

Carl Menger on Theory and History

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Abstract: The distinction between the theoretical and the historical social sciences is one of the most important aspects of the Austrian School of economics' epistemological framework. Ludwig von Mises, one of the main representatives of this school of thought, even wrote an entire book on epistemology and methodology titled *Theory and History*. This distinction, however, was introduced many decades earlier by the very founder of the Austrian School, Carl Menger. If the epistemological implications of this distinction permeate all of his work, his *Investigations Into the Method of the Social Sciences with Special Reference to Economics* emphasized more explicitly on the proper tasks of theoretical and historical economics in the elucidation of social phenomena. In brief, because historical data are complex and individualized, the resolution of social enigmas requires that we *organize* these data using *theory*. Theory consists of the set of all elements that are *general* in the phenomena of interest, thus allowing us to classify historical events into types. It is through theory, according to Menger, that we can make sense of history. The following paper seeks to provide an analysis of this fundamental epistemological distinction. It will thus be divided in two distinct but interrelated sections (other than the introduction and conclusion). The first section of this paper will indicate some of the philosophical influences behind Menger's distinction between theory and history. It will in particular insist on his Aristotelian causal-realist perspective. It will also analyze in further details what Menger said about this distinction and about its epistemological implications in his *Investigations*. As will be seen, these implications are precisely what distinguished Menger's thought from the German Historical School he vigorously opposed during the *Methodenstreit*. The second section will analyze how Menger's distinction between theory and history has been understood by later Austrian economists in order to better highlight the influence of this distinction in the future development of Austrian Economics. In particular, a comparison between the Weberian interpretation, popular in many Austrian circles, and Ludwig von Mises's will be presented.

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I. INTRODUCTION

Carl Menger (1840-1921) is mostly known as one of the co-initiators of what is called the “marginal revolution” in economics. Simultaneously with William Stanley Jevons and Léon Walras, he developed the principle of marginal utility. But, as Jaffé (1976, pp. 518-519) pointed out in his famous article de-homogenizing these three “revolutionaries,” Menger’s thought is more singular than what one would believe were one to merely rely on the usual accounts of the marginal revolution.

Menger’s work is indeed characterized by a desire to study the social world as it is rather than by a desire to study approximations of it through ideal models as Jevons and Walras, among others, have intended to do. To study the social world as it is, Menger is fully aware that one must turn one’s attention to history because the data of the social world are constituted of historical events. But the data of history are complex; they first present themselves to our minds in their full singularity and cannot, as such, be properly understood through direct observation or experimentation. These data must be *interpreted* by the mind of actors. This must be done for various reasons. An actor may want to understand a historical social phenomenon to advance a political agenda, to connect this social phenomenon with another one or to subsume it under a more general set of social phenomena, to normatively evaluate it, and so forth. For actors who act as social scientists and who wish, as such, to understand historical social phenomena, the two main questions to ask are: *what type* of knowledge can we acquire when we conduct our investigations of social phenomena and *how* can we acquire such knowledge? This is the type of questions that Menger and many thinkers belonging to the Austrian School of economics have attempted to answer by insisting on the importance of distinguishing between theoretical and historical knowledge. Although theory and history complement each other in our explanation of social phenomena, they must be analytically separated in order for us to understand what it is that we are doing as social scientists and, as a consequence, to understand the scope of our investigations and the type of knowledge we are thus obtaining.¹ The aim of this paper is to see what Menger had to say about this distinction which he initiated in explicit terms in his *Investigations* and how this distinction impacted later Austrian economists.² A special emphasis will be given to the impact of this distinction on Ludwig von Mises’s work who, perhaps more than any other Austrian, insisted on its capital importance by dedicating an entire book to it.

II. THEORY AND HISTORY IN MENGER’S *INVESTIGATIONS*

Before addressing Menger’s distinction itself, I wish to briefly discuss his philosophical influences which, I hope, will help the reader to contextualize and understand the origins of this important distinction between theory and history. Carl Menger was an avid reader, as is shown by the multitude of annotations that were found in the books composing his voluminous library (Campagnolo 2010, pp. 215-216, 226-227). It has thus been difficult for scholars to point out all the possible influences that Menger had, especially since his work does not only contribute to the development of economic analysis as such, but also to its philosophical foundations and to the philosophical foundations of the social sciences in general. There is little doubt, however, that the main philosophical influence on Carl Menger’s epistemology and methodology was Aristotle.³ Other than the numerous citations appearing throughout the *Principles of Economics* (Menger 2004 [1871]) and the *Investigations*, a clear indication of this influence is the presence of many annotations in his own copies of Aristotle’s *Nicomachean Ethics* (Campagnolo 2010, p. 221) and *Politics* (Campagnolo 2010, pp. 241-243). A closer look at the content of Menger’s philosophical discussions, especially in his *Investigations*, also shows quite clearly the impact that the Greek philosopher had on Menger’s thought. As was indicated by Smith (1990, p. 266), the idea that things contain *essences* which can be understood by the human mind as *necessary* and the idea that the connection between these things can also be thought as universal so long as this connection is an essential feature of their existence (a part of their nature), constitute the main Aristotelian ideas behind Menger’s epistemology regarding the study of political economy. For, as will be shown later, what he called the “exact orientation” of theoretical research is precisely guided by the idea

