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FROM SCHMOLLER TO SOMBART

HORST K. BETZ

University of Calgary, Canada
Department of Economics

It is the purpose of this paper to investigate the early pioneering attempts at pattern or economic *Gestalt* theory in the transition from Schmoller to Sombart. In the process I will also attempt to show that Sombart successfully stood on the shoulders of Schmoller, at least with one leg, the other one being supported by Marx, of course. A brief sketch of the goals of today's pattern models will be followed by an analysis of Schmoller's and Sombart's views on the nature and purpose of economics, their respective theoretical and methodological orientations, the concept of the economic system and the role of values in economic analysis. Many other aspects of their scholarly pursuits and contributions are, by necessity, beyond the scope of this discussion.

When Schumpeter addressed the question of "was Schmoller wollte" and how his programme related to the problems our discipline faced at the time, little could he realise how topical some of these concerns would still be on the occasion of Schmoller's one hundred fiftieth birthday[1]. Nevertheless, in recent years we have been able to observe ever increasing attempts at developing so-called pattern models. In this context most attention has been paid to a largely dormant antithesis in economics, the contributions of the Institutionalists. On the other hand, in these post-positivist methodological struggles for a new synthesis only scant reference has been made to the research programme of the German Historical School which appears to have been successfully condemned to the intellectual underworld of economics. Yet, was not Schmoller,

1. Referring to Schumpeter (1926), Brinkman wrote some fifty years ago: "Today, as we approach the hundredth birthday of Schmoller, it is high time for a serious attempt [to rehabilitate Schmoller], building on these beginnings of the few against the lack of judgement of the many". Carl Brinkman (1937), p. 10.

as Schumpeter said, the father of American Institutionalism? Was not his work an attempt, as Max Weber praised on the occasion of his seventieth birthday, to overcome a "most barren economic rationalism"?

It is the purpose of this paper to investigate the early pioneering attempts at pattern or economic *Gestalt* theory in the transition from Schmoller to Sombart. In the process I will also attempt to show that Sombart successfully stood on the shoulders of Schmoller, at least with one leg, the other one being supported by Marx, of course. A brief sketch of the goals of today's pattern models will be followed by an analysis of Schmoller's and Sombart's views on the nature and purpose of economics, their respective theoretical and methodological orientations, the concept of the economic system and the role of values in economic analysis. Many other aspects of their scholarly pursuits and contributions are, by necessity, beyond the scope of this discussion.

1. To set the scene, a few (albeit cursory) remarks on the recent attempts at pattern modelling[2]. The proclaimed intent is to introduce a greater degree of explanatory realism into the discipline by transcending what has been termed an "astronomy of commodity movements"[3] and investigating factors other than purely economic ones responsible for this movement in the first place, i.e., motivational and institutional structures and their roles in the social process as a whole. Also, the emphasis is not on equilibrium but on change. The concepts of holism ("organicism" in much of the German tradition) and development are of central importance to these models as they attempt to analyse and explain the relationships between the whole and its constituent parts as well as among these parts. The objective is an understanding of the essence (*Wesenserkenntnis*) of these relations and phenomena or,

2. *Inter alia*, cf. Abraham Kaplan (1964), p. 327 ff.; Charles K. Wilber and Robert S. Harrison (1978), pp. 61-89 (this article also includes good bibliographical references); Daniel R. Fusfeld (1980), pp. 1-52; A.W. Coats (1987), pp. 1-20.

3. Hans Albert (1963), p. 71.

with Sombart, to answer the questions of whence? by what means? for what purpose?[4]

Given the complex nature of the relationships to be investigated by pattern models, the structure of their explanation is "concatenated". "Something is explained when it is related to a set of other elements that together they constitute a unified system. We understand something by identifying it as a specific part in an organised whole"[5]. The complexity of the model components and their interrelations together with the emphasis on change make for an "openness" of these models; therefore, continuous empirical observations are required. As a result, pattern models do not possess the aesthetic appeal or precision (some would say "rigour") conveyed by hypothetic-deductive models. Also, exact verifications of hypotheses is well-nigh impossible[6]. Still, pattern models, in their attempt to provide a more realistic direction to our discipline, should go some way towards meeting Lord Robbins' concern that explanation has been sacrificed for the sake of prediction[7].

Finally, pattern models and pure or rational theory should be considered complements rather than substitutes in the sense that "what economic *Gestalt* theory can and must achieve is to deter-

4. Werner Sombart (1930), p. 138. More specifically, Fusfeld (1980) speaks of "a combination of causal explanation and historical description", "causal explanations", "primarily historical description, supplemented by causal explanation", "historical and causal explanations", and "reasoned value judgements".

5. Kaplan (1953), pp. 332-3. He also argues that pattern models "may more easily fit explanations in early stages of inquiry, and the deductive models in the later stages". It is of interest to note already here that Spiethoff, elaborating on Schmoller's discussion of causal explanation, writes that the causal explanation of any "discrete species of phenomena" belongs to the realm of the inductive method. Only in complex situations must the investigator take recourse to speculative deduction [by means of an "intuitively grasped hypothesis", H.B.] which must, subsequently, however, be verified by induction again. Arthur Spiethoff (1953), pp. 446-50.

6. On the other hand much of the so-called empirical analysis based on traditional models is like "playing tennis with the net down". Mark Blaug (1975), pp. 399-419.

