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# Carl Menger on the Theory of Economic History. Reflections from Bulgaria

**Summary:** Carl Menger founded the Austrian School of economics at the end of the 19<sup>th</sup> century. He rejected some of the main ideas of the German Historical School in his work *Investigations into the Method of the Social Sciences with Special Reference to Economics* (1881). The submitted paper presents the main implications of the investigations on the theory of economic history with a special reference to the economic history and history of economic thought of the Balkans. The emphasis is on the methodological subjectivism, spontaneous order, rejection of the teleological understanding of the process of economic development, and the application of mathematical models. These principles could be used as a theoretical base of the historical research, though they are widely underestimated in modern economic history.

**Key words:** Menger, Historical school, Economic history.

**JEL:** B13, B15, N01.

Carl Menger is one of the greatest minds in the history of economic thought of the nineteenth century. His contributions are traditionally associated with the creation of the theory of marginal utility (together with Leon Walras and William Stanley Jevons), the founding of the Austrian School of Economics, and his famous “battle of methods” (Methodenstreit) with the representatives of the German Historical School in 1883-1884. That is why textbooks, handbooks, and general research studies on the history of economic theories regularly include expositions and evaluations of Menger’s main ideas (Alessandro Roncaglia 2005; Gianni Vaggi and Peter Groenewegen 2006; Agnar Sandmo 2011). Over many decades there has also been an enduring interest in specialized research in various aspects of Menger’s scientific legacy, his place in the evolution of economic ideas and schools, etc. Some major studies on Menger include publications devoted to his role as the founder of the Austrian School of Economics (Friedrich A. Hayek 1934; Joseph T. Salerno 2010), his attitude to the modern neoclassical economic paradigms (Max Alter 1982), the potential for applying his ideas in the philosophy of the ontological description of economic reality (Gloria L. Zuniga 1999) etc.

The interest in Menger’s participation in the “battle of methods” should also be noted with regard to his views on the place and role of economic history in the system of economic sciences (Samuel Bostaph 1978; Marek Louzek 2011). It was the polemic against the members of the German Historical School that prompted the Austrian economist to develop and defend his views on the nature of theoretical economics and his concept of the essence of economic history.

This paper deals with a problem that has not been analyzed in depth by either historians of economic theories or by economic historians. The author's main goal is to present a concise summary of Menger's views on the nature of economic history, its relationship with theoretical economics, its place in the system of economic sciences, and his theses about the value of the conclusions that could be drawn from studying the economic past. An attempt was also made to single out the theoretical achievements of the founder of the Austrian school that could enrich and enhance understanding of basic tendencies in the economic and historical development of mankind in general and of some processes in the social and economic development of the Balkans in particular.

That would help to overcome one of the main shortcomings of economic history, as pointed out by famous Italian economic historian Carlo Cipolla (Carlo M. Cipolla 1992), who says that historians are often ignorant about basic economic theories. The study on Carl Menger's views on economic history is not an attempt to break with established traditions. Rather, it is an expression of the author's desire to enrich and improve the tools of economic history research. To this end, the paper analyzes mainly *Investigations into the Method of the Social Sciences with Special Reference of Economics*, which is one of Carl Menger's two most important works.

## 1. General Historical and Theoretical Framework

In the second half of the nineteenth century, despite the huge achievements of economic science there was still a lack of clarity about its main problems and research methods. There were no universities or academic departments specializing in, or teaching, economics. Economists did not study economics as a separate discipline and were strongly influenced by law, philosophy and other sciences (Louzek 2011). It was during that stage of economics that the German Historical School emerged and matured to some extent. The school was formed in opposition to the claims of universal validity that are the hallmarks of Classical Political Economy (which was mainly developed in Great Britain). In the 1880s Gustav von Schmoller emerged as a leading figure in the German Historical School.