that we can grasp the necessary connections between the essences of economic phenomena as well as their general nature (Smith 1990, p. 266). Moreover, as was again pointed out by Smith (1990, p. 267), historical data are considered by Menger as being characterized by both *specific* or, to use Aristotle's terminology, "accidental" features (what we will see constitute the realm of historical studies) *and* general ("essential") features (the realm of theoretical studies). Menger indicated that it is only by studying the essential features of economic phenomena (through theory) that economists can discover laws of social development; it cannot be done through an exhaustive description of their accidental features. This epistemology and methodology are decidedly Aristotelian, albeit with a few minor differences (Alter 2018 [1990], pp. 117-119). In this perspective, the best way to characterize Menger's adaptation of Aristotelian methodology would be "causal realism" (Campagnolo 2010, p. 245; Salerno 2010, pp. 2-3): *Realism* because Menger sought to study the essences of economic phenomena as they really are, that is, as rooted in the fundamental aspects characterizing the nature of individual actions; and *causal* because Menger deduced from the essence of economic phenomena the laws of their connection and development (what necessarily follows from the general nature of their existence).

Other than Aristotle's influence, one can also note the influence of philosophers of the Scottish Enlightenment and of British political economists, including David Hume, Adam Smith, and John Stuart Mill (Campagnolo 2010, pp. 255-264). Menger (2013 [1891], p. 112) even indicated that he considered John Stuart Mill to be the thinker who improved classical economics the most. However, with respect to method (and especially that of Bacon, Hume, and their followers), he regarded their version of empiricism as unacceptable as it fails to provide us with true *general* knowledge about the social world. There is also evidence, from a few footnotes and discussions in the *Principles*, for assuming at least some influence from French economists and philosophers like Turgot or Condillac (Menger 2004 [1871], pp. 82, 260, 295-297, 306, 310). It is of particular interest to this study to note that Condillac's method for economic analysis (the deductive method from well established facts) differed from that of the Scottish Enlightenment and had a considerable impact among French social theorists from the *Idéologues* (Cabanis, Tracy, Say) to the liberal *Industrialistes* (Charles Comte, Dunoyer) and the liberal economists of the *Journal des économistes* (Bastiat, Molinari).⁴ One could then speculate, based on their similarities, that Condillac had an influence on Menger's work not only with regards to the recognition of subjective valuations or to economic analysis as such, but also with respect to questions of method. Campagnolo (2010, pp. 263-264), for instance, noted that Menger's copies of Condillac's work showed "that he read them with interest."

These influences notwithstanding, as well as that of many others which cannot all be discussed here, Menger's originality rests on his adaptation of these philosophical and economic insights in the formulation of what he considered to be the ultimate foundations for the proper conduct of studies in the social sciences.

It is well known that Menger's *Investigations* aimed at providing a methodological alternative to the historicism of the then-popular German Historical School as a part of what has since been known as the *Methodenstreit* (dispute on method).⁵ This special interest for the question of method was triggered by the fact that the German Historical School's followers by and large denied the validity of the deductive or the abstract method that permeates Menger's *Principles* (Hayek 1934, pp. 404-406) and which characterized to a large extent the development of political economy in France (with Condillac, Tracy, Say, and so forth). Indeed, the Historical School's arguments against the deductive method were considered unacceptable to Menger. More importantly, the alternative presented by the historicists for the study of political economy—in particular the idea that only historical investigations can provide us with any knowledge of the real world—was considered by the Austrian economist to be inadequate to allow us to make any sense of the social world. The deductive method had to be defended. Menger's incursion into methodological debates was therefore not triggered by any interest in methodology *per se* (although he obviously *was* interested in it); rather, he participated in these debates because he deemed them to be *necessary* to the correct development of the discipline of political economy. Indeed, Menger (1985 [1883], p. 27) wrote that methodologists "have not infrequently proved to be extremely barren scholars in the field of those sciences whose methods they

could expound with imposing clarity.” This would suggest that Menger would have preferred to apply science to concrete problems rather than to merely discuss its proper methods. Nevertheless, Menger indicated that it is necessary to discuss methodological problems when:

[...] the progress of a science is blocked because erroneous methodological principles prevail. In this case, to be sure, clarification of methodological problems is the condition of any further progress, and with this the time has come when even those are obligated to enter the quarrel about methods who otherwise would have preferred to apply their powers to the solution of the distinctive problems of their science (Menger 1985 [1883], p. 27).

