

*METHODENSTREIT* –  
WHY CARL MENGER WAS, AND IS, RIGHT

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## The (Older and Younger) Historical School

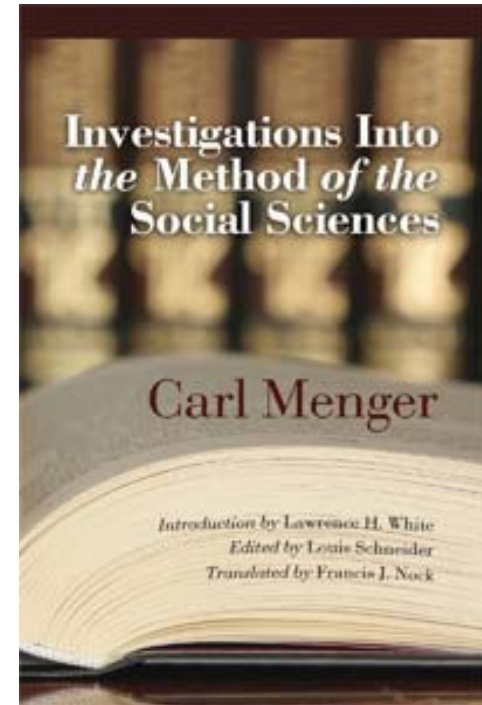
- Older Historical School
  - Wilhelm Georg Friedrich Roscher (1817 – 1894), *Grundriss zu Vorlesungen über die Staatswirtschaft nach geschichtlicher Methode* (1843)
  - Bruno Hildebrand (1812 – 1878)
  - Karl Knies (1821 – 1898)
  
- Younger Historical School
  - Gustav von Schmoller (1838 – 1917)
  - Georg Friedrich Knapp (1842 – 1926)
  - Karl Wilhelm Bücher (1847 – 1930)
  
- The *methodological position* of the Younger Historical School:
  - The representatives of the Younger Historical School rejected economic theory for its advocacy of universally valid economic laws. It was argued that economic laws could only be as universal as the conditions to which they referred. Since history was a process of constant transformation of

the conditions of human existence, there could be no such thing as an economic law.

- At best, there could be "laws" describing the economy of a more or less unique period and, all insights about this economy had to be derived from studies of concrete historical episodes.
- In fact, the Younger Historical School advocated (radical) *positivism-empiricism, inductivism and relativism* (“*anything goes*”): One can never definitely establish whether a hypothesized relationship between two or more economic variables exists or not.

## Carl Menger and the *Methodenstreit*

- Carl Menger (1840 – 1921), in his *Untersuchungen über die Methode der Sozialwissenschaften und der politischen Ökonomie insbesondere* (1883) refuted the methodology of the Younger Historical School.
- His *Investigations* led to the *Methodenstreit*, the battle of method: It pitted the emerging Austrian School against the Historical School over a critically important question: *what is the proper way to do social science?*
- Menger explained that there are economic laws in the sense of “exact laws of reality”, and that the method of historical research was unable to discover these laws.
  - *Example of an “exact laws of reality”*: A rise (decline) in the amount of money (in the economy) necessarily leads to a fall (rise) in the purchasing



power of a money unit (*compared to a situation in which the money supply had remained unchanged*).

→ Mises (1984 [1969], p. 12) saw the Methodenstreit being about *epistemology*: “The term Methodenstreit is, of course, misleading. For the issue was not to discover the most appropriate procedure for the treatment of the problems commonly considered as economic problems. The matter in dispute was essentially whether there could be such a thing as a science, other than history, dealing with aspects of human action.”

“The realistic-empirical orientation of theoretical research, as we saw, offers us in all realms of the world of phenomena results which are formally imperfect, however important and valuable they may be for human knowledge and practical life. They are theories which give us only a deficient understanding of the phenomena, only an uncertain prediction of them, and by no means an assured control of them. From the very beginning, too, the human mind has followed another orientation of theoretical research beside the one discussed above. It is different from the latter both in its aims and in its approaches to cognition.

