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66 The Methodenstreit

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The conflict that is known to historians of economic thought as ‘The Methodenstreit’ was a debate concerning the methods and morphology of economics in which the primary participants were Carl Menger (1840–1921) and Gustav von Schmoller (1838–1917). It was inconclusive at the time and notable for the vitriolic nature of the language used by the contending parties. In addition, for the remainder of his life Menger was so preoccupied with the issues raised in the dispute, as well as with associated considerations, that he never completed the writing and publication of either a promised general economic treatise or one on economic method.

History of the debate

Menger began the debate with the publication of his *Untersuchungen ueber die Methode der Socialwissenschaften und der Politischen Oeconomie insbesondere* in 1883. This was 12 years after publishing his *Grundsätze der Volkswirtschaftslehre* – the book that was to make his name and open a path to the prestigious economic theory chair at the University of Vienna. In the *Untersuchungen* Menger presented an argument against the concept of economics as an historically based discipline to be pursued solely by the application of an ‘historical method’ as, he contended, was the view among members of the German historical school. He also presented his own views on the nature, problems and limits of the discipline, as well as on the question of the methodology appropriate to both natural and social sciences and to each of the major divisions of political economy (theory, policy and finance).

It is not known exactly why Menger chose to attack the historical school, of which Schmoller was the leader and primary spokesman at the time. Menger’s *Grundsätze* had been dedicated to Wilhelm Roscher, the founder of the German school, and it had not been poorly or hostilely received by members of either the older or the younger generations of historicist scholars, although it certainly had not been hailed as the pathbreaking contribution to economic theory that it was. Whatever the reason for the subsequent several years of effort that Menger devoted to the *Untersuchungen*, the result was a broad-based attack on the historical method as well as on the historicists’ basic conception of political economy as a discipline focused on the study of the economic development of national collectives.

Schmoller's reply to the attack took the form of a severe review in his *Jahrbuch* (1883), expressing strong opposition to key aspects of Menger's criticism of the historicists as well as to what he understood to be Menger's own position. Menger then responded in 1884 with a particularly insulting and cavalier treatment of Schmoller in *Die Irrthuemer des Historismus in der Deutschen Nationaloekonomie*. Schmoller made no rejoinder, instead returning *Die Irrthuemer* to Menger unreviewed. As the Austrian school formed around Menger, Wieser and Böhm-Bawerk in later years, there were sporadic outbreaks of conflict between representatives of the two schools. Thus, from an argument between Menger and Schmoller, the dispute escalated into a general opposition between the Austrian and historical schools, marked by periodic skirmishes.

The explanation of the root of this clash of scholars is by no means as simple a matter as it appears; nor did the conflict much involve personal or sociopolitical elements – although one of the results was that Schmoller's influence was rumored to have largely excluded adherents of the Austrian side of the argument from academic positions in Germany. Surprisingly, the *Methodenstreit* was not really even fundamentally a dispute over specific methods of economic research, but instead (Bostaph, 1976, 1978) was founded on their organizing and animating principles; that is, it stemmed from basic conflicts in the epistemological and metaphysical foundations of the complex of methods that constituted the respective methodologies of Menger and the historicists. The historical school was primarily informed by Humean nominalism, while Carl Menger is best understood in the context of nineteenth-century Aristotelian/neo-scholasticism. Unfortunately, neither Menger nor Schmoller recognized this and so never debated the most fundamental issues that separated them – their strongly differing theories of concepts, or universals, and of causality. Instead, they concentrated on the more superficial questions of the appropriate branches of economics, the goals, scope and phenomena addressed by each branch, how best to construct economic theory and to what degree the theory of economics provides an understanding of the economic activity from which it is somehow derived. On all these questions their respective answers stemmed from underlying and contrasting epistemological principles that inevitably produced contrasting methodologies. The *Methodenstreit* actually was the surface representation of the perennial and fundamental opposition between rival epistemological foundations of two basic methodological tendencies, the historical–empirical and the abstract–theoretical.

Historicist epistemology

Wilhelm Roscher (1817–94) was the founder and most important member of the Older Historical School, of which the other two most prominent members

were Bruno Hildebrand (1812–78) and Karl Knies (1821–98). Gustav von Schmoller was the leader and primary spokesman for their successors, conventionally grouped under the label the Younger Historical School. There were a number of differences in major beliefs between the two generations; however, they were united in their primarily empiricist and holistic orientation. Both generations argued for the application of a descriptive ‘historical method’ to the data of history in order to derive economic laws; however, they differed concerning the scope or necessity of those laws.

Roscher argued that absolute laws of economic development could be found by intertemporal and interspatial comparisons between societies, social processes and social institutions. Such laws would be different in nature from the economic laws that would characterize a given ‘stage’ of a particular society. Such ‘short-run’ laws would describe the ‘physiological’ processes of specific economies and thus be relative in space and time, with no claim of universality. Hildebrand and Knies differed with Roscher concerning the ‘absoluteness’ of such laws of development, but they did not reject his empiricist and holistic method. This use of the same empirically descriptive approach to derive laws differing in their degree of necessity implied epistemological inconsistency – an inconsistency later eschewed by Schmoller, who denied entirely the possibility of any ‘absoluteness’ in the laws obtained through the descriptive historical method.