This is precisely the reason why Menger decided to participate in these methodological debates, which ultimately proved to be no easy challenge (Menger 2013 [1891], p. 107). The main reason that the progress of the science of political economy was blocked was what Menger (2020 [1884], pp. 463, 471) called the historicists’ “one-sidedness”. More specifically, it was the prevalence of the view of political economy as a mere form of history that was deemed unacceptable by the founder of the Austrian School. After Gustav von Schmoller’s response to his criticism, Menger (2020 [1884], p. 469) even went so far as to insist on the importance “to expose the disfigurements of the results of our scientific investigations, rather than to silently tolerate them.” For Menger clearly saw the discipline of political economy as being capable of formulating social laws, and this presupposes that we can identify constancies that are not the mere result of contingency. In other words, without claiming that history is unimportant, Menger insisted that economic history *could not* be studied without a proper understanding of economic *theory*. And economic theory, because of its general character, cannot be derived merely from the direct observation of historical data. This idea seemed counterintuitive to historicists and positivists. In fact, as Campagnolo and Lordon (2011, p. 58) argued, Menger’s ambition was to operate a similar “Copernican revolution” in economics to what had been done by Kant in more general terms in the field of epistemology. That is, he wanted to show that the perceptual data of economic history must be framed by economic theory rather than economic theory being derived from the percepts of history. Admittedly, Menger was more of an Aristotelian than a Kantian (Smith 1990; Alter 2008 [1990], pp. 81-82). His distinction between theory and history is indeed not based on a transcendental argument about the conditions of possibility of the perception of economic phenomena by our mind; it is rather based, as we have seen, on the characterization of economic theory as a description of the essential nature of economic phenomena *as such* (Menger 1985 [1883], p. 37; Bostaph 1978, p. 12). But it nevertheless clarifies his distinction between theory and history to use this analogy.⁶ Moreover, these two arguments for grounding this distinction—Aristotelian and Kantian—, it should be noted, are not necessarily mutually exclusive (Rothbard 1957, p. 318). It is indeed perhaps precisely *because* of the nature of economic action that we cannot conceive of economic phenomena as being possible without these economic laws being true. In other words, economic laws may condition the possibility of the understanding of economic phenomena because they are part of their nature. This argument is especially strong when considering that economic phenomena are composed of both internal (thinking) and external (behaving) processes; if the laws governing these processes constitute our nature as economic actors, then of course we cannot conceive of economic action as possible without our minds accepting these laws as being necessarily correct (see Hoppe 1995). This is what Menger seems to indicate when he writes that the exact orientation of theoretical research is based on “rules of cognition” that “[...] arrive at laws of phenomena which are not only absolute, but according to our laws of thinking simply cannot be thought of in any other way but as absolute. That is, it arrives at exact laws, the so-called ‘laws of nature’ of phenomena” (Menger 1985 [1883], p. 61). In fact, the data of economic history remain simply unanalyzed until the human mind distinguishes their essence from their accidental features.

Indeed, the general goal of theoretical research, to Menger, is to “ascertain the *simplest elements* of everything real” (Menger 1985 [1883], p. 60). It seeks “to trace the real phenomena of the economy back to their most simple and strictly typical elements [...]” (Menger 2020 [1884], p. 473). This knowledge con-

stitutes necessary knowledge because it expresses general links between what are *essential* elements of the phenomena (Menger 1985 [1883], p. 60). As such, and because we are looking at what is general in social phenomena, given the same conditions and the same causes, the same effects must always occur (because it is in the very nature of these phenomena that they occur). In this perspective, Smith (1990, p. 279) usefully frames Menger's economic theory as an "ontological grammar of economic reality". The elucidation of historical enigmas must be made through the subsumption of their specific occurrences under a more general category by reasoning and thought. Menger (1985 [1883], p. 45) writes indeed that "we become aware of the basis of the existence and the peculiarity of the nature of a concrete phenomenon by learning to recognize in it merely the exemplification of a conformity-to-law of phenomena in general." As such, theory, by allowing us to recognize what is general in the concrete historical phenomenon of interest, indicates to us the nature of the phenomenon and of its structure. It allows us, as it were, to separate the signal from the noise within the historical data. And this is precisely what was at the heart of the contention of the *Methodenstreit*. That is, Menger rejected the German historicists' method (and more particularly that of the "younger" generation, under the lead of Schmoller) as either confusing theory and history or as ignoring the importance of theory in the understanding of economic phenomena in their generality (Menger 1985 [1883], pp. 41-42). Menger (2020 [1884], p. 470) considered this distinction between theoretical and historical research as one of the most important elements of his work.⁷

But within this distinction, there exists a further important distinction. Not only is there a difference between theoretical and historical research, but there are also different *types* of theoretical or historical research. This leads Menger to distinguish between what he calls the "realistic-empirical" orientation of theoretical research and the "exact" orientation. On the one hand, empirical regularities that can be observed with exceptions are categorized as empirical laws. We will briefly come back to this "realistic-empirical" orientation of theory later. On the other hand, those categories of phenomena related to economic action without which economic action would be unanalyzable, under given conditions, are classified as "exact" laws. They are exact because economic action could not exist, or be conceived of, without them when the given conditions are realized. These "given conditions" are what needs to be met in the historical context under investigation for the laws to apply. For instance, when Menger (1985 [1883], p. 71) discusses the example of the law of demand, he indicates that:

Those presuppositions which automatically result from any orderly presentation of theoretical economics are: (1) that all the economic subjects considered here strive to protect their economic interest fully; (2) that in the price struggle they are not in error about the economic goal to be pursued nor about the pertinent measures for reaching it; (3) that the economic situation, as far as it is of influence on price formation, is not unknown to them; (4) that no external force impairing their economic freedom [...] is exerted on them.

According to Menger, then, exact laws of economic theory are conditioned by the concrete realization of quite restrictive elements (Menger 1985 [1883], p. 72). They nevertheless increase our knowledge by indicating to us what happens for sure given certain conditions. They also increase our knowledge, perhaps in a more useful way, by reminding us of the necessity that at least one of these conditions is *not* met when we observe empirical patterns that do not perfectly conform to the laws of economics. In other words, it can orient the researcher's attention to what condition was missing and allow the exploration of research hypotheses that are restricted by our knowledge of the exact laws of action. For instance, if an increase in the price of a good is not accompanied by a decrease in the quantity demanded for that good, one *knows* that one of the conditions for this exact law to be realized was not met, and one can seek to look at whether some "external force" impaired the actors' "economic freedom" or if the actors did not "strive to protect their economic interest fully," and so forth. Exact theory thus renders explicit the conditions under which some effects necessarily occur after a certain cause has occurred.