This is how the main theses developed by von Schmoller and his followers could be summed up:

- Economic laws could be determined only on the basis of thorough empirical research, that is, by collecting data on the economic past of definite nations, states and regions. There are no exact economic laws. All laws of economic development are relative, that is, they hold true only for a specific stage in evolution (Gustav von Schmoller 1894). That is why considerable importance is attached to the distinction between the specific characteristics of the separate stages of the economic history of mankind;

- Self-interest cannot be considered the sole motive for economic activity. In his action the individual is also guided by ethical motives (von Schmoller 1860, 1894). In other words, in his works von Schmoller took into account both of Adam Smith's concepts of self-interest and sympathy (von Schmoller 1978). The collective institutions that are based on the principles of compassion, sense of kinship, love of family, etc. are also very important for economic development. Consequently, partic-

ular emphasis is placed on the role of the state and government institutions in economic development. As von Schmoller put it “the dependence of the main economic institutions of any period upon the nature of the political body or bodies most important at the time” (von Schmoller 1896).

These views on the nature and content of Political Economy posed “a danger” of turning it into economic history. The British historicist and economic historian William J. Ashley argues that there was not such a danger at all and that: “if, in any country, the historical economist has become for a time an economic historian, it is but because there is no one else to do the preliminary work he needs” (William J. Ashley 1895). Obviously the danger of turning the Political Economy into economic history should not be overestimated. However, it was a fact reflected by the intellectual climate at the end of 19<sup>th</sup> century.

If the German Historical School is placed in a broader context, it could be viewed as expressing the interests of states and societies that were lagging behind in their economic development. The school’s members sought a model of economic policy that would help Germany catch up with Great Britain, which was far ahead at that time. What is more, they wanted Germany to achieve that progress without bearing the negative consequences of early industrialization. That is why German economists opposed free trade and defended the view that there is a need for protectionism and state intervention in social relationships, for strong government involvement in the economy, etc. These characteristics of the German Historical School link it to the German state nationalism. However, the spread of the ideas of “historians” among economists in Great Britain, the United States, Russia, Japan, and other countries attests to the universality of their theses (Yuichi Shionoya 2001).

The characteristics that were outlined above made the German Historical School popular among the social and political elites of the Balkan states, especially in Serbia and Bulgaria (Michalis Psalidopoulos and Nicholas Theocarakis 2011). As early as the end of the nineteenth century, the ideas of protectionism and state regulation of a number of economic sectors, social legislation, and other areas were well received even by the relatively liberally-minded statesmen and economists in the region (Grigor Nachovich 1902; Dimitar Sazdov 2008). In Germany the followers of the school gradually departed from liberalism, embraced certain aspects of socialism (Hayek 1991b; Ludwig von Mises 2005) and became known as *Kathedersozialisten* (Socialists of the Chair - the nickname *Socialist of the Chair* was attached first to Gustav von Schmoller in the 1870s in order to indicate his attitude to important social problems in Germany. In fact his ideas were conservative (Michael Epstein 1917), but in certain aspects, such as statism, government intervention in economy, welfare policy, opposition to laissez-faire etc. they were close to socialist ideas). A similar tendency could also be noticed in the Balkans in the wake of World War I. It is possible to find a close link between the works of Ivan Kinkel, a professor at Sofia University and one of the most prominent theorists of economic history, and a number of Marxist ideas. “A scientifically founded expectation” of Socialism could also be noticed in Kinkel’s writings (Nikolay Nenovsky forthcoming).

This is the milieu in which Carl Menger began his career and formed and developed his views. *Principles of Economics*, which is Menger’s first major work on

economic theory, was published in 1871. The author himself regarded his work as an addendum to, not a repudiation of, the achievements of the historical school. Even though the *Principles* contains some of Menger's most original ideas, it got a lukewarm reception and did not have much of an impact on specialized German-language literature (Bostaph 1978).

That reaction prompted Menger to undertake a study to explain the reasons why his ideas were widely misunderstood or ignored. As a result, his polemic *Investigations into the Method of the Social Sciences with Special Reference to Economics* was published in 1883. All the problems outlined in the book are in practice related either directly or indirectly to economic history. Menger aimed to develop criteria for distinguishing economic history from economic theory, economic policy and statistics. Menger also takes a clear stand on the question of whether there are exact economic laws that hold true at all historical times and expounds on the nature of methodological individualism and the confrontation between the application of methodological individualism and collectivism in sciences (Louzek 2011). Furthermore, he very carefully tries to assess the positive aspects of the historical orientation of economic research.

