5. *Kathedersozialismus* and the German Historical School

Wolfgang Drechsler

> An excessive amount of economic injustice, accumulated over several decades, tears down all pillars of the existing order. There are no other causes of great social movements. They never originate in the crazy schemes of single people; they are mere symptoms of social ailment, not its cause.
> (Schmoller 1904a, 111)

WHY IS THIS INTERESTING?

The by now highly alternative, barely even heterodox economics that dominated Germany, and in fact continental Europe and much of the world, between the late middle of the nineteenth century and the early twentieth and that is at the basis both of the social market economy and of much of the modern welfare state, is interesting for alternative theories of economic development. Here, the clear recognition of fundamental and pressing social issues – what was called the 'Social Question' – gave rise to the realization of economists and many other intellectuals that both the analysis of the problem and the suggestion for remedies depend on method, and that method is never neutral. It shapes how we see reality; it determines the policy outcome – or at least it is used by those who want certain outcomes. And some methods, then as now (they are actually by and large the same), preserve the status quo by calling any investigation of what exists, what is wrong, and what should change, unscientific, futile and impossible. By doing so, they do not necessarily make a counter-claim to reform and development; it is enough if they create a system within which dealing with the real problems is delegitimized.

The late nineteenth-century political attitude towards the Social Question, *Kathedersozialismus*,[1] by and large led the economists involved to focus on realism (rather than abstraction), on relevance over precision, which by then had become a choice. In addition, as Rainer Kattel has suggested, there are also strong parallels between what the Social Question was then and what lack of development is now; one of the key socio-economic problems of the world today, yet one that must be addressed in a relevant and realistic way, of which mainstream theories are, by and large, incapable (which for some stakeholders, without reverting to conspiracy theory, is clearly an advantage).

[1] *Kathedersozialismus* means 'Socialism of the Lectern'; it is an originally pejorative term that was intended to delegitimize the movement both by calling it socialist and by pointing to the fact that its protagonists were mostly university professors (and thus, presumably, mere armchair intellectuals). Coined by the journalist H.B. (Bernhard) Oppenheim (Boese 1939, 25; Lexis 1908, 27–28; see Brentano 1931, 76, 96), the term stuck, and like many a term meant critically before, it was soon taken up by those who were criticized, although slowly and at first in quotation marks. There is no acceptable English translation, and so the word has been retained here in German.

A more sophisticated methodological approach, Historicism, co-evolved with *Kathedersozialismus* into the German Historical School of economics, but while the latter is also of great interest in this context, the two are not the same. This chapter tries to sort out the relation between the various concepts, using plenty of quotations from the erstwhile protagonists (translated into English, because the original German has long since ceased to be a relevant language of scholarship in economics),[2] and always trying to keep in mind that the issue in the current context is applicability today.

The German Historical School of economics is part of a set of historical schools in intellectual history;[3] 'historical' in its specific case means to study historical data in order to learn about economic phenomena (as this is the most scientific way to do it, because there are hardly any important perennial, context-free truths in economics), not to believe in the inevitability of historical development. I will call it the Historical School in this chapter hereafter. The Historical School, then, is generally grouped into three waves. It was founded in the 1840s by Bruno Hildebrand (1812–1878) with his *Die Nationalökonomie der Gegenwart und Zukunft* (1848), Karl Knies (1821–1898) with his *Die politische Oekonomie vom geschichtlichen Standpunkte* (1883, new edn), and especially Wilhelm Roscher (1817–1894), the most eminent German economist of the mid-nineteenth century, author of the magisterial *System der Volkswirtschaftslehre* (English translation 1878). This wave is called the Older Historical School, and Roscher was at its helm.[4] Friedrich List (1789–1846) was their predecessor, the first to analyse comparatively the economy of different nations.[5] The movement was taken over in the 1870s by the Younger Historical School,[6] the politically and theoretically most eminent and impactful wave, which is what concerns this chapter and which I will mean when I say (German) Historical School later on. The third wave, usually called the Youngest Historical School, which carries the movement into the 1920s and beyond, is today most closely identified with Werner Sombart (1863–1941), author of the trailblazing *Der moderne Kapitalismus* (1987), but also Max Weber (1864–1920), who after all was by profession mainly an economics professor, belongs to it to a good extent (see Swedberg 1999).