This illustrates quite well why theory is the study of what is “general” in social phenomena. By abstracting from the complexity of singular historical events those elements which are necessarily true given the realization of some conditions, we gain knowledge that can be useful for the study of other, more specific, phenomena. The essences of economic phenomena and the logical deductions from these essences always apply when the conditions are met. This insight was the most important matter of contention that characterized the *Methodenstreit* and distinguished Menger’s deductive reasoning from historicism (Krabbe 1988, p. 58).

Another way to understand the distinction between theory and history is through Menger’s distinction between the “organic” origin and the “pragmatic” origin of institutions. This example will perhaps help the reader to better understand the scope of Menger’s epistemological framework. Although all social phenomena are the result of individual actions, there are two distinct ways by which these actions determine those phenomena. They can either be the result of intended consequences to successful actions or, as has now become a famous Hayekian catchphrase, unintended consequences to human actions. Yagi (2000, p. 88) discussed in many details the “organic” origin of institutions as opposed to the “pragmatic” origin presented by Menger. In brief, institutions cannot merely be explained in terms of well thought plans that succeeded. Indeed, *some* institutions are the side effects of particular plans or even the result of the failure of these particular plans. Failure (of specific plans) here must not be understood as something with a necessarily negative connotation. I can for instance fail at reaching my specific goal of having dinner at my favorite restaurant because it is unexpectedly closed, but then try a new restaurant which I discover is even better (thus successfully reaching my general plan of enjoying a good meal). Likewise, some institutional frameworks, although not initially the result of any conscious planning, are nonetheless beneficial to the achievement of our goals or can help us discover new intermediary goals which allow us to better achieve the general goal of human action of maximizing happiness (broadly understood).⁸

One must however be careful here to not exaggerate the scope of this “organic” view of social development. First, according to Menger, many actions *are* successful, and many plans *are* resulting in the intended consequences thought by the actors *ex ante*. Moreover, with respect to those accidental consequences of action that are beneficial, it is precisely because most of us end up realizing that they *do* in fact allow us to achieve our various goals more successfully that we make an effort to maintain them. Thus, the doctrine of organicism, considered as the idea that all social development has been guided by obscure forces that unconsciously drove us to behave in such a way as to determine this development, was vehemently denounced as utter nonsense by Menger. In this perspective, he wrote:

The previous attempts to interpret the changes of social phenomena as “organic processes” are no less inadmissible than the above theories which aim to solve “organically” the problem of the origin of unintentionally created social structures. There is hardly need to remark that the changes of social phenomena cannot be interpreted in a social-pragmatic way, insofar as they are not the intended result of the agreement of members of society or of positive legislation, but are the unintended product of social development. But it is just as obvious that not even the slightest insight into the nature and the laws of the movement of social phenomena can be gained either by the mere allusion to the “organic” or the “primeval” character of the processes under discussion, nor even by mere analogies between these and the transformations to be observed in natural organisms. The worthlessness of the above orientation of research is so clear that we do not care to add anything to what we have already said (Menger 1985 [1883], p. 150).

It is therefore insufficient to talk about the “organic” origins of—or the changes in—the “unintended” social structures. These are the starting point of social analysis—the *explanandum*—not its end point—the *explanans*. They are the historical data which need to be organized by theory. We need to gain a deeper understanding of actions—the intended, planned, self-interested behaviours—to reconstruct the “unintended product of social development.” For, on the one hand, unintended consequences are still the consequences

of actions and one must thus seek to understand the initial intention guiding the action leading to unintended consequences to understand the final result. And, on the other hand, when these unintended consequences are constituted of—or lead to the development of—particular institutions, one must seek to understand why those institutions are maintained or changed based on how the actors find them useful to the achievement of their particular plans. Indeed, Menger (2020 [1884], p. 485) writes: “The complicated phenomena of the economy are predominantly the result of the contact of individual economic endeavors, so that the understanding of these and their interrelationships is a necessary condition for understanding the complicated phenomena of the economy.” It is therefore insufficient to merely talk about the organic origins of an institution. Menger provides the example of the emergence of law. It is impossible to gather all the empirical information necessary to historically reconstruct its origins and developments. Thus:

There can be only one way to reach the theoretical understanding of that “organic” process to which law owes its first origin. That is to examine what tendencies of general human nature and what external conditions are apt to lead to the phenomenon common to all nations which we call law. We must examine how law was able to arise from these general tendencies and conditions and according to the measure of their difference to come to understand its particular empirical forms (Menger 1985 [1883], p. 224).