7. Lionel Robbins (1979), pp. 1003-4.

mine the logical character and historical applicability of each rational theory"[8].

2. At the heart of Schmoller's programme was his concern for justice – and we have Spiethoff's word that Schmoller considered his essay "Gerechtigkeit in der Volkswirtschaft" his best. To address this problem, however, one has to understand the nature of socio-economic problems for which, in turn, Schmoller deemed it imperative to investigate, analyse and attempt to explain that which traditional economic theory had taken as given. In Schumpeter's words, Schmoller's programme was "to approach his material with a minimal reliance on *a priori*, to comprehend interrelations, [and] in the process enhance the *a priori* for the future and work out new modes of comprehension which in turn become the (provisional) theoretical basis on which new materials are approached, and so forth, a continuous reciprocation between material and cognitive assimilation"[9]. As a result, the *Grundriss* can rightly be termed a mosaic. And as a book of beginnings Schmoller intended it to highlight the "complexity and difficulty of phenomena and problems" rather than the often "deceptive clarity" and simplicity based on "precise definitions".

When Sombart published the second edition of *Der moderne Kapitalismus* it was, at least in part, seen as a continuation of Schmoller's work. In particular Sombart's cross-sectional analysis of empirical data went a long way to overcome the so-called antinomy of theory and history for which much of the blame seemed to have been placed on Schmoller's predilection for detailed empirical investigations stressing longitudinal analysis. As will be shown below the frequently made accusations that Schmoller confused economic theory with economic history, that he had no theory and, indeed, was inimical towards it are without founda-

8. Edgar Salin (1928), p. 330. When Schumpeter wishfully exclaimed, "If one could only combine Sombart and Edgeworth!" he also added the hope and implicit programmatic challenge that the future would do this for us. Schumpeter (1927), p. 17.

9. Shumpeter (1926), pp. 381-82.

tion. Let us look more closely now at Schmoller's and Sombart's ideas of economics as a discipline and their approaches to its theories and methods[10].

Both Schmoller and Sombart are part of the peculiarly German economic tradition of the nineteenth century which stressed the need to understand the social structure of the economy and relationships between its various components (families, associations, corporations, the state, etc.) and the complexity of its common purpose. This means that questions of human motivations, law, morals and customs, that is of a shared ethos, must be addressed. Historical investigations and theoretical analysis (of the rational and *Gestalt* types) must complement one another. In their goals, their approaches and the scope of their scholarly endeavours Schmoller and Sombart were true economic sociologists. They rejected what they perceived to be a dogmatic claim of orthodox theory for the universal validity of its axioms and, in particular, the imposition of absolute policy norms derived from these axioms. To Sombart the elaborate theoretical systems of classical and neo-classical economics with their emphasis on economic equilibria and the apparent autonomy of their catallactic laws were but mere perversions of the natural sciences. And Schmoller felt that the old doctrines had nothing to say on social problems, changes in social and economic organisations, and the consequences of competition and socio-economic power relationships in general.

How, then, did they perceive the nature of the discipline? With Schmoller the focus was on *Volkswirtschaft* (national economy), while Sombart's efforts centred on the concept of the economic system. For both there is a tendency, also at least partly as a reaction against economic orthodoxy, to rely heavily, though not exclusively, on what has come to be called methodological collectivism[11].

10. For the purposes of this paper reference will be mainly, though not exclusively, to Schmoller's *Grundriss*, München, Leipzig, 1919 and his methodological writings as well as to Sombart's *Die drei Nationaloekonomien*.

11. For example, Schmoller (1968), p. 287, attacks Menger for not realising "that all of the more important economic phenomena are so comprehensive in

The object of knowledge for Schmoller, the *Volkswirtschaft*, must be properly distilled from among the materials of knowledge and precisely delineated before the nature and objective of economics as a science can be defined. *Volkswirtschaft* means a unified system of laws, customs and ideas with common financial and socio-economic arrangements and institutions. Such a system is a "uniform real whole in spite of the independence of its parts, because it is governed by uniform psychological and material causes, because of the strict reciprocity between and the influence of the central organs on all parts and because the totality of each *Volkswirtschaft* ... despite the constant change among its parts, continues, in our mind, essentially unchanged, and because we comprehend all changes of this same *Volkswirtschaft* through the idea of development". In other words, *Volkswirtschaft* is an integral part of social life. Given the important role assigned to the state in this scheme, Schmoller insists on this particular term instead of the more abstract, "state-free" *Sozialwirtschaft* (social economy). Economics, then, is "that science which wants to describe and define economic phenomena, explain them by means of causal relationships and comprehend them as a coherent whole"[12].

In view of the complex nature of material and psychological-cultural causal sequences as they affect social arrangements, economics must draw on the achievements of both the applied natural sciences (anthropology, biology, geography) and cultural sciences such as ethics, history, law, political science and psychology. Schmoller derides those scholars who are "anxiously attempting to establish rigidly defined disciplinary boundaries and never pursue a hare into neighbouring hunting grounds"[13].

In contrast to orthodox economics, which he sees as being oriented towards natural-technological factors, Schmoller argues

time and space that they can only be approached in a collectivist manner as practiced in historical and statistical studies". As for Sombart, culture of which the economy is part, is "collective consciousness". Therefore any cultural science is not amenable to purely atomistic approaches.