The aim of this orientation, which in the future we will call the *exact* one, an aim which research pursues in the same way in all realms of the world of phenomena, is the determination of strict laws of phenomena, of regularities in the succession of phenomena which do not present themselves to us as absolute, but which in respect to the approaches to cognition by which we attain to them simply bear within themselves the guarantee of absoluteness. It is the determination of laws of phenomena which commonly are called "laws of nature," but more correctly should be designated by the expression "*exact laws*."

—Carl Menger, (1985 [1883]), *Investigations*, p. 59.

## Refuting positivism-empiricism

- *Positivism* is a *philosophy of science*, based on the ideas of Henri de Saint Simon (1760 – 1825) and Auguste Comte (1798 – 1857). It rests on the assertion that *theology* and *metaphysics* are earlier imperfect sources of knowledge, and that *positive knowledge* is based on natural phenomena, with its properties and relations verified by the empirical sciences.
  - Positivism holds that: (1) sense experience is the only (and measurable) source of human knowledge; (2) that knowledge can come only from affirmation of theories through strict scientific method; and (3) the validity of metaphysical speculation must be rejected.
- *Empiricism* (as applied in the field of *social sciences*) considers *natural sciences* to be its model and can be characterised as follows:
  - Empiricism maintains that economic propositions have the same logical status as *laws of nature*, and it states *hypothetical relationships* between two or more events, essentially in the form of *if-then statements*.

— It maintains that economic propositions require continual testing vis-à-vis experience. They can never be validated once and for all with certainty, as the economic hypothesis is forever subject to the outcome of contingent, future experience.

→ If data testing *confirms* the hypothesis, empiricism would say that it is *not validated* (once and for all), as there remains the possibility that the relationship(s) under review might be falsified by future experience (using new data and/or including explanatory variables which were hitherto “uncontrolled”).

→ If, however, data testing suggests a rejection of the hypothesis, it would not prove that the hypothesised relationship could never be observed through future testing, so it is *not falsified* either.

- Empiricism is actually expressive of *scepticism*, which can be formulated as: *nothing can be known with certainty, and anything might be possible in the realm of economics*; it leads to a philosophy of *social and economic relativism* (Hoppe (2007a, b [1995])).



→ Perhaps most prominently, David Hume (1711–1776) rejected the notion of *causality* (which is, in terms of *praxeology*, a category of human action). Hume stated that even if we observe one event continually following another, we cannot conclude a *necessary connection* between the two (*post hoc, ergo propter hoc fallacy*).

- However, upon closer examination it can be shown that *empiricism* (as well as *historicism* (as will be shown below)) is in fact a *self-contradictory doctrine* (Hoppe (2007a, b [1995]):

— The empiricist statement that all economic events are only *hypothetically* related is contradicted by the message of the basic empiricist proposition itself.

→ If this proposition is regarded as itself being merely *hypothetically true*, it would not qualify as an epistemological pronouncement. Empiricism would not provide any justification whatsoever for its claim that economic propositions are not, and cannot, be *categorically*, or *a priori*, true.

→ If, however, we assume that the empiricist claim is categorically true, it would belie its own thesis, namely that empirical knowledge must invariably be hypothetical knowledge – thereby making room for a discipline as economics claiming to produce a priori valid (empirical) knowledge.

- There is another important reason why empiricism is a *self-contradictory*, self-defeating, *doctrine*, because it tacitly assumes the existence of non-empirical knowledge as “real knowledge”. This becomes obvious as the prerequisite of being able to falsify or confirm a theory on the basis of experience necessarily assumes the *constancy principle*.
  - Experience only reveals that two or more observations regarding the temporal sequence of events can be classified as “repetition” or as “non-repetition”.
  - Such reasoning, however, implicitly assumes that there are *constant causes* which operate in *time-invariant ways*. Without assuming the *constancy principle*, the observations are and remain non-repetitive registered experiences, not in any way related events; *contingency* does not play any part in the way causes operate.