## 2. Economic History in the Classification of Economic Sciences

During the 1870s and 1880s scholars were not very clear about how theoretical economics and economic history should be defined and about their relationships. In an attempt to avoid ideological clashes and with the hope that together with the German historicists he would develop an integrated theory, Menger dedicated his first famous work to Wilhelm Roher, the liberal founder of the Old Historical School (Carl Menger 2009a). However, the representatives of the Younger Historical School were not enthusiastic about the Mengerian ideas and bitterly criticized his first book, and a collision became inevitable. Against this background Menger made an attempt to distinguish between theoretical, practical and historical economic sciences and on that basis to define the essence of economic history. He tried to delineate clearly the objects of research, methods, causal links and interaction between the separate sciences that are grouped under the general concept of economic science. Despite the controversy with the Historical School, Menger did not become a radical opponent of their ideas. If we try to simplify their competing views then the clash was between real, empirical economic world (Historical School), and abstract, theoretical school of thought (Menger). Despite the fact that according to some influential modern economists this dichotomy between empirical and theoretical research is "unacceptable" (Kenneth Arrow 1994) there is room for empirical research in Menger's theoretical scheme. This is made obvious in his classification of the economic sciences.

The groups of economic sciences according to Menger are:

(1) *Theoretical Sciences*. The specific content of the theoretical sciences is not defined, but it is pointed out that they could be classified in different ways according to their objects of research. The important point is that theoretical sciences have the task of examining the general nature and connections of economic phenomena (economic laws);

(2) *Historical Economic Sciences*. This group includes statistics and economic history. According to Menger's definition "the problem of scientific economic history seems to be a threefold one: (a) the investigation of the sources of economic history; (b) the external and internal criticism of these sources; (c) the description of the development of those collective phenomena which we call 'economy' on the basis of the historical material thus obtained" (Menger 2009a). The founder of the Austrian school determined fairly accurately the tasks of economic history, which he considered mainly a descriptive science. The Mengerian definition to some extent looks old-fashioned in comparison with the current depiction of economic historians as "a bunch of eclectic intellectuals who will go almost anywhere to find their models, their evidence and their inspiration" (Joel Mokyr 2003). However, it is a lesson of humility for the scientists supposed to know and explain everything;

(3) *Practical Sciences*. These include Economic Policy and the so-called practical doctrines of private (individual) economy. The latter breaks down further into the science of finance and the sciences of the basic principles that guide people to manage their individual economies in the best possible way.

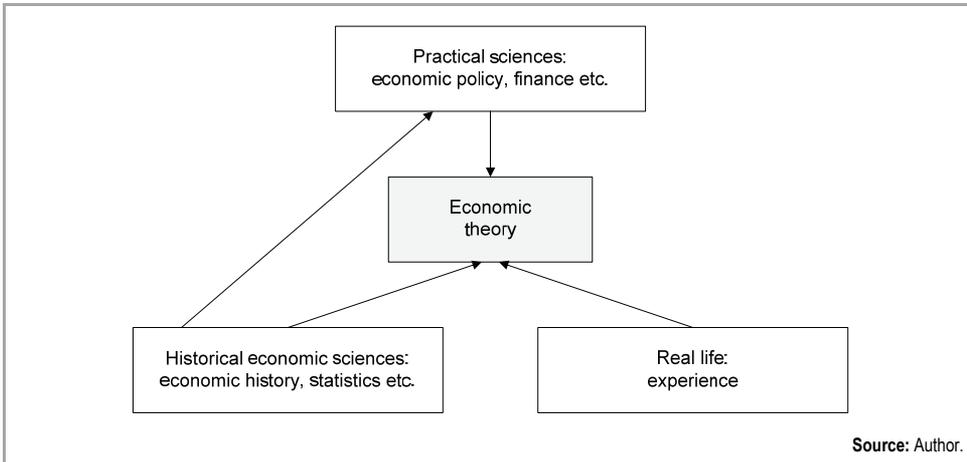
According to Menger, the combination of the practical and the theoretical sciences is defined as Political Economy (Menger 2009a). Economic history in that sense is a specific science, outside the scope of Political Economy, but within the group of economic sciences. This distinction is not formal, but has certain importance.