12 G. Schmoller (1949), p. 14.

13. *Grundriss* I, p. 112.

that man, through a set of customs and morals based on his psyche, "builds into nature a second world, the 'world of culture' ... of which the economy is a part"[14]. Social and cultural arrangements represent a hierarchy of common goals and purposes, and all economic activity is guided by and takes place within this hierarchy which, in turn, is a reflection of the above-mentioned causal sequences.

In view of this particular place of *Volkswirtschaft* it becomes the role and purpose of economics to teach an understanding of these relationships. "By investigating the distribution and not merely the production of commodities, by analysing economic institutions in addition to value phenomena [and] by making man rather than the world of commodities and capital the focus of science it [today's economics] has again become a great ethico-political science"[15].

For Schmoller this re-orientation of the discipline together with a concern for the progressive development of man represented an indispensable means for his ultimate goal of a *Humanitätsideal*. It is with this goal in mind that his call for observation, description, classification and comprehensive causal analysis as the core of economic research must be seen; because only then will we ultimately be able to formulate empirical laws and "understand the economic process and can possibly predict the future and guide it onto its proper path". What alienation was to Marx, the "social question" is to Schmoller in this regard, only it is a much broader cultural concern. Not only material economic but also moral-cultural progress is what he had in mind, the result of a continuous interaction "between human qualities and social and economic institutions"[16]. The frequent reference to Schmoller's assigned primacy of politics over economics – as an expression of free will in lieu of the automaticity of natural laws – should, therefore, be taken in terms of the purpose of economics rather than its scientific procedures.

14. G. Schmoller (1906), p. 47.
15. G. Schmoller (1904), p. 388.
16. *Grundriss* I, p. 77; II, p. 749.

He rejects the traditional separation of economic theory from policy which had been entrenched by the dominance of Rau's (and later Wagner's) textbook. Instead he offers an epistemologically more promising distinction between general and particular economics. General economics is of a "philosophical-sociological character", it presents the typical components and institutions of society as well as the general causes of economic activities. "It attempts, systematically and in principle, to synthesise the incomplete fragments of our knowledge into a whole". Schmoller speaks here of a "representative" national economy (*Durchschnittsvolkswirtschaft*) where the particular will only serve as an illustration of what has been found to be true. The more general economics relies on abstract-theoretical analyses of value and income matters the more theoretically complete and internally consistent it will appear; however "as soon as it tries to demonstrate the connections between all economic phenomena and their ultimate social causes, it approaches an ethical and philosophy of history-type [speculative] investigation".

Particular economics, on the other hand, deals with the social and economic questions of a specific nation at a particular time. It is historical and addresses concrete individual phenomena and their causes. While much of particular economics is descriptive it, nevertheless, operates on the basis of and may add to the "truths" of general economics. Also, it is the empirical (and theoretical) analysis of particular economics which provides the immediate foundation for economic policy considerations rather than the propositions of general economics as believed by the classical economists[17].

Most of Schmoller's work constituted particular economics; his *Grundriss*, however, was to present a "uniform and systematic" overview of the results and accomplishments of the general economics of his time. It does, indeed, represent an initial attempt at economic *Gestalt* theory using pure or rational theory, wherever necessary, as an indispensable positive heuristic. History and theory do not have to clash.

17. *Ibid.* I, pp. 125-6; Schmoller (1949), pp. 16-7, 100.

Sombart, as we shall see presently, builds on much of what his teacher had accomplished. Even though Menger had emerged victorious from the *Methodenstreit*, Schmoller was "right in rejecting Menger's method. But he could not prove it, even though he fought for the better cause. But he did not know what it was"[18].

3. Compared to Schmoller, Sombart's approach to economics was, above all, a more systematic one. Every science, he says, must have a system of ideas under which the knowledge gained can be formed into an independent intellectual unity. Accordingly, he starts with *a priori* reasoning rather than with concrete economic phenomena. The whole of the essence of economics is captured by what he calls the basic idea (*Grundidee*) of economy in an abstract and general sense where economy simply refers to man's pursuit of sustenance in his struggle with nature. More specifically the idea of economy encompasses

1. an economic ethos reflecting man's goals, purposes and motives,
2. a certain order under which economic activities take place, and
3. a set of procedures (techniques) employed by man in his struggle with nature.

In its historically concrete and particularised form this abstract basic idea is expressed through a *Gestaltidee*, the economic system. It is not until this point that he approaches the same ground as Schmoller regarding the object of knowledge, and economics then becomes the science of economic systems". This concept of the economic system, which will be discussed more fully below, he considers superior to Schmoller's *Volkswirtschaft* which, he argues somewhat unjustifiably, is too vague and tells us nothing "about the character of this association [of individual units] or the principle on which it is based"[19].

The "doctrine of economy as a whole" is divided into econo-

18. Sombart (1930), p. 154.

19. W. Sombart (1929), p. 9; Sombart (1930), pp. 180-85.

mic philosophy, applied economics and economic science. Economic philosophy is to uncover the metaphysical and transcendental relations of economy, its relations with the "Absolute". For this purpose an economic ontology assigns economy its proper place in the relations of being, a cultural philosophy assesses its meaning within the context of culture, and an economic ethics incorporates economy into the general complexes of values. Applied economics, which includes management science, public finance and national economic policies, deals with the means to realise particular predetermined ends. Finally, there is economic science in the narrower sense which is a "science of the actual design and causal connections of economy as a social fact".