In other words, even in those cases in which we study the “organic” evolution of institutions, one needs to take into consideration the nature of action and its probable historical specifications in order to make sense of it. It is indeed not adding much to our knowledge to indicate that an institution evolved “organically”. One must still investigate how it came about and why actors invest in its perpetuation in order to understand its emergence and stability, thus showing how so-called “atomistic” and “organic” approaches are not mutually exclusive (Krabbe 1988, p. 58), as the former seeks to explain what the latter describes. And in the absence of complete historical data, this is even more important. One is left with attempting to resolve this enigma by investigating the nature of human action (with theory) and to reconstruct plausibly the historical chain leading to the evolution of a particular institution (see Menger 1985 [1883], p. 159). As we can see clearly now, theory and history must complement each other in the provision of a real or plausible description of social evolution. It is obvious that we have to study the essence of action to understand institutions (or any other social phenomenon) that are the result of conscious planning. But what Menger indicated above is that even when they are *not*, they are still the result of action and economists must theorize (investigate the nature of action) to make sense of their origins and perpetuation.

Before taking a look at how the distinction evolved in the writings of Ludwig von Mises and of other Austrians, let us briefly address the second type of theoretical research indicated above, i.e., the “realistic-empirical” orientation of theoretical research (see Louzek 2011, pp. 445-448). Indeed, there are various degrees of generality in economic phenomena. The “exact” orientation of theory only deals with the most general aspects of economic life whereas the “realistic-empirical” orientation deals with empirical patterns that can present themselves with exceptions. This distinction slightly complicates the theory-history divide. Indeed, the realistic-empirical orientation of theory requires the use of historical observations so that we can indicate what empirical patterns exist. The empirical conditions of a time and place will have an impact on the orientation of action. Although empirical conditions are by necessity not transhistorical, they can repeat themselves in similar ways throughout history and it is therefore possible, for instance, to discover general patterns of behavior related to money given that money takes a particular form (Menger 1985 [1883], pp. 103-104). This “realistic” orientation of theory is also considered as an essential part of social investigations by Menger ([1985 [1883], p. 64).

To sum up, “exact theory” constitutes the most general and transhistorical aspects of social phenomena. They are, under clearly stated conditions, always true. “Realistic-empirical” theory, on the other hand, is based on the recognition of patterns that regularly repeat under the same conditions, but which allow for

unexplained exceptions. Finally, history is the description of the social phenomena in their complexity and singularity. As we can see, to Menger, theory is what allows us to *explain* or *understand* what history *describes*.

III. THEORY AND HISTORY AS THE AUSTRIAN SCHOOL'S EPISTEMOLOGICAL FRAMEWORK

The singular understanding of this distinction and complementarity between theory and history, as exemplified above, is perhaps what characterizes the most the epistemological point of view of many thinkers of the Austrian School. In particular, Ludwig von Mises reaffirmed the importance of the distinction in all of his books dealing with epistemology and method. The spirit of Menger is indeed present in all of Mises's writings.

However, there is one interpretation (or rather, modification) of Menger's idea of theoretical research, the Weberian interpretation, that was deemed excessive by Mises.⁹ For Mises, exact laws do not correspond to ideal types in the Weberian sense. It is true, on the one hand, that Menger's characterization of the exact orientation of theoretical research is often described in a very similar way to what Weber will himself later define as the ideal type (e.g. Menger 2020 [1884], pp. 479-480). There is no doubt that the German sociologist was influenced by the Austrian economist. To be sure, Weber was critical of Menger's claim that the types of exact theory can be seen as the result of discovering the "essence" of social phenomena (see Camic et al. 2005, p. 18); but he nevertheless agreed that history must be organized with the help of theoretical tools of less specificity than strict historical description. In a way, he re-interpreted Menger's types as mental constructs that are useful for understanding historical data (rather than as descriptions of the real essence of the phenomena). This indicates that, although he never fully adhered to Menger's epistemological prescriptions, Weber was influenced by him and by other members of the Austrian school (see Yagi 1997; 2011, p. 60). In fact, he saw his own work as an extension and modification of Menger's (Yagi 1997, p. 257).¹⁰ For instance, Weber conceived of economic theory in Menger's sense as a particular set of ideal types describing actors that are merely conditioned by instrumental rationality and the pursuit of material self-interest. He sought to build other ideal types conditioned by other types of rationality (including actions axiologically oriented, traditionally oriented or non-rationally oriented) and the pursuit of other goals than material self-interest (see in particular Weber's typology of action in Weber 1978 [1922], pp. 24-25).¹¹ In other words, Weber interpreted Menger's contribution as the development of ideal types that are characterized by the conception of actors acting under the influence of *some* psychological assumptions and saw his own contribution as the creation of *other* ideal types characterized by the conception of actors acting under the influence of *other* psychological assumptions. It follows that the laws of economics, in this Weberian sense (which is differing from Menger's here), are laws that apply when we exaggerate some human traits and are, therefore, never *fully* realized in the real world as they are creations of the mind (no real person is *always* acting according to only one accentuated human trait). They are simply useful tools in order for the social scientist to compare how close or far concrete social phenomena are from these ideal results, thus allowing us to see the extent to which the assumptions contained in the ideal type are present in a concrete social phenomenon of interest.

On the other hand, Mises (1998 [1949], pp. 16, 485, 530, 560, 642) pointed out that the exact laws of economics cannot be conceived as actions based on exaggerated psychological assumptions. The following discussion on the contrast between the Weberian modification of Menger's distinction and Mises's reformulation of it will be useful to understand the evolution of this epistemological framework within Austrian economics.