According to Menger, economic theory (which is part of the Political Economy) has the task of examining and analyzing the general characteristics of, and relationships between, economic phenomena irrespective of their position in space and time. That is why the economic laws that are determined by theory are universal; they do not depend on country, nation or time periods. While the economic history explains various phenomena such as ground rent increases and interest rate decreases in definite countries etc., attributing them to specific historical circumstances (wars, epidemics, population growth, discoveries of new deposits of raw materials, etc). Economic theory explains the economic phenomena in principle and without regard to specific details and different social and political circumstances. Economic history can and should take various factors and variables such as ignorance, errors, among others, into account.

That is why the laws determined by economic history are relative (as the German Historical School claims) and pertain to a certain nation, region, period, and other specific circumstances. Even when an attempt is made in economic history studies to summarize some important historical experience, the conclusions that could be drawn hold true only for the past and cannot predict future trends in the development of specific economies and societies because there is a possibility that new circumstances and events could occur in the future that would radically change the initially expected results (Menger 2009a). At the same time the economic laws, i.e. laws determined by theoretical reasoning, are completely different. They are not relative but absolute.

Menger sees economic history as one of the sources of empirical knowledge that lays the groundwork for economic theory. So the economic history is not a

unique empirical source for the theory - it is one of the sources. Figure 1 is an attempt to present the empirical sources of economic theory, as postulated by Menger. It is necessary to point out that nowhere in his analysis does the author claim that this is a full list of the empirical sources that lay the foundations of the theoretical postulates of economics. This means that the figure sums up the sources mentioned by Menger, but in no way does it pretend to be exhaustive.



**Figure 1** Empirical Sources of the Economic Theory

The above-outlined empirical sources further clarify why the laws that are attained by economic theory are universal, whereas the laws that are determined by economic history are not. It also becomes apparent that economic theory (deduction) has more tools that are also more diverse than those of economic history (induction). That is why Menger thinks that it makes no sense to test general economic laws in history. His view that economic history should utilize the achievements of the theory of economy is also important (Menger 2009a). In other words, theory should explain or help to explain history. This point is illustrated by Ludwig von Mises' famous example of Grand Central Station behavior during rush hour. The objective observation of the empirical events could find, for example, that people rush back and forth at the station at certain predictable times of day. But the use of theoretical tools, that is, the knowledge that human behavior is purposive, could explain the rush of people at predictable times. The analysis of human action would find that the purpose is to get from home to the train to work in the morning and the opposite at night. (The example was cited by Murray N. Rothbard in his preface to Mises' *Theory and History*; von Mises 2007.) It is clear that theoretical knowledge can structure otherwise chaotic facts of economic and social life.

At this point the confrontation between Menger and von Schmoller becomes apparent, as the leader of the Historical School insists that empirical research must be carried out on the first place (von Schmoller 1883) and then economic theory should utilize the achievements of economic history. In this case, the neutral statement that this conflict is still unresolved (Dieter Bögenhold 2008) is just an attempt to avoid

addressing the problem. Menger's reasoning in favor of the deductive methods is more convincing, because even the work involving primary sources, which is important for all historians, requires some knowledge of theoretical concepts, including the concepts of money, market, war, government, etc. If the modern concepts of money, market and war, among others, are completely different from the respective ancient concepts, for example, then we will fail to understand ancient societies.

