Carl Menger brought about a radical shift in the understanding of the methodology of Social Sciences and, in particular, in the field of Economic Sciences. Additionally, we aim to demonstrate how these contributions are the basis upon which the Austrian School of Economics would be built. We will focus in particular on the connection between the contributions of Menger, with the economic theory of Ludwig von Mises (1881-1973) who was the prime exponent of this school.

With this end in mind, we propose the following structure for our paper: in point 2 we will place the debate in the context within which it arose, and above all, we will present the main ideas behind the Historical School of Economics; in point 3, we will synthesize Carl Menger's main methodological ideas; in point 4 we will look at the Austrian's criticisms and his responses to the historicists; finally, in point 5, we will present our conclusions.

II. THE DEBATE IN CONTEXT AND THE HISTORICAL SCHOOL OF ECONOMICS

Carl Menger has gone down in history for two reasons: firstly, for being the founder of the Austrian School of Economics, and secondly, and above all, for being, alongside Leon Walrás (1834-1910) and William Stanley Jevons (1835-1882), one of the three protagonists of the so called «Marginal Revolution», which took place in the 1870s. Less famous, however, is the debate which the Austrian economist held in the 1880s with the Historical School of Economics.

The debate centered on the method of Social Sciences and would come to be known as *Methodenstreit* or «battle of methods»¹.

In order to understand this debate, we need to place the Historical School of Economics². This school of economic thought emerged in the nineteenth century and was highly critical of the deductive method of investigation upheld by the English Classical School. There were two sides to it, the German and the British, although the latter was of lesser importance.

When looking at the German historicism, which dominated the main German universities from 1840 until the beginning of the twentieth century, a distinction tends to be drawn between the «Old Historical School», which counted the following amongst its most prominent members: Wilhelm Roscher (1817-1894), Friedrich List (1789-1846) Karl Knies (1821-1898) and Bruno Hildebrand (1812-1878) and the «New Historical School» which included amongst its followers: Gustav Schmoller (1838-1917), Georg Friedrich Knapp (1842–1926), Adolph Wagner (1835-1917), Friedrich Neumann (1835-1910), Ludwig Brentano (1844-1931), Etienne Laspeyres (1834-1913) and Ernst Engel (1821-1896), amongst others. Despite having similar rationales, the second school applied the principles of the methods of historicism much more strictly and rigorously than the first.

The historicist methodology can be summarized as follows:

1. Economic facts are complex as they are interconnected with natural, technical, psychological, political and social realities. Thus, when looking at economic phenomena within a society, the sociological and political aspects must also always be taken into account.
2. A denial of methodological individualism and criticism of abstractions such as *homo oeconomicus*. The historicists had a holistic and organic concept of society, in which people acted for motives which were both varied and complex and, thus, impossible to reduce to one simple explanation (i.e. maximize personal satisfaction). Furthermore, they rejected a *robinsonian* economy, claiming that the idea of an individual isolated from the society which he is part of is no longer conceivable.

¹ HUERTA DE SOTO, J., *La escuela austriaca. Mercado y creatividad empresarial*, Madrid 2000, p. 70 y ss; RONCAGLIA, A., *La riqueza de las ideas. Una historia del pensamiento económico*, Zaragoza 2006, pp. 402-407.

² RAMOS, J. L., «Historicismo, institucionalismo y neoinstitucionalismo», in *Historia del pensamiento económico* (Perdices de Blas, ed), Madrid 2003, p. 423-434

3. It is pointless to talk of laws which have absolute universal validity. There are no such things as universal or timeless laws: their validity is relative and subject to definite spatial and temporal coordinates. There is no such thing as laws which are exact, deterministic and without exception. In economics, highly complex phenomena are studied, within which both qualitative and psychological aspects hold great weight.
4. Given that experimentation is impossible, what the economist must do is to study similar phenomenon occurring throughout history and, thus, deduce causalities and probabilities. By combining observations and statistics, certain economic regularities or laws of economic development can be established. These are always relative and temporal.
5. Although they rejected the deductive methodology used by other schools of thought, the historicists did believe that it was possible to develop an economic theory. In their opinion, however, this task had to be done in three different stages. Firstly, it was necessary to gather together every type of historical piece of information and statistical data possible. Once sufficient information had been gathered came the second stage, in which economic regularities could be inferred. Lastly, in the third stage, the economists would be ready to put together an economic theory, through the use of a deductive method. The validity of this theory would be relative and temporal.

In this way, the historicists did not reject the economic theory *per se*, but rather criticized the pure theory which had been developed deductively from a concept of natural law within society. They were very interested in establishing «laws of historical development» through the study of the processes of development in different societies.

Carl Menger, after publishing *Principles of Economics* (1871), came to the conclusion that German Economics were stagnant because of the «hyperrealist» methodology of the Historical School of Economics. As a result, in 1883, he published a book dealing with the methodology of economics called *Investigations into the Methods of the Social Sciences with special reference to Economics*³. In it, he openly questioned the methodological basis of historicism and defended the

³ Gary Anderson *et al.* «Methodenstreit: The economics of competing interests», in *European Journal of Political Economy*, 8/3 (1992) 403, argue that «the debate [the *Methodenstreit*] was not simply or primarily a battle between disinterested sellers of ideas». In their opinion, «the battle of methods reflected the efforts of Austrian economists to enter the German academic market [i.e., the German academia] which was effectively controlled by a state-supported cartel managed by Gustav Schmoller».

necessary and overriding character of the deductive theory of economics. Gustav Schmoller, the greatest exponent of the Historical School of Economics at that time, wrote a critical review of the book, and, a year later, Menger responded in a pamphlet called *The Errors of Historicism in German Economics* (1884), in which, as well as responding to the criticism, he also made strong personal attacks against the German economist. Schmoller chose to ignore his rival and did not respond. And so, the *Methodenstreit* began. During the following decade, dozens and dozens of articles were written by each camp⁴.

Menger did not make much more effort in this discussion, except in publishing «Toward a Systematic Classification of the Economic Sciences» (1889) in which he clarified and put into context some of the aspects of his methodological theory. Let us now look at the challenge Carl Menger launched against the historicists.