The scientific analysis of economy requires that economics be an empirical science (as opposed to metaphysics) in the sense that it has to generate generally valid knowledge of economic reality, that it be a cultural (as against a natural) science because its subject matter is a product of man's mind, his intellectual abilities ("economy is objective mind"), and, finally, that it be a social science, since all economic activities take place within a social setting. The economic can never be treated as conceptually separate from the social. Therefore, he argues, "pure economics" is a non-concept[20].

Since economy belongs to the world of culture rather than that of nature we can understand (*verstehen*) economic relations. Understanding means to gain insight into the essence and meaning of the relations as part of the complex of cultural phenomena, both in terms of their abstract or general and their historically concrete dimensions[21]. In an analysis of this sort, Sombart maintains, it is meaningless, even detrimental, to consider theory and

20. *Ibidem*, pp. 293, 173-8.

21. In the world of nature we are mere spectators and can only comprehend. The phenomena of culture we can understand because "we are actors on the stage". While all *Verstehen is Sinnverstehen* (an understanding of meaning), Sombart distinguishes between pure *Sinnverstehen* (an understanding of all timeless historico-cultural phenomena), *Sachverstehen* (the understanding of concrete historical phenomena in terms of their common purpose, their structural relations or Stilzusammenhang and their perceived interdependence) and *Seelverstehen* (psychic or motivational understanding). Sombart (1930), p. 193 ff.

history as mutually exclusive. After all, the ultimate goal of science is to gain empirical knowledge, and it is theory which shows us the way. A complete theory strives

1. to create a complete scientific system,
2. to integrate into this scientific system an appropriate conceptual apparatus, and
3. to develop a body of knowledge of the regularities of economic life to deal with the possibilities, probabilities and necessities (causalities) of economic events without regard to time and space[22].

Empirical work, on the other hand, investigates time- and space-specific realities. The quality of its results is a direct function of the quality of the theory employed.

Like Schmoller, Sombart distinguishes between general and particular economics. The former establishes our *a priori* system of economic categories enabling us to understand the general, the timeless aspects of cultural phenomena (*pure Sinnverstehen*)[23]. It provides for the already mentioned basic and *Gestalt* ideas as well as a set of heuristic ideas (*Arbeitsideen*) which assist in arranging the materials of knowledge within the framework established by the first two ideas (examples: organism-mechanism, static-dynamic). Whatever knowledge is incorporated in general economics is of universal validity. It applies to all economic systems. General economics is always theoretical, particular economics is both theoretical and empirical; it deals with concrete realities of meaning (*Sachverstehen*). Sombart considers his theory of economic systems and its applications in *Der moderne Kapitalismus* as outstanding examples of this combination of theory and history[24].

The most significant advance he made in dealing with the nature and scope of economics was to systematise the subject matter,

22. *Ibid.*, pp. 298-300.

23. It is in criticising Schmoller's "empirical" point of departure that Sombart lays particular stress on the *a priori* nature of his ideas, a criticism not all that well deserved because, as pointed out, Schmoller's empirical work served well to enhance the *a prioris* of the future.

24. Sombart (1930), pp. 316-21; Sombart (1928), I, pp. xivxxi.

give it a more precise conceptual framework, and arrange it in a manner to exclude economic philosophy as well as policy from the science proper which was thereby, he felt, cleansed of all ethical value judgements[25]. Whether this latter aspect represented an advance is at least debatable as we shall see. In contrast to Schmoller, then, economic policy considerations are not even part of particular economics. As a result, Sombart's notion of science is much more rigidly defined. He believes, however, that economic science can still provide foundations for policy decisions by promoting a better understanding of the nature of problems, by asking the right questions, and by providing for an analysis and explanation of socio-economic conditions; specifically, he recommends a greater use of his concept of the economic system.

4. Before proceeding to a discussion of the *Gestalt* models proper a few comments are in order on their respective approaches to causal explanation. Since Schmoller shares the belief but also admits to the lack of proof of a coherent development process of nature, history and human society, he argues that a thorough investigation of "all causes of each phenomenon [is] the most important task of scientific procedures"[26]. He recognises the importance of physical causes; however, since the economy is part of culture, a product of man's intellectual (*geistig*) efforts, it is the psychological causes which he stresses.

All economic activities are rooted in man's motives (*Triebe*), feelings and needs, *i.e.*, his psyche. When he considers psychology as the key to all cultural sciences (including economics) and refers to feelings of pleasure and pain, this has nothing to do with any felicity calculus or utilitarian ethic. It means he is looking to that discipline, and to ethics, to help provide an explanation of how individuals' drives and motives develop into collective cultural forces and "psychological mass phenomena" such as customs, morals and law. It is through this interrelation between the indi-

25. "Value judgements in a scientific discipline affect me like stones in a pease-pudding". Sombart (1930), p. 290.

26. *Grundriss* I, p. 107.

vidual and society that the psychological develops into the ethical, a shared ethos and hierarchy of goals as reflected in socio-economic and political institutions. Whatever man's motives may be – and Schmoller goes beyond considering self-interest only or even Roscher's added sense of community (*Gemeinsinn*) – they will always be regulated and shaped by ethical precepts and law. The profit motive, for example, is not a natural force equally strong everywhere but is always "checked and tamed by certain moral influence, laws and institutions"[27]. The general psychological elements which influence economic life appear either "directly [in the form of motives] as causes of the first order ... [or] as the complicated results of a higher culture, as language, ethos, law, as economic and legal institutions. This results in a network of psychological causation of a higher order"[28].