Apparently, Menger attributes certain importance to the role of economic history in the general system of economic sciences, although not to the same degree to which he values economic theory. In general the Mengerian approach towards economic history is characterized by two main dimensions: (i) the historical laws cannot be a basis for prediction of economic development because they are relative; (ii) economic history is an important empirical source for the economic theory. These two dimensions are at odds with one another to some extent. On the basis of the first one Ludwig von Mises built his a priorism and the notion that empirical validation (especially historical) of economic theories is useless. Partly grounding on the second one modern neoclassical economic history and its fascination with markets, prices, wages etc. were built. The modern economic history is almost totally dominated by the second approach, while the first is widely neglected outside the Austrian school. The fact is that the pure neoclassical economic history has serious drawbacks. The most serious of them is that often the main function of economic history is to "legitimize the law", i.e. the "discovery" of economic laws and trends that have long been known. Perhaps a kind of Neo-Mengerian synthesis of approaches towards economic history will open new and interesting research field for economic history.

### 3. Carl Menger's Analytical Tools and Their Application in Economic History

#### 3.1 Methodological Individualism

Menger believes that among human efforts those which are aimed at the provision of material (economic) needs are by far the most important. Theoretical economics has the task of analyzing the consequences of the pursuit of private interest uninfluenced by external factors. He wrote: "the exact theory of political economy is ... a theory which teaches us to follow and understand in an exact way the manifestations of human self-interest in the efforts of economic humans aimed at the provision of their material needs" (Menger 2009a). This thesis is certainly not original. Back in 1776, in *The Wealth of Nations*, Adam Smith stressed the importance of self-interest (Adam Smith 2006). Menger believes that even though all his predecessors in the field of social sciences, including Adam Smith, were fully aware that in their general behavior people were never exclusively guided by self-interest, they just highlighted the importance of that factor for the theoretical purposes of their study. Here the difference between Menger and von Schmoller is not distinctly significant. They both considered the duality of human actions but focused on different elements.

At first glance the theoretical concept of methodological individualism is hardly compatible with the Mengerian definition of economic history as a description of collective phenomena. Since only individuals act and have rational self-interest,

the focus of study should be on the individual. The Mengerian analysis did not stop here, though. Menger asserted that it is the individualism that explains the reasons for the division of labor, the emergence and development of towns, trade etc. Hence the individualism is an appropriate theoretical framework for explanation of the evolution of economic interaction within families, tribes, nations etc.

While pursuing their private interests in the course of evolution individuals seek and find through a process of trial and error more or less efficient ways to satisfy their needs. It is again the pursuit of private interests that leads to the emergence and development of various small and big communities. People have a much better chance to survive physically and to provide for their needs if they live within their family, tribe, guild, nation, company, and other communities. In this context it is possible to see the underlying influence of the pursuit of private interests in the emergence of various forms of social organization.

Methodological individualism sheds light on the reasons for, and the nature of, important processes in the Balkans. Imposing restrictions on private ownership and, consequently, on the potential for economic growth, is common practice in the economic history of the Balkan societies. For example, the land reforms that were carried out in Romania, Yugoslavia, Greece and Bulgaria after World War I were aimed at abolishing the large estate land ownership, which was defined rather loosely. The land that was taken away from large land estate holders was distributed among small owners according to different criteria. As a result of the reforms, large estate owners lost their land and, consequently, the opportunity and the stimulus to achieve economic prosperity. The new land owners did not feel certain about the inviolability of their ownership rights, either. That is why they had no stimulus (and opportunities) to modernize their farms (John Lampe and Marvin Jackson 1982). Veselin Vukotić writes: “progress and development ask for initiatives, and the initiatives never fall from the sky. The initiatives always have obstacles” (Veselin Vukotić 2008). And the land reforms were one of these obstacles.

The German Historical School is characterized by rejection of private interests and by the assumption that common interests are the object of economic reforms and policy and are studied by economic history. Such officially professed noble motives often produce the opposite of the initially stated results: a very narrow circle of people personally benefit from the pursuit of the common good. Even though great Russian writer Dostoevsky was not an economic theorist or economic historian, he most aptly described that result in his famous phrase in his novel *The Demons*: “all these desperate socialists and communists are such boundless misers and collector and proprietors, so much so that the more socialist a person is, the further he’s gone, the more acquisitive he is” (Fyodor Dostoevsky 1983).