III. CARL MENGER'S METHODOLOGY

3.1. *Classification of Economic Sciences*

The starting premise of Menger's methodology is the rigorous classification of the different disciplines which make up Economic Sciences in its broadest sense. In his opinion, Economic Sciences can be divided into three branches:

1. Historical Economic Sciences: In this branch, the individual's nature and the evolution of economic phenomena is investigated and explained. For example, the evolution of an economic sector, the evolution of the economy of a country, etc.
2. Theoretical Economic Sciences: The objective of this branch is to understand and dominate the economic aspect of reality beyond that of mere present experiences⁵. It investigates and exposes the general nature and general connection between economic phenomena (economic laws). Without a theory of economics, it would not be possible to either explain the history of economics⁶, nor predict economic phenomena. For Menger, there were

⁴ Surprisingly, it was the historicists who named Menger and his disciples the «Austrian School» in an attempt to make them appear to be «provincial».

⁵ Menger, C., *Investigations into the Methods of the Social Sciences with special reference to Economics*. New York & London 1984, p. 129.

⁶ This would become one of the pillars of the methodology of Ludwig von Mises. According to this economist, the aim of history is the analysis of the multiple events concerning human action. In order to do this, the historian must *interpret* the events using various tools. The first, is by

two legitimate orientations for theoretical investigation: the exact and the empirical-realistic.

3. Practical Economic Sciences: These show us the principles according to which people can achieve the economic ends which they strive after, in the easiest way possible and whenever they want. Within this branch, the Austrian made a further distinction: «Economic Policy», which deals with the principles which should motivate the actions of the public powers in promoting the economy appropriately to meet the desired ends, and the «Science of Finance», which can be defined as the science that studies the production, use, and management of resources of individuals.

Thus, in accordance with Menger, Economic Sciences can be divided into three different sciences: Historical, Theoretical and Practical. In addition, the Austrian considered that the latter two could be referred to as «Political Economy».

3.2. *Theoretical Science: The empirical method and the deductive method*

As we have just shown, Carl Menger distinguished between two legitimate orientations in the development of his economic theory: the empirical-realistic and the exact-theoretical⁷. Here is an explanation of them:

The «realistic empirical orientation» of theoretical investigation

The «realistic empirical orientation» consists in observing individual phenomena and inferring empirical laws from them or as Menger⁸ explained: «to arrange the totality of the real phenomena in definite empirical forms and to empirically determine the regularities in their coexistence and succession». The scientist's intention in the use of this orientation is to examine «real types» and «typical relations» (laws) of the phenomena as they appear in their «full empirical

non-historical deductive means, that is, praxeology, logic and mathematics which provide us with such logical-deductive tools. The second means is via *understanding*, through which we can address the individual scores each historical event presents us with (MISES, L., *Human Action: A Treatise on Economics*, New York 1996, p. 49). In other words, historical phenomena, can only be understandable and understood, if we already possess the logical theory provided by the Economic Sciences based on praxeology, which in turn is obtained via other methodological procedures (HUERTA DE SOTO, J., «Método y crisis en la ciencia económica», in Huerta de Soto, *Estudios de Economía Política*, Madrid 2004, pp. 59-83.

⁷ LOUZEK, M., «The battle of methods in economics. The classical Methodenstreit-Menger vs. Schmoller». *American Journal of Economics and Sociology*, 70/2, (2011) 445-448.

⁸ Menger, C., *Investigations...*, p. 56.

reality». In theory, this idea seems to be the most obvious, the easiest and most complete way to meet the objectives of theoretical investigation. However, Menger explains that this orientation, in theory, excludes the possibility of obtaining exact or completely accurate theoretical knowledge of all aspects of the phenomenal world for two reasons:

1. In real life, economic phenomena do not repeat themselves in a precise way. Many thinkers belonging to the Classical School, also held this same belief. For example, John Stuart Mill⁹ stated that «as no two individual cases are exactly alike, no general maxims could ever be laid down unless some of the circumstances of the particular case were left out of consideration».
2. In the real world, human beings are motivated by more reasons than just economic or egoistical ones. Additionally, in the real world, human error, ignorance and compulsion are also important factors. For this reason, when theories are built using an empirical methodology, it is not possible to separate purely economic motives or reasons that serve personal interests, from the other motives of the actions of the individuals observed. In the real world, the investigator can only see the final result, and so, cannot infer with certainty if the result would have been the same in the case that the motives of the involved agents had been only purely economic. This prevents him, therefore, from being able to construct «rigorous or exact» economic laws through mere observation. Menger explained that, as a chemist cannot find objects made up of chemical components in a completely pure state, neither can an economist find social processes exclusively governed by economic or egoistical reasons.

Menger concludes that a «realistic empirical orientation» allows the scientist to formulate empirical laws which will generally be complied with, although accepting that there will be exceptions. Thus, using this orientation of theoretical investigation would offer results which would be both important and valuable in learning more about humans and practical life, but which could never be formally complete. This is because these results could only ever provide imperfect knowledge of the phenomena, uncertain predictions and an unstable control of them. In this way, Engel's Law or Wagner's law (both formulated by economists from the New German Historical School Economics) would be examples of empirical laws according to Menger's theory¹⁰.

⁹ MILL, J. S., *Essays on Some Unsettled Questions of Political Economy*. Batoche Books London, p. 103.

¹⁰ Engel's law states that as «a household's income increases, the percentage of income spent on food decreases while the proportion spent on other goods (such as luxury goods) increases».

The «exact theoretical orientation» in theoretical investigation

As we have discussed above, economic laws obtained through the «realistic empirical orientation» would be subject to exceptions due to the non-rigorously typical nature of empirical reality.

In contrast, the «exact theoretical orientation» would allow investigators to establish regularities amongst economic phenomena which would have no exceptions and could be fully guaranteed. Thus, in accordance with Menger¹¹, the aim of this orientation would be «the investigation of the most original, the most elementary factors of human economy, the determination of the measure of the phenomena concerned, and the investigation of the laws by which more complicated forms of the phenomena of human economy develop from those simplest elements.» In this sense, Menger¹² explains that,

The most original factors of human economy are the needs, the goods offered directly to humans by nature (both the consumption goods and the means of production concerned), and the desire for the most complete satisfaction of needs possible (for the most complete covering of material needs possible). All these factors are ultimately given by the particular situation, independent of human choice. The starting point and the goal of all economy (need and available quantity of goods on the one hand and the possible completeness of satisfaction of the material needs on the other) are ultimately given to the economic human, strictly determined in respect to their nature and their measure.