Kathedersozialismus is mainly associated with the three eminent economists: Gustav v. Schmoller (1838–1917), Lujo Brentano (1844–1931) and Adolph Wagner (1835–1917). Schmoller was, at the same time, the leading German Historical School thinker and head of the Younger School,[7] and Brentano was one of its main figures, although he was less sure about this association, whereas Wagner was clearly not a part of it. Schmoller

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[2] Translating the *Kathedersozialisten* is a challenge indeed, and it is even more difficult to do it well. I have profited from Ingbert Edenhofer having undertaken this arduous task, and the translations herein are largely his. Next to Ingbert, I am grateful to Rainer Kattel and Erik S. Reinert for their critical input and to Erik especially for giving me access to his magnificent library, where the core of this chapter was written.

[3] For example, the German Historical School of law, especially closely associated with the legal scholar and Prussian statesman Friedrich Carl v. Savigny (1779–1861), which is still extremely relevant; see R. Backhaus (2013).

[4] Roscher's methods programme is at Roscher (1878 [1877], Chapter III, sections XXII–XXIX, 102–116). On Roscher from the Younger School's perspective, see Brentano (1923a [1888], 2) and Schmoller (1900, 1, 117–118). On the three Older Historical School leaders see Schmoller (1900, 1, 117; 1904b, 383). Further on the three men and their emphases, see Balabkins (1988, 26–29) and Lexis (1908, 36–38).

[5] See Lexis (1908, 22–23; 1910, 243) and Schmoller (1900, 1: 116–117; 1913, 135–137).

[6] On the transition, see Brentano (1931, 73–74) and Schmoller (1900, 1: 118).

[7] Generally, Nicholas Balabkins's (1988) study – a combination of biography, explanation of work and impact study – is still the best single modern treatment of Schmoller in English.

and Wagner, during the heights of their careers, held the two main economics chairs in Berlin – then arguably the pre-eminent university in the world – and were the leaders of mainstream German economics. Brentano taught in Munich and was more unconventional (more liberal, more humanities-based, non-Prussian, Catholic) and, one has to admit, a less distinguished economist, but from today's perspective not a less impactful one, because it was mostly his students who were most important in economic policy in the Federal Republic of Germany. Their relationship was neither easy nor always friendly or even civil. It is fair to say that Wagner and Brentano disliked each other, while Schmoller maintained a more or less cordial relationship with Wagner (see the respective birthday addresses: Schmoller 1913, 280–284; Wagner 1908), and a moderately good one with Brentano, which was, given their very different views on so many things, the best one could have hoped for (see Brentano 1931, 96–99; 134; Stieda 1932, 23). Schmoller was not a very social or leisure-oriented man, quite in contrast to Brentano (Brentano 1931, 106–107). None of them must have been very easy to get along with.

FROM TODAY TO *KATHEDERSOZIALISMUS*

Their work, however, while being locked into German, is easily accessible for us today, because their times can be easily recognized. Just as when their thoughts emerged, we are once again faced with a socio-economic paradigm that holds such general sway that it has even bagged its natural antagonists:

> the economic train of thought of the Liberals gained such dominance over public opinion that even their opponents fell under its influence . . . The one glaring contradiction to the dominating thought that the public saw was the Social Democratic program . . . Protective tariff was merely engaged in a rear guard battle . . . From the most democratic media . . . everyone considered free trade the natural truth, eternally valid for all peoples and all times. Factory legislation was regarded as an outrageous abandonment of civic freedom to the police despotism of an absolute regime.

This may just be the very 'End of History', as presented a quarter of a century ago by Francis Fukuyama (1989). Fukuyama says that our present system is here to stay, not because a utopia is impossible, but because we have reached the best and final society already. According to Fukuyama's interpretation of Hegel (ibid., 2), liberal democracy, joined with economic liberalism, in its universalization is that final form of human society. It has no universal competition any more; its last one, socialism, having not really survived the year 1989.