### 3.2 Spontaneous Order or Unplanned Social Institutions

Carl Menger thinks that social phenomena could be divided into two groups according to their origin. One group is the result of purposeful common activity: legislation, compulsion, belief, etc. The other group includes social institutions that serve the common welfare, but are not the product of planned and purposeful activities. They emerged slowly in the course of human evolution and brought about the so-called

spontaneous order. These include law, language, the state, money, markets, prices, interest rates, ground rent, etc. (Menger 2009a).

This thesis is not completely original, either. It was developed early in the nineteenth century, first by B. Mandeville and later by Adam Smith, who used the metaphor of the invisible hand that directs every individual in such a way that by pursuing his own interest he frequently “promotes that of the society more effectually than when he really intends to promote it” (Hayek 1991a; Smith 2006). However, Menger did not use the concept of spontaneous order to formulate a shocking paradox (as Mandeville did). Neither did he mention it in *passim* (as Adam Smith did). Menger convincingly incorporated the notion of spontaneous order into the system of theoretical economics and it became a useful analytical tool for economic history (John R. Hicks 2001).

His short essay *On the Origins of Money* illustrates that point. In this essay Menger seeks to explain the origin of money and convincingly establishes that it was not the result of the will of government, but was unplanned product of market mechanisms. He concludes that: “money has not been generated by law. In its origin it is a social, and not a state institution” (Menger 2009b). It was difficult for such a liberal thesis to gain currency among pro-government’s Balkan economists. Simeon Demostenov is one of the supporters of Menger’s thesis about the origin of money. He wrote: “the practice of indirect exchange is not the product of agreement, legislative compulsion, or desire to achieve the common welfare. It is the result of the pursuit of private economic interests by individual economic entities” (Simeon Demostenov 1942).

Menger believes that the formation and the functioning of human society is not exclusively the product of the so-called spontaneous order. There are changes in society and in economy that occur as a result of planned action. It is the interaction between the spontaneous and the planned activities that forms the basis of economic and social reality, as becomes clear from Menger’s thesis that after the institution of money originated spontaneously, it was susceptible in the course of its later development to purposeful manipulation by the state: “...this social institution of money has been perfected and adjusted to the manifold and varying needs of an evolving commerce ...” (Menger 2009b). Menger’s thesis on the role of the state differs from the liberal views of his Austrian successors like Friedrich A. Hayek and Ludwig von Mises and from the opinion of their modern fellow-travelers like Austro-libertarians and anarcho-capitalists, who regard the role of the state in the monetary sphere as completely detrimental. Instead of a radical rejection of the governmental intervention in the economy the Mengerian approach is moderate and the a priori criticism is replaced by value-free suggestion that we should analyze each separate intervention for itself.

The theoretical concept of unplanned social institutions brings clarity to the fundamental analysis of major events and processes in economic history. First, this concept suggests that economic history should not study only the state, but should also seek to explain the reasons for events and processes beyond the purposeful actions of individual persons.

This notion could be employed to set out the reasons for the Industrial Revolution in Great Britain at the end of the eighteenth century and early in the nineteenth

century, and to explain why the so-called “belated industrial revolution” in Eastern European countries after World War II perpetuated their backwardness (Ivan T. Berend 2006). Great Britain’s government economic policy played a certain role in the transition from the use of manual labor to machine-based manufacturing, but the real reasons for the Industrial Revolution can be traced beyond concrete government legislation and initiatives. They could be sought in a series of technical discoveries and innovations and in Western Europe’s sustainable economic development during the centuries preceding the Industrial Revolution, in the steady rise in literacy levels, etc.

The combination of all these various factors, most of which are not directly related to Great Britain’s industrialization, ultimately brought about the Industrial Revolution. However, the so-called “belated industrial revolution” in Eastern Europe (including the Balkan countries, which were part of the USSR-dominated Eastern Bloc) was entirely dictated by the state. It was the result of a purposeful and planned policy by the Communist governments of the respective countries. In the final analysis, Eastern Europe’s industrialization produced negative results because it did not help those nations reach the living standards and productivity of the more developed states. Rather the opposite, in fact. Even though Eastern Europe’s industrialization was planned and facilitated by cheap raw resources and guaranteed markets, it perpetuated economic backwardness.