Starting with these «most original factors of human economy», Menger¹³ explains that it is necessary to use logic in the construction of exact laws. He

(Investopedia) Wagner's Law predicts that the development of an industrial economy will be accompanied by an increased share of public expenditure in gross national product: «The advent of modern industrial society will result in increasing political pressure for social progress and increased allowance for social consideration by industry» (Wikipedia).

¹¹ MENGER, C., *Investigations...*, p. 63.

¹² MENGER, C., *Investigations...*, p. 63.

¹³ MENGER, C., *Investigations...*, p. 60. Mises' praxeology, for example, places itself as an axiomatic-deductive science. In the contemporary methodology of formal sciences, an axiomatic-deductive system, in its strictest sense, refers to all formalized systems, which are symbolized and expressed in logical-mathematical language. This is made up of axioms (i.e. propositional forms which are not shown within the system), theorems (i.e. propositional forms deduced using axioms), primitive symbols, definitions and their rules of formation and transformation (Cf. ZANOTTI, G., *Caminos abiertos. Un análisis filosófico de la epistemología de la economía*. Madrid 2013). It is worth noting that Mises does not refer to praxeology as an «axiomatic-deductive method» in his writings, but he clearly and repeatedly indicates, that human action is an «irreducible factor» without which it is impossible to understand the human being, and from which logical implications can be drawn, through a deductive process (MISES, L., *Human...*, p. 17).

stresses that there are two important rules of logic in this orientation: 1) «*whatever was observed in even only one case must always put in an appearance again under exactly the same actual conditions*» (italics in the original) 2) «a circumstance which was recognized as irrelevant only in one case in respect to the succession of phenomena will always and of necessity prove to be irrelevant under precisely the same actual conditions in respect to the same result».

Finally, Menger claims that the results from the «exact theoretical orientation» are guaranteed to have absolute and timeless validity. They are, on one hand, necessary and absolutely certain because of the nature of this orientation which collects all the factors and motives conditioning the *economic* behavior of individuals, and develops them logically until their final consequences. On the other hand, they are certain, no matter when they happen, because they come from the idea that the original factors of human economics and the logical structure of the human mind, have always been the same. As such, *a priori*, exact laws are valid and will always be rigorously met, as and when the motives at play are exclusively economic.

Connection between the two orientations

It is important at this stage to clarify that both orientations were legitimate and valid¹⁴. For Menger¹⁵, «The results of the exact orientation of theoretical research and those of the realistic have in common that they teach us the general nature and the general connection of phenomena. » For this reason, «no obstacle in principle opposes a separate presentation of the two above groups of theoretical knowledge»¹⁶ and, it is, therefore, advisable to do so, in order to gain a better understanding of the phenomena in question.

When asked whether one orientation was more valid than the other, the Austrian sustained that both orientations aim to help us understand, each in its own way, all economic phenomena. In fact, Menger emphasizes, that in order to build a highly developed theory of economics, it is imperative to study history.

In his opinion, one orientation can only predominate over the other if (for technical reasons or because of insufficient objective cases) the other orientation has not obtained results. This predominance will only prevail for that moment and only for the duration of said deficiency. Despite this, Menger¹⁷ warns that:

¹⁴ BLANCO, M., «El rechazo de Carl Menger a la economía matemática: una aproximación», in *Procesos de mercado: revista europea de economía política*, (1), 2007, p. 85.

¹⁵ MENGER, C., *Investigations...*, p. 67

¹⁶ MENGER, C., *Investigations...*, p. 68.

¹⁷ MENGER, C., *Investigations...*, p. 68.

The more complicated a realm of phenomena is, the more difficult and comprehensive is the task of reducing the phenomena involved to their simplest elements and of investigating the process by which the former are built up from the latter according to laws. So much the more difficult is a full and satisfactory outcome of exact research. Thus it becomes understandable that, just as in the natural sciences, only empirical laws usually appear to us in the field of social research in respect to the complicated phenomena; whereas in respect to the less complicated phenomena of nature and of human life the exact understanding achieves predominant significance.

Thus, although the Austrian defends that both orientations, in theory, are equally pertinent, he considers that the exact orientation is probably more important in human phenomena which are less complex, whilst the empirical orientation is more important in phenomena of greater complexity¹⁸.

By way of example, it is interesting to formulate the law of demand in both an exact and in an empirical way:

1. The «exact law of demand» establishes that according to certain conditions, the increase in the need for a good, increases its «economic price» (which is not the real price). This law is valid, no matter when or where. Menger¹⁹ points out that this exact formula presupposes that all subjects are following their own economic interests, know how to achieve it, understand the current economic market and are not subject to any kind of coercion.
2. The «empirical law of demand» establishes that the increase in the need for a good, *in general*, increases its «real price» (which is different to its economic price), but there can be exceptions to the rule. This law could

¹⁸ In the case of Mises, his methodology of Economics incorporated empirical elements in order for praxeology to not be «mere mental gymnastics». Praxeology reduces its subject of study so as to analyze the action such as it appears, that is, under the conditions and assumptions of the real world. Economic Science, with its *a priori* and deductive concepts, is concerned with interpreting and understanding facts which occur in reality, focusing its investigations on the kind of human actions which have presented themselves in the past, or which could occur in the future. Nevertheless, referring to any form of experience, diminishes the *a priori* and deductive character of Economics (MISES, L., *Epistemological Problems of Economics*, New York 1981, p. 5). According to this economist, *only experience can be used exclusively to direct the curiosity of the investigator towards specific problems*. It does not tell us the methodological way in which we should proceed in order to gain the knowledge we are after. Herein lies a clear example of the difference between the methodologies of Menger and Mises and his followers.

¹⁹ MENGER, C., *Los errores del historicismo en la economía alemana*, in *El método de las ciencias sociales* (ed. D. Antiseri & J. M. de la Fuente), Madrid 2006, p. 142

be breached if, for example, in a closed community, such as in a small village, the need for bread increases, but the sense of community is so strong, that the bakers decide not to put up the price. As we can see, in this case, extra-economic factors outweigh the purely economic ones.