Add to that blatant economization, deification of efficiency and global capitalism that is said to be scientifically inevitable, partially due to the pressures of information and communication technology (ICT), and opponents of such a view worldwide face a no-win situation, or so it seems. Clearly, though, this is a typical ideology, and by definition, ideologies are wrong, because they are reduced perspectives of reality, reified by their believers because they cannot handle the complexity of reality (see Kaiser 1984, esp. 27–28). Jürgen Habermas, in his programmatic speech on the European Constitution, has summed up this model of society, as described:

- by the anthropological image of the human person as a rationally deciding entrepreneur who exploits his or her own power of labour;
- by the socio-moral image of a post-egalitarian society which has become resigned to marginalisation, warping, and exclusions;
- by the economic image of a democracy which reduces its citizens to the status of members of a market society and which redefines the state as a service company for clients and customers;
- finally by the strategic notion that there is no better politics/policy than that which makes itself obsolete. (Habermas 2001)

The earlier quote, however, is by Lujo Brentano (1931, 72–73). Referring to the times well over a century ago, for the Berlin Empire rather than for the Berlin Republic, it demonstrates problems similar to the ones we are facing today (see Peukert 1999, 445–446, 453). There are many differences as well, of course, and one of them is that the Social Democrats have moved so far towards the centre that they have to a large extent shot beyond it. A further problem is that not all, but much Third Way thinking today, as well as all kinds of 'New Left' approaches, is antagonistically inclined against the one agency that was, and could again be, built up against globalization and economization problems and for development, namely the state (widely understood). Suffice it here to point to the German historian Hans-Joachim Wehler's (2001) remarks that the call of our time is exactly that of the regaining of credible state rule, which globalization and economization require more than ever.

SOCIAL POLICY AND SOCIAL REFORM

Just as now, many people in the mid-nineteenth century realized that there was a problem in spite of the general opinion:

> The idea of social policy or social reform as conscious acknowledgment of the necessity for State and society to be active in bringing about a conciliation between the dispersing interests and intents of the various social strata encompassed by the State was familiar as early as the beginning of the 1860s to certain circles in Germany that were limited at first. The progressing industrialization at that time with its accumulation of workers at certain places as well as the agitation by Lassalle had alerted them, and a form of literature that was reflecting rather than imminently or even radically propagandistic in character had already established itself next to socialistic literature. What was important afterwards was the question of whether an effective organization was to be created for a socio-political practical endeavour that somehow matched this idea. (Boese 1939, 1)

Thus begins the history of the *Verein für Socialpolitik*, written on occasion of its dissolution in 1932 (it was later refounded and today still exists under that name, if not with the same aims and objectives, as the main professional association of [theoretically] German-speaking economists).

It was, in other words, clear that something was wrong, that the system led to undesirable results, and not only for those most concerned – the workers – and those representing them, that is, the Social Democracy, and especially Ferdinand Lassalle (1825–1864), it's by far most important representative, Marx's nemesis, largely forgotten except among

experts today. It was also of concern to most of those dealing with economic and social issues academically, because, as I would argue, their main concern was the welfare of the human person. In all naïveté, or so it would seem today, that was the focal point of economics, not abstract modelling, and this approach, together with some basic ethics, resulted in the cognizing of a problem.[8]

Even many *Anti-Kathedersozialisten* would have agreed with that proposition (see, e.g., Wolf 1899, 20–22). However, the key here is that Liberals and Socialists in our sense (including Social Democrats and Communists) would agree with the question, but their general answers would be different: the former would say that the system actually will eventually take care of the problem; the latter, that the entire structure, the system, would need to be changed.[9] The *Kathedersozialisten* basically liked the system – including German-style monarchy – but saw it as problem-ridden, so in order to preserve and purify it, there had to be changes made through the system.