Roscher and the older historical school argued for the study of entire ‘social organisms’, while Schmoller turned to the study of social institutions and their interrelations, and of social processes within national economies. He argued for the observation, description, classification and formation of concepts of these institutions and of their relations as a necessary preparation for describing the ‘general essence’ of economic phenomena, or general theory. Schmoller’s notion of causal relations, like his notion of concept formation, was also descriptivistic; it was directed to the discovery of ‘short-run’ empirically observed uniformities in the sequence of phenomena. The result would be economic ‘laws’ relative to, or contingent on, the context within which they were detected. The complex of concepts and laws resulting from the application of this historical method would be the sought-for economic theory – necessarily relative or contingent, as well as ‘collectivistic’ in nature. The notion of causality that best explains Schmoller’s understanding of the epistemological nature of economic concepts, law and resulting theory is that of Humean nominalism. It was this philosophical position that supported his advocacy of an ‘historical method’ as the sole appropriate means of theory construction and guarantee of its relativity.

Carl Menger's epistemology

In his attack on the historical school, Carl Menger especially opposed the view that there was only one method by which to comprehend economic reality and to produce economic theory. He argued that economic history was only one branch of a discipline that also included economic theory and the practical sciences of economic policy and public finance, and that to claim that the same method was to be used in each was to claim an absurdity. Each subject area was to be pursued by the methods appropriate to research in the particular phenomena at issue and adequate to the goals sought. Menger was especially concerned with the historicists' claims for their method as a means of generating economic theory. By 'economic theory' Menger meant the explanation of the general nature and general connections of economic phenomena, as opposed to the description of the nature and connections of singular or collective individuals that he identified as properly being the subjects of economic history. He argued that economic theory could only be produced by one of two different methods, the 'exact' or the 'realistic-empirical'. Each produced theories that differed in the degree of 'strictness' or 'absoluteness' from the other.

Regularities in the coexistence and succession of phenomena discovered by observing the actual 'types' and 'typical relationships' of phenomena Menger termed 'realistic-empirical' theory, and these were subject to exceptions and to change with time. In a sense, this was the kind of theory that the historicists claimed to be able to discover, although they (and, especially, Schmoller) had a different (and to Menger, faulty) understanding of the way in which a 'type' or a 'typical relationship' was apprehended. On the other hand, regularities in the coexistence and succession of phenomena that were discovered by the 'exact' method admitted no exceptions because of the process of cognition involved in the method itself. Here, Menger presented his most abstract and arcane explanation and one still the subject of considerable differences in interpretation. The one found here is my own and results in the general attribution to Menger of an Aristotelian/neo-scholastic epistemology. It is generally agreed that Menger was strongly influenced by Aristotelianism of some sort; it is not agreed how this occurred or to what degree. Some varying views may be found in Smith (1986) and Caldwell (1990). Menger never specifically characterized his epistemology as Aristotelian and made no specific references to Aristotle's writings on either metaphysics or epistemology. Neither did he refer in his own publications to the epistemological writings of contemporary Aristotelian scholars or publish any purely epistemological books or papers.

Menger argued that regularities in the coexistence and succession of phenomena discovered by the 'exact' approach admitted no exceptions because of the process of cognition through which they were revealed. In order to

derive 'exact' laws, it was first necessary to establish what were 'typical' phenomena. This was the identification of an essential *defining quality* or 'essence' (*das Wesen*) in individual phenomena *that made possible their recognition* as representatives of that type. In this solution of the problem of concepts, or universals, Menger said he sought the 'simplest' elements of everything real; and then, in the search for economic laws, he sought to isolate them and to use the 'simple elements' so obtained to deduce (1883, p. 61) 'how more complicated phenomena develop from the simplest, in part even unempirical elements of the real world'. Thus Menger sought not only the general knowledge exemplified in 'types', but also that exemplified in 'typical relationships'. He believed that those typical relationships, or general connections between economic phenomena, could be discovered in an 'exact' sense as 'exact' laws. An 'exact' or causal law was an absolute statement of necessity to which, Menger pointed out, exceptions were inconceivable because of the 'laws of thinking'.

An Aristotelian interpretation would be that Menger believed that entities in reality act according to their natures in 'typical' relationships. Thus a concept of an entity, if it embodies the essence of that entity as an instance of a type, will embody its nature. Reasoning which uses those conceptual 'simple elements' will be reasoning that proceeds according to their natures, and will construct (deduce) conceptual systems of causality corresponding to the causality of the real world. This is because the causal connection exists and is to be detected between determinate things in existence that have a determinate nature. To apprehend a causal relation is to apprehend this connection *by means of* the determinate things in the connection whose actions produce it, and which can only act or be acted upon in accordance with their natures. Thus conceptual or 'theoretical' causal laws are laws of the real – and, in Menger's words, they are 'absolute'.

It should not be difficult to understand the reaction of Schmoller to Menger's *Untersuchungen*, and to the deductive universalistic theory implied by Menger's 'exact' approach, given Schmoller's strong empiricistic orientation and fundamental rejection of any more abstraction from the whole empirical complexity of economic phenomena (as they occur in specific social contexts) than is pragmatically necessary. On the other hand, Menger refused to grant full theoretical status to any theory generated by an historical method because he held theories of concepts and causality that differed from those of the historical school. The essences of economic phenomena with which he was concerned were 'atomistic' general 'types' and their logically derivative 'typical' causal relationships; they were not the collectivistic individuals, and their contingent relations, of interest to the historicists. He had no use for a 'holistic' and contextual approach and refused to grant causal status to historicist empirical laws. Likewise, Menger's use of the 'simple element' of

self-interest and his monocausal approach was unacceptably 'unrealistic' to Schmoller, who believed economic behavioral motives to be multitudinous, as were the causal influences in any empirical context.

See also:

Chapter 5: Aristotelianism, apriorism, essentialism; Chapter 2: Methodological individualism; Chapter 28: Self-organizing systems; Chapter 30: Spontaneous order

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