Finally, Menger warns that it makes no sense to try and verify the laws of one orientation using the criteria of the other. Attempting to measure either the results of the exact orientation with the rules of realism, or the empirical laws with the rules of logical analysis, would simply not work. We believe that the true merit of Menger lay in knowing how to combine the two orientations, for them to be complimentary in theoretical investigation (the exact and the empirical), and, of course, vindicating the importance of the development of economic theory²⁰.

IV. REACTING TO HISTORICISM: RESPONSES AND CRITICISMS

Assumptions for constructing an economic theory

We have seen that according to Menger, in order to construct an economic theory, the economist must assume that human beings are only motivated by personal or egoistical interests.

The historicists were very critical of this assumption, especially when applied to the exact theoretical orientation of the theoretical investigation. For them, human actions are dictated by a variety of reasons, some of which actually also contradict each other. Human action has many extra-economic motives, such as a sense of community, a love of one's neighbour and a sense of what is right. Thus, for the historicists, rigorous regularity in human action in general and in economics specifically, should be excluded. Economic laws could only be constructed if there existed one single motive for action. This is the same argument which the historicists used against the *homo oeconomicus* of the English Classical School. In this regard, Schmoller pointed out that:

²⁰A clear difference between the Austrians (Menger and Mises) can be seen here. Mises believed in the existence of laws which govern social cooperation, and stated that these could only be understood through the use of a priori-deductive method (and, as such, he excluded the possibility of inferring empirical laws). As we said, Mises named his methodology «Praxeology». Praxeology represents the attempt to get away from nihilistic and arbitrary implications of historicism, positivism and empiricism. It asserts the existence of inviolable laws within the realm of human action. Its aim is to establish the universal validity of these laws, from the clear fact that people act for a reason. Praxeology is a science which deals with *a priori* laws, which can neither be built, nor validated empirically. They can only be verified or refuted through discursive reasoning.

When a presumption of the pursuit of one's own interest had been used as a seeming constant for price examinations at one time, it was done to explain the simplest market processes. But it is a mistake to make this a rule for future research or examination of more complex national economic processes. In any case, one must always be aware, if one uses this procedure, that science based on hypotheses will always only provide hypothetical forecasts. However, such forecasts are only seemingly exact²¹.

Faced with these objections, Carl Menger accepted the claim that man acts for many reasons in addition to purely economic ones and went as far as adding three other specific factors affecting the results of human action: error, ignorance and coercion. Nevertheless, the Austrian upheld that this does not impede the formulation of exact economic laws. In his opinion, Economic Sciences need to use simplifications, in the same way as other sciences do: for example, chemistry uses the idea of elements in their pure form, a form which in reality does not appear naturally; pure mechanics supposes that bodies move in a space without air, with a center of gravity, a weight and a known and accurately measurable trajectory, etc. According to Menger²², focusing on the individual's personal or egoistical motive, allows the economist to study the economic aspect of human life, which is actually, the most important. In his opinion, investigating anything else should be left to other sciences (sociology, psychology, etc.) which deal with increasing our understanding of human beings. In this way, Menger believed that the economist should never assume that man is guided exclusively by individual interest, but the economist needs to use this supposition as his starting point to be able to study the economic aspect of reality and thus be able to formulate economic laws.

Nevertheless, historicists considered that economic (egoistical) elements could not be separated and looked at independently from the other aspects of a social being's life, that is, an individual who was living and evolving within a society. Thus, given that in real life, all elements are influential to the whole, it is not appropriate to explain one historical event by referring only to one sole factor. Consequently, the historicists argued that economic phenomena, should be studied as part of an inseparable interrelation of social and political development within communities. For historicists, therefore, Mengerian methodology was unrealistic or «one-sided».

Faced with these arguments, Menger admitted that there was no such thing as an «exact» theory which could offer a system of complete and universal

²¹ Quoted in LOUZEK, M., «The battle...», pp. 449-450.

²² MENGER, C., *Investigations...*, p. 87.

cognizance of the phenomenal world. He accepted that it would be absurd to claim this. In his opinion, in order to try to meet this objective, the investigator needed to use a combination of all the sciences. Using only one science could only provide knowledge about one particular facet of the real world, in this case, the economic aspect. Additionally, Menger believed that the economists' mission was to purify the exact economic theory of its errors and to remedy its shortcomings. Once this was done, it would be possible to understand the economic aspects of social phenomena with greater accuracy. As such, the theory cannot be labeled as «one-sided» as it is only satisfying its own function.

Furthermore, the Austrian clarified that empirical laws are also the result of an abstraction of their facets. No matter what the law is, we are not dealing with a sequence or a coexistence of concrete phenomena, but we are dealing with phenomenal forms. As such, some aspects of the phenomena of a complete empirical reality (prices, incomes, demand, money, capital goods, etc.) will inevitably have to be abstracted to a certain extent. In his opinion, to eliminate these abstractions, would mean to eliminate the possibility of elaborating empirical laws²³. According to Menger²⁴,

Truly the demand ‘that economic phenomena are to be treated in connection with the entire social and political development of nations’ is rooted in the dim aspiration to carry the specific points of view of historical research over into theoretical economics, in an effort that is in contradiction with the character of the latter. Here also our historical economists evidence their slight methodological sophistication by asking more of an orientation of research than it can provide. They also show this lack of sophistication by straying, for fear of seeming *one-sided*, from their really proper field of knowledge, Political Economy, into the realm of historical research. This is a form of many-sidedness which German science, at any rate, could well be spared. (Italics in the original).

Schmoller replied:

Menger says that who wants laws must abstract. We answer that in the

²³ According to Mises (*Human...*, p. 237), abstractions are necessary in Economic Sciences. Assumed suppositions are useful within economic theory, but only when they are used as auxiliary constructions, and not as premises from which economic theories can be deduced. Imagining an example in which only certain factors are operative, it is easier for us to see how these factors operate, because we have less distractions. However, the aim will remain to understand how these factors operate when active.