To Mises (2007 [1957], pp. 315-320), Weberian ideal types do not allow for the formulation of exact laws since they correspond to the isolation of some ideal features characterizing historical phenomena and which are then analyzed on their own in order to seek a better understanding of these historical phenomena (by comparing how close or far from these types reality is). As such, to Mises, ideal types are tools for historical

and thymological research, not for theoretical research.¹² Mises's understanding of theoretical research is, in this respect, different: it corresponds to all the *a priori* laws which we can discover by inquiring on what it is to act (Mises 1962, pp. 44-46). Theory is therefore a set of principles which conditions the possibility of action and which, therefore, *must* be transhistorical (Mises 1962, p. 42). They are transhistorical precisely because they condition the possibility of our understanding of history; a researcher analyzing past actions to historically reconstruct social phenomena is also an actor and must therefore, to accomplish his action successfully, use the categories and laws of action to make sense of the historical enigma he wishes to elucidate.¹³ This Kantian grounding of theoretical research is mostly terminological; transcendental arguments existed before Kant and the idea of necessary *a priori* knowledge was present at least since Parmenides' poem, Plato's dialogues, and Aristotle's work (Grondin 1989, pp. 13, 23). But this terminology is certainly helpful to ground the distinction between theory and history developed by Menger and re-evaluated by Mises, as it makes clear that theory is what makes the knowledge of history possible, thus highlighting the importance of the clarification of economic theory for the resolution of any empirical economic inquiry. In order not to confuse (or dilute) Menger's distinction with Weber's sociological method—a confusion which can even, at times, be supported by Menger's own writing (Yagi 2011, p. 53)—Mises has attempted to reformulate it in stronger terms.

We have seen earlier that Menger grounds his “exact” orientation of theoretical inquiries on psychological assumptions and other conditions (see above). If these assumptions are not met in reality, then the laws do not apply. In this regard, Mises (2013, p. 141) sees Menger as being “too much under the sway of John Stuart Mill's empiricism to carry his own point of view to its full logical consequences.” Menger failed, in Mises's view, to ground economic theory to the full extent that he could with his very own distinction between theory and history.¹⁴ With Mises comes indeed a stricter connection between theory and universality through an ultimate justification for it.

To Mises, praxeology, the logic of action itself, has different degrees of generality. True enough, the laws of action in the presence of money, for instance, will only be applicable when one studies a society in which money does exist. However, there are basic laws of praxeology which we must conceive as completely transhistorical (and therefore non-hypothetical). One will always choose the available means that one expects will be best suited to achieve one's goals. Such basic propositions about action are transhistorical because we cannot avoid our nature of actors and must thus interpret any historical event (which *must* be conceived, ultimately, as the result of action) in these terms. No psychological assumption is required here (Mises 2003 [1933], p. 180). Whether one sacrifices one's life for what one considers to be the greater good or one chooses a job based on what will allow one to obtain as much money as possible, one is always *acting*. And the structure of action is always the same. It is clear that, to Mises, this recognition is a strengthening of Menger's distinction. For some propositions become apodictically true and are therefore immune from any empirical refutation (as this very refutation would presuppose their validity in its performance).¹⁵ One cannot even point out, for instance, that this or that psychological assumption is not met, as the most general laws of action do not require any psychological assumption to be true.

But, of course, this stronger distinction is only applicable in very broad terms, i.e., when one discusses the nature of action *as such*. It can be useful for social scientists mostly in order to *exclude* potential explanations of specific social phenomena. The addition of empirical assumptions becomes of course necessary if one wants to provide a specific explanation to those specific social phenomena. In this last perspective, Mises's distinction remains by and large the same as Menger's, albeit using a different, Kantian, terminology.¹⁶ Yet, the empirical assumptions brought here are distinct from the psychologically restrictive ones formulated by Menger. They are also quite distinct from Weber's exaggerations of aspects of reality. The idea is that there are degrees of generality in the study of action.

First, there is the study of action as such; this is simply the study of its conditions of possibility (or of its *essence* if we wish to keep the Aristotelian terminology). Second, there is the study of action under general, well-defined, empirical conditions and social contexts (Mises 1998 [1949], p. 238). Third, there is the study of the specific motivational triggers of action and of the specific description of their modalities and effects

(thymology, statistics, history). The first set of studies, since it provides us with the conditions of possibility to the performance of any action, and since any historical phenomenon can only be understood in terms of human actions, is composed of completely transhistorical laws and categories. The second set of studies provides conditional laws, i.e., laws that are absolutely true in any historical context in which the empirical conditions postulated are realized (e.g., the barter economy, the money economy, and so forth). The third set of studies is either strictly descriptive or more approximative and based on plausible (“thymological”) knowledge of specific historical understanding; it requires not only the observation of certain broad empirical features in society (such as the existence of money), but also an understanding of psychological and sociological features characterizing the context in which the phenomena of interest occurred (and hence, something like Weberian ideal types can play a role here). We can see that this is slightly distinct from Menger’s work, which stipulated that exact theory is always true but only applicable *when* restrictive psychological and contextual elements are realized. With Mises, we have three sets of propositions. The first set of basic propositions is always true and always applicable as long as action is involved (the conditions of possibility of action as such). The second set of propositions is more similar to Menger’s idea of exact theory but does not speculate about psychological assumptions (they rather constitute the conditions of possibility of action under given, real, empirical conditions, and not under conditions about what type of ends the actors chose and why). The third set is the study of historical human actions (the specific motivational triggers to specific actions and the specific features of specific events).