### 3.3 The Stage Theory and Mathematical Methods

One of the most important theoretical concepts of the German Historical School is the claim that in their development human societies pass through different stages, each of which is characterized by specific economic laws. This is the so-called stage theory of human history. The main representatives of this school sought and found various indicators according to which they defined separate stages. However, the ultimate goal of the German Historical School’s efforts to seek logic in economic development is to “find” the future stage in that development and especially the emergence of socialism.

It was the issue of political affiliation that prompted the later representatives of the Austrian school to take a rather skeptical attitude to the possibility of dividing economic history in particular and history in general into periods that were characterized by their own specific laws (von Mises 2005). In his *Principles of Economics* Menger mentions that there were certain “stages of development” in Ancient Greece (Menger 2007). However, it cannot be claimed in any way that Menger accepts the attempts to determine the future stage or stages of human history. According to his general approach to economic history, the historical trends could not be used as a tool for predictions of the future.

Menger’s theoretical framework does not reject the concept of development, but to a large extent relieves economic history of the burden to prove that certain stages (mostly socialism) in the future development of mankind are inevitable because the empirical laws determined by economic history are not universally valid. In other words, the fact that capitalism succeeded feudalism could in no way lead to the conclusion that it will be subsequently followed by socialism. However, certain pre-

dictions on the basis of economic history and mostly on the basis of economic theory are possible. The analysis of the general development of phenomena such as money, markets, private ownership, etc. during the stages of human evolution can predict with greater certainty a change in the form of these phenomena rather than indicate that they will vanish (it was assumed that they will disappear during socialism). There are certain limitations in the predictions of this kind. For example the Misesian theoretical analysis of socialism in 1920s was a clear signal that the socialist economic model would collapse because of the famous calculation problem. The socialist countries on the Balkans after the World War II were essentially different: the closed economy of Albania, the pro-Soviet model of Bulgaria, and the Yugoslavian self-managing socialism. As a confirmation of the Misesian prediction, despite the huge differences, they all collapsed at the end of 1980s and the beginning of 1990s. However, neither on the basis of that theory nor by reasons of economic history it was possible to predict the exact time and the concrete circumstances of these failures.

It should be noted that Menger clearly distinguishes between the *normative laws* - that are set by the state or adopted under the influence of custom and correspond to a definite historical period, and the laws of *phenomena* that are universal and are studied by theoretical economics. This is an important insight for the economic history analysis. On one hand, the normative laws are part of certain stage of historical development. They are temporary and relative, for that reason the economic historian could find huge differences between certain societies. Their manifestation, development etc. could be object of historical research. On the other hand the universal laws could be applied without necessity of their explanations, as axioms, in economic history. These laws are not at odds with one another and economic historian should carefully distinguish between them.

Menger believes that theoretical economics should accept the concept of development, but it should also clearly distinguish between the individual and the general development. By individual development it is meant that people, enterprises, administrative institutions, etc. reach a peak, then begin declining, and ultimately, vanish. The general development is exemplified by the fact that certain economic phenomena such as ownership, exchange, credit, etc. recur throughout the centuries. The recurring phenomena share some common features, but it is also possible to find new features that attest to the evolution of these phenomena (Menger 2009a).

The application of Menger's theoretical achievements shows that it is normal to find periods of rise, decline and extinction in the individual development of a specific state, an empire, a corporation, and concrete administrative institutions. However, this cyclic recurrence should not be regarded as an absolute principle. The economic history of human society can certainly be divided into stages that differ mostly in some of their empirical features, but that also share a number of common phenomena. They develop and change throughout the centuries, but also preserve some of their fundamental features. By employing Menger's theoretical framework we can understand why the credit system in ancient Mesopotamia (second millennium B. C.) is so similar to the present-day credit institution (Niall Ferguson 2009); what the differences between the present and the ancient times are; why corruption in Bulgaria

after its liberation from Ottoman Rule (1878) was so similar to corruption in the Ottoman Empire before the liberation; the reasons for the difference between the two types of corruption (Pencho D. Penchev 2011) and other phenomena.