²⁴ MENER, C., *Investigations...*, p. 81.

end, all our thinking and cognition is based on abstraction. However, the point is to abstract in the correct manner so that our abstractions result in scientific truths and not schematic phantoms or visionary escapades as is, regrettably, often the case.²⁵

Also, for him,

Menger is absolutely incapable of understanding the fundamental causes and merits of the Historical School because he lacks the authority to do so. The Historical School represents a return to the scientific grasp of reality instead of vague abstractions lacking the desired connection to reality.²⁶

In his response to Schmoller, Menger²⁷ mockingly stated that:

Indeed, if before being able to rewrite or rework economic theory, we had to first conclude the history of economics in the spirit of Schmoller's historical micrograph (...) we would clearly be here for eons. According to the canons of Schmoller, to be able to have even an approximate idea of the periods necessary to construct a historical-statistical base which is complete and pertinent to theoretical investigation, we economists need to change our methods of calculation. In the same way as astronomers had to introduce the concept of light years into their science, to be able to calculate the enormous distances which they were faced with, we economists should also begin to calculate using, as a minimum, the duration of solar systems as a unit of measurement.

As we can see, the Austrian harshly questioned the extreme empiricism of the German Historical School of Economics.

Methodological Individualism

Historicists were suspicious of the methodological individualism or «atomism» upheld by Menger. The existence of an isolated individual was inconceivable to them, and as such, Political Economy could only study social economic phenomena which, to a certain extent, would be the irreducible element. In fact, for this reason, the historicists were highly critical of the robinsonian economics which the Classical School had begun using and still uses today.

²⁵ Quoted in LOUZEK, M., «The battle...», p. 450.

²⁶ Quoted in LOUZEK, M., «The battle...», p. 450.

²⁷ MENGER, C., *Los errores...*, pp. 350-351.

Nevertheless, for Menger, what was erroneous, was the use of social or aggregate constructs such as nation or society²⁸. For the Austrian this was a «collectivist» methodological approach. As he said, «The *nation* as such is not a large subject that has needs, that works, practices economy, and consumes; and what is called ‘national economy’ is therefore not the economy of a nation in the true sense of the word.»²⁹ (Italics in the original) In his opinion, economic phenomena are the result of the interaction of thousands and, even millions, of individuals searching to satisfy their needs and desires. Thus, in order to understand complex human phenomena, economists need to be able to go as far back as this phenomena's true constituent elements, that is, to the people involved. Starting from this point, they can then investigate the laws which govern the steps leading from individual economies to one global economy.

In this sense, Menger³⁰ stated that the exact orientation of theoretical investigation is based on methodological individualism or «atomism». The essence of this orientation consists precisely in the most complex phenomena being traced back to their simplest elements. Furthermore, in his opinion, the empirical-realistic orientation which seeks to establish empirical laws for the complex phenomena of economic activity must also bring its laws back to the original elements, that is, to the economic activity of the individuals. According to Menger, therefore, methodological individualism must be the pillar upon which theoretical investigation is to be built.

In short, for the Austrian, it is not possible to use an aggregate or collectivist methodology in trying to understand how society functions.

The empirical basis of Political Economy

Menger³¹ agrees with the historicists' claim that for the economist, history can provide a *highly valuable* empirical basis for the development of Political Economy. However, he rejects the idea that this is the exclusive empirical foundation of economic theory or Practical Sciences.

On one hand, referring to economic theory, he points out that «common experience (understanding the motives, final ends and circumstances which determine the developments, events and incidents in economic activity) is an

²⁸ LOUZEK, M., «The battle...», pp. 458-460.

²⁹ MENGER, C., *Investigations...*, p. 93.

³⁰ MENGER, C., *Investigations...*, book 1, chapter 8.

³¹ MENGER, C., *Los errores...*, p. 340.

essential basis to economic theory»³². The Austrian considers that because the history of economics did not provide information about either the individual economic processes, nor about their psychological motives, it could not be the sole empirical basis for the theory of Economic Sciences.

On the other hand, with respect to Practical Sciences, the Austrian considers that

the economic life of the nation constantly presents the economic and financial administration with new tasks. These tasks need to be resolved, not so much in the light of the past, but rather, through the knowledge offered by something much greater than pure and simple historical or statistical knowledge. This indispensable knowledge has to take into account the current demands of the State, the changing notions of the function of state activity, the state of technical sciences, etc.³³

As such, the Austrian economist believed that although history provided useful information, Political Economy (Theoretical Sciences and Practical Sciences) should not be solely based on this and needed a variety of additional sources at its foundation. As we can see, this vision contrasts completely with the empiricism which characterized the historicists' way of thinking.

Understanding historical phenomena

Menger considered that the German historicists' methodology, was not only inadequate for developing a consistent economic theory, but also, that it failed in the understanding of history itself. In accordance with Menger, the aim of scientific investigation is acquiring knowledge and understanding about social phenomena. He believed that we can only *know* a phenomenon once we have a mental representation of it, and we can only *understand* it, once we have figured out the reason for its existence and particular condition. There are two ways of gaining this understanding:

1. Historically: when we investigate the individual process of a phenomenon's formation, that is, when we understand the concrete relations within which it has occurred and developed or, in other words, the particular characteristics of that process. For example, we can better understand law and language once we know how they were formed, i.e., by investigating their developmental

³² MENGER, C., *Los errores...*, p. 353.

³³ MENGER, C., *Los errores...*, p. 354.

process, the influences they were subject to, etc. In economics, this is how we can understand certain institutions, activities, economic results, etc. For the Austrian economist, this was the field within which historicists had mainly worked. In his own words³⁴: «It is well known to what a great extent the understanding of a series of significant social phenomena has been advanced by investigation of their history, i.e., in a specifically historical way, and in how praiseworthy a manner German scholarship has participated in this work.» Despite this, Menger³⁵ did not hesitate in stating that: «The historical understanding of concrete social phenomena, however, is by no means the only thing that we can attain by way of scientific research».

2. Theoretically: «We understand a concrete phenomenon in a *theoretical* way (on the basis of the corresponding Theoretical Sciences) by recognizing it to be a special case of a certain regularity (conformity to law) in the succession, or in the coexistence of phenomena»³⁶. (Italics in the original) For example, on the basis of our own theoretical knowledge, we understand in a theoretical way, that an increase in land rent is a particular exemplification of the Ricardo's Law of Rent³⁷. As such, economic theory (be it the empirical-realistic orientation or the exact orientation) is necessary for this historical understanding. Such an approach clashes head on with the methodology advocated by the German historicists.