In any case, it is clear that Mises saw Menger’s distinction between theory and history as one of the most fundamental aspect of social epistemology. His modification of it is without any doubt rooted in a desire to extend its potential rather than to contradict the founder of the Austrian School. The citation provided above by Mises on how the founder of the Austrian School did not recognize the full scope of his own epistemological framework is supportive of this interpretation of Mises’s endeavour. Weber’s modification of the meaning of theoretical research to include ideal types is thus erroneous. Economic theory is not a set of useful ideal tools facilitating historical understanding; rather, it is a set of real conditions to our understanding of any historical action.

More recent Austrians have adopted Mises’s meaning of the distinction. For instance, two of his most prominent American students, Murray Rothbard and Israel Kirzner, have integrated it in their own work. In continuity with Mises, Rothbard, while criticizing the Kantian terminology used by Mises and re-formulating it in Aristotelian terms, has also explained that the *theory* of action (praxeology) is necessary to make sense of historical data and that no psychological assumption is required for guaranteeing its truth (except that of the existence of subjective consciousness) (Rothbard 1997). Likewise, Kirzner indicated that we can only explain social phenomena “by subjecting the observed data to a specific scientific procedure, praxeological reasoning. This procedure is in itself quite independent of the facts to which it is applied. [...] It is itself the contribution of human logic and reasoning alone” (Kirzner 1976, p. 180). He adds that “pure reason can convey knowledge concerning brute facts of the real world” (ibid., p. 181). Hence, Kirzner also seems to adopt in his work Mises’s version of the theory-history distinction.

But there are of course also disagreements with Mises about his version of the distinction between theory and history among Austrian economists (or at least about the understanding of his system that I presented above). Lachmann (1951, p. 413), for instance, has interpreted Mises’s program as an extension of the work of Max Weber; Lavoie (1986), Lachmann (1990, p. 138), and Lavoie and Storr (2011) have all argued that Mises’s version of the distinction between theory and history must be reinterpreted in a more “interpretive” manner to be useful to the study of the social sciences, thus blurring the “theory-history” distinction and allowing for some forms of history to be considered as theory and vice versa. Some authors have even erroneously identified Mises’s praxeology to Weberian sociology (Zafirovski 2010) in order to argue that theory corresponds to the formulation of ideal types.¹⁷

Nevertheless, the distinction between theory and history remains one of the most important features of the Austrian School. Austrians have explicitly discussed this topic and debated the modalities of the distinction. It is mainly useful to understand what social scientist are doing when they conduct research. This

was also adopted by economists such as Schumpeter who, for instance, often commented on the work of other economists by distinguishing “pure theory” as exact theory from other types of economic theory allowing exceptions (what Menger called the “realistic-empirical” orientation of theory). He thought, however, that the debate surrounding the *Methodenstreit* seems “pointless” as it is obvious to him that both theory and history are necessary to study economics (Schumpeter [1954] 1986, p. 782). But the fact that few would deny this does not mean that there are no fundamental misunderstandings on the role and nature of both in the elucidation of social phenomena. It is the merit of the Austrians to have explicitly reflected on and debated about the meaning and scope of the theory-history distinction. In any case, whether theory is understood as a set of fallible tools of interpretation, as a set of conditional laws, or as a set of *a priori* true and transhistorical statements about all phenomena related to action, Menger’s initial epistemological distinction has remained at the center of the Austrian paradigm.

IV. CONCLUSION

The singular conception of theory and history initiated by Menger and carried on by Mises and other thinkers of the Austrian School is a fundamental contribution to the epistemology and the methodology of the social sciences. Indeed, questions of method are of utmost importance in order to build a scientific edifice on solid grounds. Valid cumulative knowledge can only be obtained once there is agreement about *what ultimate criteria* one has in order to accept or reject a new addition to the existing body of knowledge. Without understanding what these ultimate criteria are, it is difficult to see how there could be any real progress in the acquisition of knowledge in the social sciences. The consequence is either the existence of various scientific sects, with each one conducting its own studies independently, such as what is the case in the field of sociology, or the construction of a giant with feet of clay.

It is precisely because the experimental method allows researchers in the natural sciences to attain their goals that the natural sciences have been, by and large, so successful in the obtention of valid cumulative knowledge. The very notion of cumulativeness presupposes that there are ultimate criteria to determine if an addition to a body of knowledge is valid or not. What many Austrians realized since Menger is that the ultimate criteria to determine whether one has achieved one’s scientific goals are rooted in the nature of action. Even the natural sciences serve the purposes of actors: for example, the technologies that stem from their insights all need to work according to how we intend them to work, and this provides an ultimate criterion for the truth of those insights (see Hoppe 1991). In the social sciences, however, the goal is to gain an understanding of the social world (present or past). Since the social world is a world of actions and motivations, the social scientist must first conceive of what it means to act and to be motivated. Indeed, to understand general questions such as how the purchasing power of money is affected by the money supply or even specific questions such as why Napoléon decided to declare war to Russia in 1812, it is insufficient to gather information about the historical context, for this information does not provide in and of itself an explanation of the phenomenon. Since the first question is by its own nature general, it requires a general investigation of what money is and of how the transactions it allows are affected by an increase or decrease in its quantity. But even in the case of the second question, the historical context in which the enigma occurs must be interpreted in terms of actions and motivations. The specific actions and motivations of historical actors must be subsumed under general categories and laws of action in order for us to make sense of them. According to many thinkers adhering to the Austrian School, these categories and laws, obtained through theoretical research on the nature of action, are the ultimate criteria to determine the validity of historical interpretations.