Both deduction and induction must be combined as the investigation of economic causation becomes increasingly complex. For situations where causal explanations cannot provide the answers, yet on which we entertain certain hypotheses, Schmoller crosses his own boundaries of science. He falls back on Kant's critique and the heuristic device of teleological reflection: an assumption regarding the ultimate purposes of God, history and nature (accessible only to the will) can then provide an approximate comprehension where an explanation is impossible[29].

A universal "law" explaining man's economic activities and their historical development is scientifically impossible to achieve. Real "laws", to Schmoller, are those which explain and measure all causal relationships and are rare even in the natural sciences. All we can hope for are empirical laws depicting uniformities and regularities of economic phenomena. And here most promising are what we might call static laws, *i.e.*, when our analysis of psychological and other causes is restricted to a given stage of cultural and economic development. Still, dynamic analysis can and should be introduced by investigating changes in psychological causation

27. *Ibid.*, p. 37.

28. *Ibid.*, p. 109.

29. *Ibid.*, pp. 108-12; Schmoller (1968), pp. 35, 238, 240.

and its effects on economic behaviour as well as the nature and change of specific economic organisations, such as markets, the division of labour, public finances, etc. Finally, he holds out the possibility of developing a "general formula" for economic or even overall human progress, an endeavour which he admits belongs to the realm of the philosophy of history rather than to economics proper[30].

For Sombart also causation is to be sought in human motivation, though it should be stressed that causal explanations are only a means towards the higher purpose of a cultural science, that of *Verstehen*. His primary interest was to understand the cultural objectification of human mind[31]. He was therefore less interested in the motivational structures of individuals and concentrated, instead, on the "mass phenomena" of cultural complexes because, once subjective mind has become objectified, it will influence and motivate individuals' actions. It is also for this reason that he objects to Schmoller's designation of psychology (a natural science to Sombart) as a foundation for economics. His basic science is "'general nosociology' or ... 'general spiritual group theory' ... the content of which is definitely fixed as the general theory of culture"[32]. Culture is mind and can never be derived from soul or psyche (*Seele*) which is part of nature. Still, he concedes that economy, like all culture, does not consist of mind exclusively but

30. *Grundriss* I, p. 110: Schmoller (1949), pp. 69–71. Schmoller also addresses the problems of "laws" and regularities in the context of nomothetic and idiographic approaches and rejects the rigid line of demarcation drawn by Rickert and Windelband between the natural and cultural (historical) sciences on the basis of that particular distinction. (*Ibidem*, pp. 99-103). Knies's term "laws of analogy" does not find much favour either "because in the realm of psychology we must always assume the same causal nexus; while the psychological laws of motivation are different from the natural laws of the external world, the maxim of causality applies to both with inexorable necessity ..." Schmoller (1968), p. 209.

31. As a matter of fact, by means of an anti-Marx inversion, it is the objective spirit which is *the* dominant force in his theory of causation.

32. W. Sombart (1949), p. 191. In his last work, Sombart (1938) p. xix, he calls it "cultural anthropology". His professed intent is to delineate it from "the Scylla of metaphysics" and "the Carybdis of naturalism".

also of body and soul. While every decision to engage in an economic activity is part of psyche, the motivation for that action becomes part of *Geistwissenschaft* if it arises within a cultural complex of meaning, e.g., a factory[33].

Motives are the "ultimate" cause of all cultural activities. "This principle ... is an a priori of all cultural sciences". Motive is defined as "the essence of all psychic-cultural (*seelisch-geistig*) which gives effect to human action"[34]; again, as we have just seen, psychic causality as part of the causality of a broader cultural context. It also means that all motives are historically relative. Methodologically, our mental process here invokes a combination of *Seelverstehen* and *Sachverstehen*, and in *Der moderne Kapitalismus* he argues that such a procedure and its method of "voluntaristic-causal" explanation ("social-psychological method") must be the basis for all historico-cultural research[35].

On the surface at least, Sombart's rejection of psychology appears to be in fundamental conflict with Schmoller. Yet looking beyond the, at times, overwhelming taxonomy of Sombart's terminological apparatus the actual content and direction of Schmoller's analysis does certainly not appear to be incongruent with Sombart's. He would have agreed in principle with much of what Sombart had to say, particularly about his causal-genetic or «social-psychological» method of explanation. As a matter of fact, in reviewing *Der Bourgeois* Schmoller praised his student for stressing now the psycho-genetic elements, an orientation he had missed in the first edition of *Der moderne Kapitalismus* when Sombart was still too much under the influence of Marx[36].

While Sombart shares, by and large, Schmoller's views on the relations between nomothetic and idiographic methods, he rejects his search for empirical laws as being too natural-scientific.

33. Sombart (1930), pp. 163-75.

34. *Ibid.*, pp. 224 ff.

35. Sombart (1928), II p. 844. He talks here of causation through the free will of individuals. In view of the deterministic nature of his objective mind, this does raise some problems though.