Menger further claimed that in order to study human history, there was another factor which also needed to be taken into account. According to the Austrian author, there existed two different types of human phenomena; that which had a deliberate or pragmatic origin, and that which had a spontaneous or non-intentional origin.

Social phenomena with a pragmatic or deliberate origin are those which come about as the result of a human being's conscious desire. For example: a war, founding an anonymous society, purchasing a loaf of bread, setting tariffs, drawing up an import substitution industrialization policy, etc. According to Menger, in order to analyze these phenomena, the objective which the associations or their leaders were working towards in the creation or development of said social phenomena, needed to be investigated along with every step of the

³⁴ MENGER, C. *Investigations...*, p. 43.

³⁵ MENGER, C. *Investigations...*, p. 43.

³⁶ MENGER, C. *Investigations...*, pp. 43-44.

³⁷ The Law of Rent, which was formulated by David Ricardo, «states that the rent of a land site is equal to the economic advantage obtained by using the site in its most productive use, relative to the advantage obtained by using marginal (the best rent-free) land for the same purpose, given the same inputs of labor and capital.» (New World Encyclopedia).

process. Additionally, the obstacles which they came across in this process and the way in which the available means were used to meet the desired objectives would also need to be analyzed. Consequently, according to the Austrian economist, the social scientist could evaluate both critically and historically these social phenomena by analyzing the end results put forward by the individual participants, the original means which were at their disposal and the results achieved. Menger argues that to carry out such an evaluation, an economic theory is necessary.

The second social phenomena, according to the Austrian, had an organic or spontaneous (non-intentional) origin, such as, money, language, religion, human settlements, competition, markets, the State, etc. These non designed social institutions were products of social evolution and were neither planned, nor consciously conceived by anybody. He continued that their origin had to be looked for in the actions of people, who, whilst pursuing essentially individualistic objectives, unintentionally gave rise to the institutions which have now become fundamental to the smooth running of today's society. As an example, Menger³⁸ explains that

As a rule, (...) new localities arise 'unintentionally', i.e., by the mere activation of individual interests which of themselves lead to the above result furthering the common interest, i.e., without any intention really directed toward this. The first farmers who take possession of a territory, the first craftsman who settles in their midst, have as a rule only their *individual* interest in view. Likewise, the first innkeeper, the first shopkeeper, the first teacher, etc. With the increasing needs of the members of the society still other economic subjects find it advantageous to enter new professions in the gradually growing community or to practice the old ones in a more comprehensive way. Thus there gradually comes into being an economic organization which is to a high degree of benefit to the interests of the members of the community. Indeed, their normal existence finally could not be imagined without it. Yet this organization is by no means the result of the activation of the common will directed toward its establishment. This will is more likely to appear as a rule only in more advanced stages of development of communities, and it is more likely to produce, not the establishment, but the perfection of the 'organically' created social structures. (*Italics in the original*).

Menger³⁹ went on to clarify that to understand the spontaneous emergence of this phenomena, a combination of the realistic empirical orientation and of

³⁸ MENGER, C., *Investigations...*, p. 156.

³⁹ MENGER, C., *Investigations...*, pp. 139-140.

the exact theoretical orientation was necessary, because it is only through the union of both that the greatest understanding of these phenomena is possible. With regards to the exact theoretical orientation, the Austrian economist explains that in order to understand the nature and the development of spontaneous phenomena, it is necessary to look at the individual motivations constituting these and trace these back to their origins and from there, take the same route which they followed until arriving at the size and shape they currently have. Thus, the social scientist must investigate the laws according to which these complex phenomena in human economics emerge from their own simpler and original elements.

We must add at this point, that the Austrian economist considered that his explanation of the emergence of spontaneous phenomena was one of his most original and ground-breaking contributions to economics⁴⁰. In fact, with a certain passion and fascination Menger⁴¹ asked himself: «*How can it be that institutions which serve the common welfare and are extremely significant for its development come into being without a common will directed toward establishing them?*» (Italics in the original). We believe that this is a further development of Adam Smith's principle of the invisible hand.

In short, according to the Austrian economist, in order to understand past human phenomena, we need to use a combination of historical methodology and economic theory (in both its empirical-realistic and theoretical-exact orientations). In addition, the origin of these phenomena can be either pragmatic or spontaneous; in the first case, economic theory serves as a tool for the critical assessment of the actions undertaken by the individual protagonists of these phenomena, and, in the second, it becomes an essential tool in the understanding of the process of its formation. In other words, for Menger, economic theory is a science which is both auxiliary and instrumental for historians.

These methodological approaches to the study of history posed a critical affront to the German Historical School of Economics which, at least formally, avoided the use of economic theory as a tool for the understanding of history. Furthermore, these methodological principles, would later come to be one of the most characteristic features of the Austrian School of Economics' methodology, and especially of the methodology of Ludwig von Mises⁴².

⁴⁰ CADWELL, B. *Hayek's challenge: An intellectual biography of FA Hayek*. Chicago and London 2004, p. 74.

⁴¹ MENGER, C., *Investigations...*, p. 146. In this sense, one of the most important contributions of Menger was his explanation of money as a spontaneous institution that tends to emerge in the market (MENGER, C., "On the origin of money". *The Economic Journal*, 2/6. (1892) 239-255).

⁴² MISES, L. *Human...*, chap. 1.

In defense of Practical Sciences

As we have seen, for Menger, Economic Sciences was composed of three different sciences: Historical, Theoretical and Practical. The latter two put together can also be called Political Economy. Additionally, he saw Practical Sciences as having its basis in Theoretical Sciences.

In contrast, for many historicists, Practical Sciences were only a «manual book of measures» and could not be given the status of being named as science. Additionally, they did not believe it was possible to draw up a method to solve all the specific problems occurring throughout history. In fact, in order for Economic Policy and the Science of Finance (that is, Practical Sciences) to be seen as more than just a manual book, Gustav Schmoller believed it was necessary to «elevate» them to the level of Theoretical Sciences. This was the only way to stop them being downgraded.