→ However, the *constancy principle* is not based on, or derived from, experience. There is no observable link connecting events. Even if such a *link* were observable, one could not say whether or not it was *time-invariant*.

→ The *constancy principle* cannot be disproved by experience. Any event which might appear to disprove it (such as a failure to duplicate some experience) could be interpreted as if experience had shown here that merely one *particular* type of event was not the cause of another (otherwise the experience would have been successfully repeated). However, to the extent that experience cannot exclude the possibility that *another* set of events might be found which would turn out to be time-invariant in its way of operating, the validity of the constancy principle cannot be disproved.

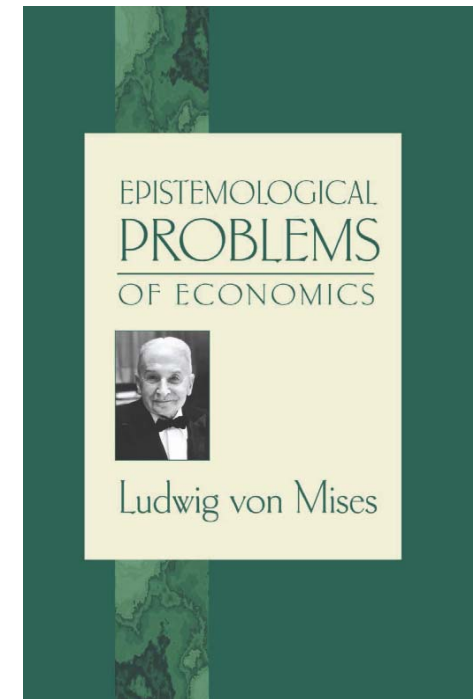
- *Historicism* suggests that economic phenomena are not objective magnitudes that can be measured, but are subjective expressions and interpretations unfolding in history to be understood and interpreted by the economist – just as a literary text unfolds before and is interpreted by its reader.

- Note that *historicism* states that nothing in the literary text (historical account), and nothing in the historical sequence of historical events, is governed by constant relations; anything that happened had to happen in the way it did.
- The formation of human expressions (actions) and their interpretation are also not constrained by any kind of objective law. Economic events are whatever economists or historians (taking a subjective view) express or interpret them to be.
- If historicism claims that economic and historical events – which are sequences of subjectively perceived events – are not governed by any constant, time-invariable relations, then this proposition cannot claim to say anything constantly true about economics and history.
- In fact, *historicism* would lead to propositions with *fleeting value*. A certain historically observed economic relation may be true now, if we wish, on one occasion, yet it may possibly be false one another occasion. However, if this is the case, then historicism must be assumed to be constrained by something outside the realm of arbitrary subjective creations:

- If the historicist proposition is assumed to be *invariably true*, then such a proposition about the constant nature of historical and economic phenomena would contradict its own doctrine – which actually denies any such constant relationships.
- If, however, historicism holds that economic sequences are *not* governed by constant, time-invariable relations, then this very proposition also cannot claim to say anything constantly true about history and economics.
- As a result, historicism cannot claim anything if it were not for the fact that its expressions and interpretations are constrained by laws of logic as the very presuppositions of meaningful statements as such.

## Economics as an *a priori* theoretical science

- Ludwig von Mises (1881 – 1973) re-constructed economics as an *a priori theory*.
- He identified economics as a sub-field of *praxeology* – the logic of human action –, resting on the *axiom of human action*.
- The *axiom of human action* represents a *synthetic a priori judgement* (in the Kantian sense) – and as such it is *irrefutably true*.
- Identifying economics as a form of applied logic derives from the status of the axiom of human action, with the latter being an a priori-true synthetic proposition.



## **References**

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