In his essay devoted to Carl Menger, Friedrich A. Hayek notes that the founder of the Austrian school has nowhere commented on the value of mathematics as a tool of economic analysis (Hayek 1934). This omission is neither accidental nor the result of ignorance. It results from Menger's view that man and his desires, limited knowledge and errors play a central role in the economic system. This is precisely the reason why it is impossible to measure economic reality with absolute precision. For that reason Menger did not employ mathematics in his theoretical works at all. He obviously considered the formal language of mathematics inappropriate for economic history too.

However, the development of the main movements in the field of economic theory in the twentieth century involves the application of various increasingly complex mathematical methods and tools (Peter J. Boettke 2012). Often the current economic history publications in the leading journals are actually an application or a verification of the neoclassical economic theory models. The collection and processing of their own databases, calculation and recalculation of GDP for various regions and more distant periods of the past, the comparison of wages, etc. have become a major preoccupation of economic historians. Some serious shortcomings could be identified in this tendency. The statistical data that economic history can use, insofar it has such data at its disposal, are very limited and have been collected for purposes that radically differ from the methods used for applying or testing a specific economic model. Second, if economic history is turned into a series of graphs, tables and formulas, it will become an abstraction that will be divorced from reality and will be used by a narrow circle of cognoscenti to play arcane intellectual games. Nevertheless, it is possible to point out studies in the field of economic history that apply entirely or partly some of Carl Menger's theoretical theses and could serve as examples of reasonable and interesting research (for example, see Murray N. Rothbard 1962, 1963; Thomas J. DiLorenzo 2004).

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Valuable as they are separately, all these analytical tools are well-known and some of them are widely employed in social sciences. The methodological individualism is the basis for part of the modern economic history. It is the main feature of the neoclassical economics and hence of the neoclassical economic history. The fact is that the concept of methodological individualism undermines the main postulates of neoclassicism (Christian Arnsperger and Yanis Varoufakis 2006). The notion of spontaneous order is used by certain social sciences (anthropology etc.). The Marxian economic history did not employ mathematical methods in its analyses, while Popperian philosophy accepted the rejection of stage theory of history. However, the Mengerian research agenda is still neglected in economic history. Its uniqueness lies in the synthesis of all these tools. Their appropriate combination could surpass the well-known drawbacks of the old methodology and could open new vistas in economic history research.

## 4. Conclusion

Today theoretical economics and economic history find it difficult to find a common language (Francesco Boldizzoni 2011). The representatives of the mainstream neoclassical economics, who are more numerous and more influential, regard economic history as a curious or boring addendum to the economic models they have developed. For their part, many economic historians still believe that only their science can be and is a source of proper theoretical conclusions (Immanuel Wallerstein 1991).

Carl Menger's works are directly related to this lengthy scientific debate. The problem of the essence of relationships between economic history and theoretical economics figures prominently in Menger's writings, but the proposed solutions are even now somewhat ignored. Menger clearly distinguishes between the research methods used by the two sciences and the objects they study: economic history deals with the past, which is why it can discover empirical regularities. Furthermore, economic history provides one of the important empirical foundations of theoretical economics. Carl Menger firmly believes that for its part, economic history should utilize the achievements of theoretical economics to bring order out of past chaos and to elucidate a multitude of various facts. In this context, the main concepts of methodological individualism, unplanned emergence and development of important economic institutions and the theses about the evolution and development of social and economic phenomena assume particular importance. Carl Menger's careful approach to the problems of scientific research methods suggests that his theses should not be taken to the extreme. If these theses are placed at the heart of economic history research, they will ensure a relatively acceptable degree of political neutrality, as they have the potential to debunk artificial myths and to get closer to the truth.

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