36. As Schmoller (1914) says: "Sombart concluded with the proud words: 'The psyche of modern economic man is no longer a secret.'".

"Laws" in economics are *vérités de raison, a priori*'s or necessary truths, he says, which cannot be obtained from the realm of experience. As to what orthodox economics considers "laws" these are but logical necessities and heuristic devices: Mathematical laws (e.g., the quantity theory of money, the wages fund theory), structural laws regarding the relations between the whole and its parts (e.g., the profit motive as a necessary component of capitalism), and rational (means-end) laws or ideal-typical constructs such as economic man and the laws of indifference and substitution. In their place Sombart advocates an *a priori* theory of uniformities which develops "a system of possibilities as causes for a uniform development of phenomena". Uniformities in social processes, he suggests, depend on a common motivational basis (i.e., the spirit of the economic system), and on "objective conditions". These may be logical, as the above-mentioned "laws" of orthodox economics, social such as the economic order or population density, and they may be in the form of the means available to people in the pursuit of their goals[37].

Thus with the design of a specific theoretical framework Sombart again presents us with a remarkable though not irreconcilable advance over Schmoller. Not irreconcilable since it is debatable if the *a priori* propositions must not, at some stage, be modified on the basis of new empirical evidence. This issue of an apparent methodological clash between *a priori* and empirical laws does not necessarily render them mutually exclusive, just as little as its special case of induction versus deduction.

5. As we have seen, Sombart's general economics provides an *a priori* system of economic categories under which the various possibilities of the idea of economy can be subsumed. In this scheme the major criteria of ethos, form and technology are divided again into twelve subcriteria to demonstrate various "analytical possibilities" supplemented by "synthetic" ones which serve to arrange the former into meaningful economic systems[38]. Any

37. Sombart (1930), pp. 251-76.

38. *Ibid.*, pp. 206-7. The best and most comprehensive discussion of the economic system is Georg Weippert (1953).

analysis of concrete historical phenomena must supplement this necessary condition with a sufficient one which emerges as the *Gestaltidee*. "Without *Gestaltidee* economics is not a science at all". This transition from basic to *Gestaltidee* "must contain and unify all the essential characteristics in its concrete, historically determined rather than its abstract *a priori* form. The idea of the economic system meets these requirements"[39]. It is then defined as "the mode of providing for material wants, regarded as a unit which is

1. animated by a definite spirit,
2. regulated and organised according to a definite plan, and
3. applying a definite technical knowledge"[40].

The spirit as the sum total of all intellectual influences on economic activity, comprises all the values, norms and maxims which govern the behaviour of individuals and shape their collective institutional arrangements. It is objective mind even though Sombart designates it as subjective. The organisation of the system resembles Marx's mode of production without, however, being the determining base of the system. This role reverts back to the spirit. The particular social arrangement of the system can be seen in the division of labour, property relations, patterns of income distribution, etc. Whatever they are, all reflect the prevailing ethos. Technology refers to the kind of procedures and techniques applied in the pursuit of desired ends. It may be empirical or scientific, organic or inorganic, etc.; in each instance, however, it represents a creation of man's mind; again the influence of the spirit.

Each economic system has a specific historical equivalent, the economic epoch which is that time in history during which a particular system is predominant. In both the early and late stages we can observe a transitional or "mixed" period; whenever full development is reached we speak of a "pure" period.

As an historical category, the economic system is accessible to *Sachverstehen, i.e.*, to understand objectified mind. We now

39. *Ibid.*, pp. 184-5.
40. Sombart (1929), p. 14.

deal with a concrete pattern of meaning, or more specifically, a *Stilzusammenhang* or "superindividual spiritual atmosphere" where the meaning of individual acts and phenomena is determined by the meaning of the whole[41]. In other words, here the method of *Verstehen* enables us to answer the questions of why there exists in a given economic system a particular "synthesis" of system characteristics and also why, as a consequence, individual economic agents such as workers or corporations act the way they do.

The objective spirit, as already indicated, assumes a rather deterministic role. It is the unifying concept of a specific culture complex; it represents a "uniform motivational basis", a "uniform structure of values" which determine the ("voluntaristic"?) actions of the economic agents, the prime movers of the system. In view of this dominant role of the objective spirit it is regrettable that Sombart does not provide us with a methodological vehicle to "understand" the development of one spirit (or system) to the next, particularly since the part of Marx's theory he jettisoned included the dialectic[42].

Still, we have been given a theoretical framework which goes considerably beyond the earlier stage theories by establishing a group of system characteristics rather than relying on a single criterion to classify a given pattern of economic activities. And Sombart is not without justification when he terms his category of the economic system "wide enough to comprehend every aspect [of economy]", "definite enough to grasp the historical concreteness of economic life" and "general enough to be applied to every conceivable economic institution [*i.e.*, arrangement] from the most primitive to the most highly developed"[43].

Schmoller, of course, was one of the major contributors to stage theories and still appreciates them for their heuristic value in

41. Sombart (1930), pp. 210-12.

42. This clearly is a disadvantage of cross-sectional analysis which, as Schumpeter points out "has a tendency like that of the broom in the 'Sorcerer's Apprentice': to gain a life of its own. This has already happened with the economic spirit". Schumpeter (1926), p. 386 n.