As regards the state, it is rarely mentioned, either by the *Kathedersozialisten* or by modern scholars dealing with them, that their view of the state is almost completely Hegelian[10] (their general ethics is often associated with Kant, including by themselves). That is most strongly so concerning Schmoller, even more than Wagner. Schmoller understands the state not as taking individual liberty away but rather as making it possible to begin with (Priddat 1995, 92). There is, thus, absolutely no preference of the state over the individual. Precisely this is proper Hegelianism: Hegel's point in the *Grundlinien der Philosophie des Rechts* (1921 [1821]) is that the state is the sphere of genuine freedom, including individual freedom. That means that the state as such is not bad in theory, nor necessarily in practice. Realistically, reform can come only come through the state, including the state at hand.

The impetus for these reforms – primarily social reforms – is thus both ethical and system-preserving. It was clear that things had to be done; otherwise, a revolutionary potential would explode. This is the approach of reformism. As Schmoller put it, 'all progress in history consists of replacing revolution with reform' (1904a, 117). And *Kathedersozialismus* can be understood as the catchword for precisely those activities: the perception of the problem, the effort to ameliorate it by policy measures, and the scientific – or better, scholarly – approach to show what is wrong. The policy measure would be that of social reform or Social Policy.

Wagner's student Heinrich Dietzel (1857–1935), not a member of any group but a very keen observer of the scene and an eminent social economist, defines Social Policy in this context thus:

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[8] It has to be admitted, of course, that this attitude would in those days not result in career death, nor was academic employment, as Rainer Kattel has quipped, merely another middle-class way of earning a living, so that scholars simply expected to be poor, from a wealthy background or lucky.

[9] Lassallian reformist Social Democracy actually is basically pro-state and even pro-nation-state, and in that sense quite close to *Kathedersozialismus*, but it goes well beyond the latter as regards economic reforms.

[10] An exception is, for example, Dietzel's (1886–1888) book on Karl Rodbertus (1805–1875), another *Kathedersozialist* and predecessor of Wagner (1886–1888). Concerning contemporary scholarship, this would not be too surprising either, were not two of the most important contemporary German rediscoverers of Schmoller – Birger Priddat and Peter Koslowski – Hegel scholars, as well. (But see Priddat 1995, 38, 87–89.)

> Social reform, in the widest sense, is the epitome of everything that solidifies social peace by placating the present class struggle, which predominantly revolves around material goods. In a narrower sense, social reform is the epitome of everything by which the lower stratum of society, embittered against the prevailing order, is to be rendered more content so that the threat of social revolution is diminished. (Dietzel 1901, 3)

Turned into the positive, Schmoller's definition is this (and the parallel with a possible definition of development, time-bound though this inevitably is, is again obvious), the general aim of social reform:

> consists of the re-establishment of an amicable relationship among the social classes, the abolition or reduction of injustice, an enhanced approximation to the principle of distributive justice, the creation of social legislation which furthers progress and guarantees the moral and material elevation of the lower and middle classes. (Schmoller 1904a, 118)

Brentano tells the story from his perspective when he sums up the first meeting of the *Verein für Socialpolitik* thus. The members

> were inspired by the thought that every person was an end in himself, called upon to develop their abilities to the fullest. Already Christianity had acknowledged every person as an end in himself. This was the liberal idea which had sustained the emancipation of the working classes since the end of the Middle Ages. Kant had taught it in Königsberg, and in the most free development and application of abilities and strengths, Stein and Hardenberg see reason for hope and a basis for the future existence of the Prussian state. However, in order to come closer to these ideal goals, the workers needed to obtain the necessary tools. Managing this became the goal of our social policy. (Brentano 1931, 78)

METHOD: REALISM

But how to go about this on the scholarly level? The realist element is emphasized again and again by all three main protagonists. What unites them, as Brentano puts it, is 'striving for a theory of economic life which matches the facts of life' (Brentano 1923b, vii):

> However, if there is a science the subject of which is life as it *really* is, it is economics. And a science of economics which only holds true under circumstances that differ from real life may well be highly interesting in theory . . . But a science of real life faces other demands than those that can be met by a science which, in order to gloss over the fact that its theorems do not correspond to reality, constantly uses the excuse that it did not intend to correspond with real life and that it was content if the science was right even if only under circumstances the insufficiency of which it concedes. (Brentano 1919, 13–14)

Roscher had already emphasized this:

> We refuse entirely to lend ourselves in theory to the construction of . . . ideal systems. Our aim is simply to describe man's economic nature and economic wants, to investigate the laws and the character of the institutions which are adapted to the satisfaction of these wants, and the greater or less amount of success by which they have been attended. Our task is, therefore, so to speak, the anatomy and physiology of social or national economy! (Roscher 1878 [1877], 1, 111)

Roscher begins his book, simply, with the statement, 'The starting point, as well as the object-point, of our science is Man' (1878 [1877], 1, 52). This is not obvious and was not. But why else do we do economics? Brentano explains further:

> Starting and end point of the economy are not the goods but the people, that was the opinion. The economy is not an end in itself; its task is merely to provide human beings with the indispensable means for developing their abilities and powers. The worker is a human being, too. (Brentano 1931, 75)

Schmoller, in his 1897 *Rektoratsrede*, sums up:

> Thus, a mere science of market and exchange, a sort of business economics which threatened to become a class weapon of the property owners, returned to being a great moral-political science which examines both the production and the distribution of goods, as well as both value and economic institutions, and which has its central focus not on the world of goods and capital but on the human person. (Schmoller 1904b [1897], 388)

And Brentano elucidates:

> Lightning, too, hits where it strikes by virtue of natural law. Yet, while civilized people make use of this natural law to render the lightning bolt harmless with a lightning conductor, you wait for the lightning flash to put your hut on fire, and then like savages, you fall to your knees before the thunder god and pray to him: only, the name of your thunder god is natural law. For you assume that by pronouncing these words, your entire task in socio-political life was fulfilled. We, however, are of the opinion that one has to use the natural laws in order to minimize pain and bitterness while helping progress to reach its natural destination. (Brentano 1931, 75)

But the key is probably realism in relativity: Edwin A. Seligman put it best in what still seems to be the best English treatment of all these phenomena:

> The truly historical mind will acknowledge, with Adam Smith, the immense benefits of Cromwell's navigation act, but will rejoice, with Cobden, at the repeal of the corn-laws; he will praise, with Gournay, the attempts to unshackle industry, but will deplore Ricardo's opposition to the factory acts; he will applaud Bentham's demolition of the usury laws, but will realize the legitimacy of recent endeavours to avoid the unquestioned evil of absolute liberty in loans. He will, in one word, maintain the relativity of theory; he will divest the so-called absolute laws of much of their sanctity, and thus henceforth render impossible the baseless superstition that all problems can be solved by appeal to the fiat of bygone economists. (Seligman 1925, 17)

And Schmoller himself talks about the

> absolutely wrong idea . . . which already List, Roscher, Hildebrand and Knies so vehemently contested, namely the idea of a constant standard form of economic organization above and beyond space and time, culminating in free trade, free enterprise, and free real estate commerce, only distortable by wrongful interference by State and legislation, and beyond which no progress was possible. (Schmoller 1904a, 52)

This is the key to the issue: things as they are, not things as they should be. Context not only matters, it is the main point, and it determines what economic policy is appropriate

and what not in any given case; that is, what is right and what is wrong. Brentano says, 'I think there are no absolute economic ideals. To me, the ideal economic organization is the one which corresponds to the concrete circumstances of a people as perfectly as possible' (Brentano 1931, 211). But Wagner also agrees: 'I have always, also in these matters and also recently, maintained the stance of relativity' (Wagner 1902, 9).

Schmoller speaks of 'historical and other realistic research' (1900, 1, 116) and says:

> Recently, people have frequently claimed that the most significant difference between more recent realistic national economy and the older dogmatic and abstract variety was based on the difference in the role that the newer school assigned to the state concerning economy. This holds true to a certain degree but not without limitations; in some of the newer disputed issues, the opposite is the case; thus, I posit that this is not the right distinction because the opposition lies deeper. (Schmoller 1904a, 43)

Joseph A. Schumpeter (1883–1950), in his great essay on Schmoller,[11] is queasy about this claim:

> I am caught in the embarrassing situation of finding a usable word for Schmoller's 'direction'. 'Exact' or 'realistic' are unsuitable because every scientific train of thought and every scientific method, including all theoretical ones, is necessarily both, and because both words have misleading connotations. Furthermore, the opposition of realistic–theoretical does not work because Schmoller's direction is 'theoretical' as well. If a word is necessary for illustration's sake, one can, with these reservations, at least say 'realistic'. (Schumpeter 1926, 356, n. 1 at 355–356)

But this is an epistemological error by Schumpeter, who uses his own private concept of science here. Of course, we can define science in many ways, including some that do not pay heed at all to realism or exactness – most current ones do not, including standard textbook economics (STE); they are self-referential (see Drechsler 2011).