In Menger's opinion, there was no basis to the claim that Practical Sciences were inferior to history and theoretical economics. He believed that sciences should not be divided according to their status, but according to their function. The Austrian economist believed that it was pointless and it showed a complete lack of understanding about the nature of Practical Sciences, to even try to convert them into Theoretical Sciences. Therefore, the only way to «elevate» Practical Sciences is by allowing «them to fulfill their own particular functions in the best way possible taking into account the current state of human development and the specific circumstances of each concrete case»⁴³. He mockingly continued that:

elevating the latter [Practical Sciences] is about as profound an idea as that of an architect wanting to elevate cement to the status of a façade, or the spire of a column to that of a pedestal, presenting it as a historical breakthrough in the field of architecture.⁴⁴

For the Austrian economist, Practical Sciences provide the best way of reaching certain *general* objectives according to distinct situations, but they cannot provide a precise and definite formula for every concrete case. This would be impossible. He saw the development of Practical Sciences as the result of accumulating experiences from having solved real and specific problems. In fact, he considered that, even when Practical Sciences were not in the position to offer a concrete solution to «practical man» (a businessman or public administrator), they nevertheless provided a fundamental guideline

⁴³ MENGER, C., *Los errores...*, p. 363.

⁴⁴ MENGER, C., *Los errores...*, p. 362.

for action, because they guaranteed a systematic global vision of all the processes capable of meeting analogue objectives. Menger⁴⁵ concluded that

the most well developed Practical Sciences are very different to a collection of formulas: in conjunction with Theoretical Sciences, they are the true polar star used by the expert as a guide for the infinite number of cases which, in practical life, represent the rule.

Ludwig Brentano addressed this matter in a conference he gave in 1889 entitled, «Reasons for the poverty of current times», in which he accused economic theory of being incapable of eliminating poverty. In his opinion, investigations by the «Abstract School» lacked value, because their theoretical investigations were supposedly incapable of warding off «social misery and the dangers to social order which come from it».

Menger believed Brentano was right to assert that economic theory is incapable of eliminating misery, but he also believed that this was not necessarily a bad thing, as this was not the task which economic theory was meant to deal with. He saw the function of economic theory as being that of investigating the essence and interrelations of economic phenomena in order to facilitate people's understanding of them. It would therefore be absurd to attack economic theory for only dealing with the tasks it was supposed to. The task of guiding principles and procedures in order to be able to intervene adequately in distinct historical situations belonged to Practical Sciences (Economic Policy and the Science of Finance). Accordingly, given that it is precisely in economic theory that Practical Sciences have their basis, Menger⁴⁶ saw the failing of Practical Economic Sciences as a mere reflection of arrears in economic theory. An improvement in this situation would only be possible once a better understanding of the internal correlation of economic phenomena (that is, a further development of economic theory) had been achieved.

Additionally, Menger⁴⁷ warned of the danger of basing practical action upon an erroneous theory: «incorrect theories (...) could also, and often have, lead to mistakes being made in the sciences which use these theories as their basis». A good example of this were the mercantilists who, on the basis of an erroneous concept of wealth, practiced flawed Political Economy which, in turn, hindered the economic development of their countries.

⁴⁵ MENGER, C., *Elementos de clasificación de las Ciencias Económicas*, in *El método de las ciencias sociales* (ed. D. Antiseri & J. M. de la Fuente), Madrid 2006, p. 403.

⁴⁶ MENGER, C., *Elementos...*, p. 417.

⁴⁷ MENGER, C., *Elementos...*, p. 418.

In short, in Menger's methodological work, there is a «dignifying» of Practical Sciences as a relevant part of Economic Sciences.

V. CONCLUSIONS

Many historians consider the *Methodenstreit* to have been a futile debate⁴⁸. Schumpeter, for example, referred to this debate as a «history of wasted energies»⁴⁹. Mises himself declared that the debate did not help to clarify the methodological question:

The *Methodenstreit* contributed but little to the clarification of the problems involved. Menger was too much under the sway of John Stuart Mill's empiricism to carry his own point of view to its full logical consequences. Schmoller and his disciples, committed to defend an untenable position, did not even realize what the controversy was about⁵⁰.

However, in contrast, we consider this debate to have had multiple benefits. Firstly, this controversy is of great interest as it is the vindication of the importance of finding the correct path for drawing closer to scientific truth within the field of Economic Sciences. Secondly, as we have been able to ascertain, many of the ideas considered in this dispute, still arise in today's debates on scientific methodology⁵¹. Finally, a further benefit of this historical episode, was that, as tends to occur when there is a prolonged debate, the *Methodenstreit* was as much use to historicists as to Austrian economists, in giving them time to perfect and develop their methodological positions. As such, it contributed to the improvement of their scientific output⁵².

Nevertheless, according to Caldwell⁵³, the debate also had the negative effect of overshadowing the points which the Austrian School and the German Historical School of Economics had in common. For example, both schools used a variant of the «man-actor» in their treaties, as opposed to the *homo economicus* so particular to the Classical English School and to neoclassical

⁴⁸ LOUZEK, M., «The battle...», pp. 451-455.

⁴⁹ SCHUMPETER, J., *History of economic analysis*. New York 1954, p. 814.

⁵⁰ MISES, L., *The historical setting of the Austrian School of Economics*. Alabama 1984.

⁵¹ Accordingly, we believe that the main methodological and epistemological debate in Economic Sciences today lies between the groups defending the hypothetical-deductive method and those defending the axiomatic-deductive method.

⁵² We need only look at the methodological differences amongst the authors of the Austrian School, such as Rothbard, Hayek, Machlup, Zanotti, and Hoppe to confirm how successful the *Methodenstreit* was in encouraging debate, reflection and scientific advancements.

⁵³ CADWELL, B., *Hayek's...*, p. 77.

analysis which developed later on. Furthermore, both schools rejected positivism and Marxism, and both saw the study of the origin of social institutions as one of the fundamental questions in Economic Sciences. Anderson⁵⁴ also thinks that the ideas of the historicists and the Austrians could be considered complementary and not competitive in many aspects.

In relation as to who prevailed in the debate, we can consider the historicists as winning this debate within the German Academy⁵⁵; in fact, economists from the Austrian School were banned from universities in Germany until at least the 1920's. However, this does not prove anything about the actual methodological ideas debated, as the German Historical School found itself to be in a dominant *mainstream* position and was able to make use of this predominant position.