43. Sombart (1929), p. 15.

the last chapter of the *Grundriss* when he speculates on the nature and prospects of economic and human progress. In the same chapter he also offers us this intriguing summary:

> The basic idea of our economics is that the economic life of mankind proceeds as a sum of political-social bodies which present themselves to us as political and economic unities, partly side by side [and] partly as one succeeding another. In our minds each of these bodies is recognised as a unity, to some extent through its geographic area and borders, its respective technology and the like, primarily, however, through consanguinity and unity of mind, through the socialisation of its members as reflected in the visible phenomena of race, custom, law, morals and religion, and, above all, its political and economic institutions[44].

While not as succinct or conceptually and categorically as elaborate as Sombart's system, this definition clearly addresses the same object of knowledge. And just as the *Gestalt* of the system, Schmoller's *Volkswirtschaft* is an historical category.

Throughout the *Grundriss* Schmoller addresses what later became the components of Sombart's system. The material is there, only the analytical pattern coherence is just vaguely discernible. We have already seen that, while individuals "are the active atoms of the economic body", their activities are guided by a shared ethos and hierarchy of goals. Whatever its shortcomings, the "Introduction" of the *Grundriss* attempts to demonstrate this process. As to Sombart's "form" or "organisation" we turn to the *Grundriss* chapters on the "Social Order of the National Economy" and their treatment of classes, property relations, income distribution, changing market structures and enterprise behaviour, etc. Schmoller also discusses such "natural" factors as climate, resource endowment, and territorial size as they influence the nature of a *Volkswirtschaft*. These are aspects which Sombart did not make part of the "form", presumable as a reflection of the deterministic role of the spirit. Schmoller, on the other hand, in his treatment of technology considers it an important link between the two major sequences of economic causation, the purely

44. *Grundriss* II, pp. 760-1.

natural (e.g., climate, etc.) and the psychological-moral. "These three groups of causes influence one another but none dominates totally"[45].

While these striking similarities in the respective treatments of *Volkswirtschaft* and the economic system are central to the arguments presented here, we must not forget that they are the result of rather different problem orientations. For the realisation of his *Humanitätsideal* Schmoller deemed a strong central state (specifically the Prussian state of his day) as indispensable. Since it was to be the centre of socio-economic activities political economy (in the sense of *Staatswissenschaft*) had to account for this. He considered it a "phantasy" to imagine economy separate from the state. As he says: "The academic teacher of practical disciplines can and shall have only one guiding star: the common good and the common interest"[46]. And for this purpose he should, as a scholar and researcher, attain a comprehensive knowledge of the economy, the state and law, a combination which is reflected in the reference to "legislation, administration and political economy" in the title of Schmoller's journal. It is in this context that his treatment of national economy as part of both general and particular economics must be seen.

Sombart, on the other hand, was much less "politically" motivated. Rather his major interest, under the influence of Marx, was with an analysis of the historical development of capitalism and economic systems generally and, in the process, to reconcile or synthesise economic theory and history. Neither the state nor the political aspirations or motivations of his central character, the entrepreneur, are operationally very significant. There is no *Humanitätsideal*, not this overriding concern with justice which characterises Schmoller.

One last point here. There is no mention made in Schmoller's works of the method of *verstehen*; yet much of his effort to cap-

45. *Ibid.*, I, p. 232.

46. G. Schmoller (1904), "Wechselnde Theorien und feststehende Wahrheiten im Gebiete der Staats- und Sozialwissenschaften und die heutige deutsche Volkswirtschaftslehre", in: *Über einige Grundfragen der Sozialpolitik und der Volkswirtschaftslehre,* Leipzig, second edition, p. 391.

ture the essence of the constituent parts of *Volkswirtschaft* as well as that of the relations between the whole and these parts represents what Spiethoff termed a "*verstehende Zusammenschau*". Again, while not as systematic as Sombart's achievement, Schmoller's longitudinal presentation of the development of economic phenomena constitutes a necessary complement. For a synthesis we have to look to Spiethoff's remarkable theoretical and empirical efforts.

6. Finally a few comments on the respective positions of Sombart and Schmoller on the matter of values and value judgements. This is not intended as a rehearsal of the whole spectrum of this long and bitter dispute; rather it should be seen in the context of what pattern or *Gestalt* models can offer by way of more realistic basis for policy considerations.

Throughout his career Sombart argued that value judgements have no place in economic science. His conceptual demarcation of science was empirical, natural-scientific, even though it was his *verstehende* economics that he intended to replace the natural-scientific legacy of the discipline[47]. Still, we also know that in his major "scientific" works he violates his own axiom; both through outright judgements and through a particular use of terminology he interjects his own values, more specifically his ethical attitude towards capitalism.

A more serious and for our purposes more important epistemological problem arises in connection with the very nature of the method of *Verstehen* and, in particular, the borderline between it and metaphysics. As soon as *Verstehen* transcends the realm of subjective and objective spirit it no longer inquires about the "immanent" (*i.e.*, empirical) meaning of culture. Its preoccupation then turns to the "transcendental" meaning of culture, the meaning and purpose of humanity. The problem is, should we be constrained in our analysis by the rigid conception of science which Sombart offers? Does not an attempt at understanding the essence of economy raise questions on what constitutes the proper eco-

47. For a detailed discussion of this problem see Georg Weippert (1966).

nomy in the scheme of things? Sombart himself acknowledges the metaphysical influences on economics proper through a scholar's vision, selection of problems and heuristics, and the acceptance of certain axiomatic belief systems. And even though he continues to cling to his operationally not very helpful notion of science, he admits that "every complete product of cultural-scientific endeavours is always, at the same time, the product of philosophy and art"[48].