NOTES

- 1 Menger also distinguishes a third type of knowledge that is investigated by practical sciences such as policy or finance which is more technological than descriptive or explanatory. See Menger ([1883] 1985, p. 38).
- 2 Although he does not discuss the distinction to the same extent, it does permeate his *Principles*. Menger ([1871] 2004, p. 48) writes, for instance, in the preface that “[...] economic theory is concerned, not with practical rules for economic activity, but with the conditions under which men engage in provident activity directed to the satisfaction of their needs.”
- 3 For a different point of view, see Crespo (2003).
- 4 He published his economics treatise, *Le commerce et le gouvernement considérés relativement l'un à l'autre* (Condillac 1776), the same year as Adam Smith's, in which he starts by exposing elementary concepts of economic analysis (such as subjective value, see *ibid.*, p. 8) compares fictive economies adopting different policies in order to compare their effects. He also built philosophically, in his famous *Traité des sensations* (Condillac 1754), a Statue that is first senseless by adding one sense at the time in order to deduce how the addition of the senses affects the Statue's interpretation of what it perceives. In spite of his alleged “sensualism,” one can infer from his work a form of methodological rationalism. On this re-evaluation of Condillac's sensualism, see Wojciechowska (1968).
- 5 For an account of the *Methodenstreit* and Menger's intentions within it, see in particular the insightful paper by Bostaph (1978). See also the more recent account of Louzek (2011).
- 6 Although we know Menger studied Kant, there is no clear evidence of any major influence (Kauder 1957, p. 414). There is evidence however, according to Campagnolo (2010, p. 264) that “Menger agreed strongly with the idea that science must be grounded on pure reason.” But Kant's failure to recognize the possibility of discovering such laws in the field of political economy seems to have had an impact on Menger's consideration of the Königsberg philosopher's work (*ibid.*, p. 265).
- 7 On the distinctions between the older and the younger generations in light of Menger's approach, see Alter ([1990] 2018, pp. 60-65).
- 8 However, the reader should note here that the literature on Menger indicates that the two editions of Menger's *Principles* (the second edition was completed posthumously by his son Karl) show changes in his approach to the study of political economy. Becchio (2011, p. 168) indicated, for instance, that at least two understandings of the method of political economy can be found from Menger's work, depending on the edition of the *Principles* one analyzes: the first, “orthodox,” that is rooted in this distinction between theory and history (with theory being derived formally and enjoying a high degree of generality), and the second, “heterodox,” or “substantivist” that is rooted in institutional developments and in the economy's embeddedness within this institutional framework (*ibid.*, pp. 179-182). See also Becchio (2014, pp. 61-62).
- 9 Alfred Schutz (1967, p. 244) attempted to reconcile Weber et Mises by generalizing Weber's concept of the ideal type to include degrees of anonymity. As such, theoretical laws and praxeological categories in the Misesian sense would be seen as transhistorical because they are ideal types with the highest degree of anonymity. There is no clear evidence, however, that Mises ever agreed with Schutz on this matter. His later writings, on the contrary, continue to show that he saw Weber's ideal types as only useful as tools of historical understanding, and not as theoretical concepts constraining our knowledge of action. For an argument that Weber's work constitutes a middle ground between Menger and the German Historicists, see Hennis (1991).
- 10 Weber nevertheless always considered economic theory to consist of tools that are rooted in historical developments and, as a consequence, of economics as a historical discipline (see Yagi 2011, pp. 49, 63-64).
- 11 There is some evidence that Menger himself conceived of economic theory in this way, as was shown earlier in his psychological assumptions (for further evidence, see Hodgson 2001, pp. 82-83)
- 12 Thymology corresponds to the historical study of human motivation. See Mises ([1957] 2007, pp. 271-274; 1961, pp. 47-48)
- 13 For a more detailed discussion of Mises's version of the distinction between theory and history, see Robitaille (2019, pp. 243-250).

- 14 It is not the only occasion where Mises expressed some criticisms of his masters for not developing their own insight to their full epistemological potential. He writes, after noting that he wanted to deal with economics as a whole rather than specialize in aspects of it: “In economics there can be no specialization. To deal with a part one must do so on the foundation of a theory that comprises all the problems. But I could not use any of the existing comprehensive theories. The systems of Menger and Böhm-Bawerk were no longer wholly satisfactory to me. I was ready to proceed further on the road these old masters had discovered” (Mises 2013, p. 37). One problem identified by Mises was, again, the influence of John Stuart Mill, his empiricism, and the psychological assumptions he imposes on actors as the proper delimitation of the field of economics (Mises 2013, pp. 38, 85-86; Mises [1933] 2003, p. 22 n.27).
- 15 See the insightful philosophical discussion on transcendental arguments as pragmatic, self-referential arguments presented by Bubner (1981, pp. 388-392).
- 16 For an interpretation of Mises’s praxeology as a realist extension of Kantian epistemology, see Hoppe (1995).
- 17 On Zafirovski’s errors, see Robitaille (2019, pp. 247-248).

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