Be that as it may, if we take modern economic theory as our point of reference for determining who was the victor in the debate, we believe that the current predominant methodologies are more fitting to Menger's central methodological positions (the existence of universal economic laws) than to the German historicists' ones (a difference in the validity of economic laws depending on the historical moment). This is because, although there are different methodological viewpoints within today's economic theory, they all defend **the existence of an objective economic theory** which is valid no matter the time, the person or the place. The only differences in the subgroups lie in their methods for constructing this economic theory.

Thus, for the defenders of the hypothetical-deductive method, the task of this methodology is that of making correct predictions; it should be judged therefore, according to the precision, the scope and the consistency with experience of its predictions, in the same way as any other physical or natural science is. Hypotheses and premises are irrelevant for the validation of economic theories, as these should be judged in terms of their instrumental value when it comes to generating exact predictions. For Milton Friedman, whose essay «The Methodology of Positive Economics» (1953) continues to be the most important philosophical justification of positivism, prediction is the key element when it comes to accepting or rejecting a hypothesis or economic theory which attempts to explain a phenomenon. *The power of prediction becomes, therefore, the criteria for validating a hypothesis.* The hypothesis will be accepted/confirmed if the empirical evidence *verifies* the predictions, and will be rejected if it contradicts said predictions. This economist from Chicago, however, clearly stated that

⁵⁴ ANDERSON, G., et al., «*Methodenstreit...*», pp. 408-411.

⁵⁵ CADWELL, B., *Hayek's...*, p. 82.

positive economics could be seen as a science, as it is based on scientific methods and attempts to establish *universal laws of behaviour* in order to be able to make predictions about the behaviour of determined variables. According to Friedman, positive economics stand alone, independent of all ethical positions and of any particular normative judgement. As such, it can be seen as an «objective» science in the same way as any of the other physical sciences (a comparison which was also made by John Neville Keynes), although, as it deals with human beings (the object of its study), objectivity is more difficult. It is a science which deals with aspects which are less concerned with evaluative considerations and more with prospective concepts.

For the group defending the axiomatic-deductive method, which most economists from the Austrian School belonged to, there exist laws governing social cooperation which are as valid, exact and true as the laws of Natural Sciences are⁵⁶. They believed that the rules governing human action and social cooperation should be studied «in the same way that a physicist examines those governing nature». This group of scientists use as their starting point a series of axioms (from the Greek ἀξιώμα: that which is considered to be true without the need for verification or demonstration) and proceeds deductively from there.

As we can see, the differences come from the methodological, not the epistemological position, in which a great majority of the current branches coincide with the principles defended by Menger in the *Methodenstreit* where he refers to the universality of economic laws.

Clearly, we cannot say that today's mainstream methodology of Economic Sciences can be called Mengerian because other factors and questions, as we have just shown, come into play; however, it seems clear to us that the development of Economic Sciences, at its root, is closer to the ideas of Menger than to those of the German Historical School. What is more, it can be considered that the hyper-realist methodology of the German historicists has presently been abandoned.

⁵⁶ Mises states: «Man's freedom to choose and to act is restricted in a threefold way. There are first the physical laws to whose unfeeling absoluteness man must adjust his conduct if he wants to live. There are second the individual's innate constitutional characteristics and dispositions and the operation of environmental factors; we know that they influence both the choice of the ends and that of the means, although our cognizance of the mode of their operation is rather vague. *There is finally the regularity of phenomena with regard to the interconnectedness of means and ends, viz., the praxeological law as distinct from the physical and from the physiological law*». (Italics in the original) (MISES, L., *Human...*, p. 885).

We believe that the contributions of Carl Menger to the development of the methodology of Economic Sciences is highly significant. As such, we agree with Hayek (1976) that,

As a polemic against the claims of the Historical School to an exclusive right to treat economic problems the book [*Investigations into the Methods of the Social Sciences with special reference to Economics*] can hardly be surpassed. (...) But to me, at any rate, its main interest to the economist in our days seems to lie in the extraordinary insight into the nature of social phenomena which is revealed incidentally in the discussion of problems mentioned to exemplify different methods of approach, and in the light shed by his discussion of the development of the concepts with which the social sciences have to work.

As for Carl Menger's most important methodological ideas, we would like to highlight the following:

- An intuitive classification based on the different components making up Economic Sciences. Menger makes a clear distinction between the roles of theory and history.
- A solid defense of the possibility of developing a single universal and a-temporal economic theory.
- A defense of the central role of a deductive or «abstract» theory in the development of Economic Sciences. This defense, without a doubt, lay the foundations for the Austrian School of Economics' *a priori*-deductive approach.
- A defense of methodological individualism as opposed to the «methodological collectivism» of the German Historical School: individual human beings are the main characters of social processes and as such, the study of this process should begin with human beings and not with macroeconomic aggregates.
- A definition of two legitimate orientations in economic investigation: the «realistic empirical orientation» and the «exact theoretical orientation». Menger analysed both the virtues and the limitations of each, stating that both are of equal value in theoretical investigations.
- A frontal assault against the methodological concept of historicism, as well as a response to all its critics (atomism, individual interest, etc.).
- A justification of the need to use economic theory as an auxiliary science for the understanding of history.

- An outstanding theory for the understanding of social phenomena, whether they have a pragmatic or a spontaneous origin.
- A «dignifying» of Practical Sciences and a definition of its proper relation with Theoretical Sciences.

Consequently, we believe Menger established the methodological foundations for the Austrian School of Economics by highlighting the importance of economic individualism and of theoretical aprioristic-deductive analysis. He defined the goals of history and its relation to theory, in addition to developing a theory for the emergence of institutions which would come to be perfected by Austrian economists later on.

We can therefore conclude that Carl Menger's ideas and contributions were the starting point for the development of Ludwig von Mises' epistemology and methodology. Mises took on the deductive process and refined it until he arrived at his pure theory of human action (praxeology). He can thus be seen as the authentic heir to the Austrian tradition which began with Menger and, in our opinion, he then went on to become the most significant person from the last century in developing the field of universal economic laws.

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