The meaning of Schmoller's programme, his strategic factor, was his concern with social problems and justice in general. This does, of course, not mean that he advocated an arbitrary infusion of ethical considerations into economics; rather he refers to Riehl's demand that "what has been proven wrong scientifically cannot be believed for ethical reasons". He tells us repeatedly that the objective of science is to find "general truths"; however, he also believed ethics could become part of that science by providing for it an increasingly empirical foundation and considered the works of Comte and Spencer significant initial attempts.

Since all individual and social life involves the setting of ethical norms and leads to an "ethical-cultural maturing of judgements" due to our increasing knowledge of psychology, nature and history, ethics will progessively become an empirical science. This means that "frequently ethical judgements are like other empirical experiences" and that "wherever ethics makes use of teleology this must be deemed non-scientific". In this context we must also not forget that the scope of both general and particular economics, for Schmoller, includes policy matters. Being the scientific and political optimist that he was, Schmoller concludes that we must not banish the "what ought to be" from the realm of science but demands "tact, objectivity and reservation" in this context. "Every scientist must be in a position to realise if he speaks of proven truths or of hopes, hypotheses, probabilities"[49]. And on the more practical policy-oriented side, he concludes his *Grundriss* by expressing the belief that, while the interaction of

48. Sombart (1930), p. 339; see also pp. 205, 233.

49. Schmoller (1949), pp. 23-4, pp. 77-84; *Grundriss* I, 72 ff.

human attributes with social and economic institutions is the engine of development, wherever there has been economic progress it has been a reflection of the victory of progressive ethical ideals. Let us also remember Schumpeter's argument that "the time draws near when social preferences will be uniform enough so that in any given situation it will be possible to establish goals by means of science"[50].

If "the good" can be operationally specified in relation to human needs and if there is some essential core of "humanness" which transcends individual cultures, then any statement about "good" or "better" has descriptive meaning which can, in principle, be affirmed or denied by referring to the human needs involved and the particular external circumstances. This proposition, in essence asserts a means-end continuum in which just as the economic ends become means within the context of the ultimate cultural ends these latter ends become means within the even larger context of a universal humanity. Within such a system there are no absolute moral first principles as such but rather a commitment to attempt to optimise the fulfillment of human needs within the innumerable situational contexts which arise. This will, of course, require extensive multidisciplinary scientific investigations in the future.

The foregoing discussion was not intended as an overall critique of Schmoller and Sombart but as an attempt to distill from their works what can be taken as positive contributions for the development of pattern models, in particular as they relate to the present state of our discipline. As we have seen, they pleaded for a conceptual and methodological framework distinct to the social and cultural sciences, for a purpose of theory that stresses explanation of empirical phenomena, and for a broader scope of the discipline while pointing to the need for more interdisciplinary research. Above all, they wanted to make economics an evolutionary science by concentrating on causal-genetic analysis, or, in Marshall's words "from *das Sein* we have to learn *das Werden*". In this context they showed the way to overcoming the antinomy of

50 Schumpeter (1926), p. 351.

theory and history, however illusory that antinomy was; also Eucken's claims notwithstanding. His emphasis on a single structural element considerably narrowed the required scope of economics. Despite Sombart's somewhat negative vis-à-vis orthodox economic theory both his and Schmoller's attempts at *Gestalt* theory lend themselves to a combination with rational theory. The two are not logical opposites and Spiethoff's work has pointed to their reconciliation and necessary complementarity.

Unfortunately, neither Schumpeter's expressed hope that the future will provide for a combination of Sombart and Edgeworth nor Spiethoff's predictions that the "seeds planted by Schmoller will occupy economists for a long time" and that "a developed historical *Gestalt*political economy will keep generations fascinated" materialised[51]. One of the reasons surely was the increasing professionalisation of economics and, concomitantly, the narrowing of its scope with an emphasis on pure theory, a predilection for the precision and rigour of mechanical analysis, equilibrium systems and "scientific" prediction. Many of the central concerns of the historical economists were deemed non-scientific and it has not been until recent years that a considerable body of promising literature has emerged within the discipline emphasising the importance of historical factors, process analysis and the need for analysing the interdependence of the social, political and cultural with the economic realms by means of less rigid models.

Another, related reason might have been that this narrowing of scope has prevented economists from developing that combination of gifts which, according to Keynes, must be possessed by a "master-economist":

> He must be a mathematician, historian, statesman, philosopher – in some degree. He must understand symbols and speak in words. He must contemplate the particular in terms of the general, and touch abstract and concrete in the same flight of thought. He must study the present in the light of the past for the purposes of the future. No part of man's nature or his institutions must lie entirely outside his regard. He must be pur-

51. Arthur Spiethoff (1918), p. 16; (1938), p. 35.

poseful and disinterested in a simultaneous mood; as aloof and incorruptible as an artist yet sometimes as near the earth as a politician[52].

Much of this "ideal many-sidedness", says Keynes, was possessed by Marshall. Both Schmoller and Sombart belong into this category as well.

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52. John M. Keynes (1963), p. 141.

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