Or we can say that scientism and realism exclude each other. The point is as follows: natural science only represents, because of its own definition – that is, systemically – a reduced part of human existence and experience. Realism, however, focuses on what is, and thus any method that reduces what is (including experiences) cannot be genuinely realistic. And although many theories could be displayed to show why science cannot fully cope with reality, Martin Heidegger summed it up especially beautifully: 'One stands in front of a blossoming tree. Only in a scientifically unguarded moment can one rightly experience its blossoming. In scientific perspective, one will let drop the experience of the blossoming as something naive' (summary by Safranski 1994, 458). In more detail:

> Everyday experience of things in a broader sense is neither objectivizing nor objectifying. If, e.g., we sit in a garden and take pleasure in a rose in full bloom, we do not turn the rose into an object, not even into a thematic idea. Should I even find myself in silent devotion to the shining red colour of the rose and ponder the redness of the rose, then this is not a thing or an object like the rose. The rose is in the garden, maybe swaying in the wind. The redness of the rose is not in

[11] Schumpeter's Schmoller essay of 1926 is still unrivalled in scope and quality as regards a reconstruction of Schmoller, in spite of its many personal judgements, misperceptions and mistakes. In general, Schumpeter owed a lot to, and took a lot from, Schmoller (which also becomes obvious in this chapter; see also Michaelides and Milios 2009).

> the garden, nor can it sway in the wind. Nonetheless I think of it and speak of it by naming it. Thus, thinking and saying is possible in a manner that is neither objectivizing nor objectifying. (Heidegger 1970, 73)

Further to Schumpeter, however, realism is a matter of motivation, of impetus, of emphasis, of prioritizing; and I think it is fair to say that STE is in the end not interested in the 'reality connex', at least not today (Drechsler 2011). Wilhelm Lexis (1837–1914), another *Kathedersozialist*, puts it very sharply thus:

> Abstract theory may opine that its theorems do not even require verification. For positivistic economics, i.e. one based on experience, on the other hand, verification is the decisive authority; regularities inferred from deduction are viewed as assumptions as long as they have not been proven by observations in real life. Statistics provides the most exact method of observation and at the same time, it offers measures to determine the limits within which the theoretically deduced theorems correspond with experience. (Lexis 1908, 40)

The claim to realism is, then, what matters here: the desire to say something about reality. Brentano phrases it programmatically:

> We do not set out to master life, neither by filling terminology with the postulations we desire to deduce from them, nor by chasing ideals that lie beyond reach. In determining the terms, we strictly adhere to reality; in our aspirations, we are content if the material conditions for a proper existence for everyone are created. (Brentano 1923a [1888], 4)

The basis of this is the insight of the relativity of the human person in space and time (Brentano 1919, 18–19). And, to continue again with Schmoller, 'This is why I regard the theory of egotism or interest as the psychological, constant and regular source of all economic actions as nothing but infinite superficiality' (Schmoller 1904a, 50). Humans do not maximize profits, they at best maximize benefits as perceived; as Brentano expresses in the famous anecdote in his autobiography which shows him that this is a matter of time and place: 'When I disembarked from the boat which had taken us back from Capri to Naples and handed my suitcase to one of the boys who lay around on the pavement for him to carry, he shook his head saying: I already ate!' (Brentano 1931, 113).

The Ordo-Liberal economist Erwin v. Beckerath (1889–1964) once said that Schmoller's 'tendency towards "realpolitik" occasionally, as in the debate about protective duty and free trade, made him neglect the necessity of fundamental decisions in economic matters' (Beckerath 1962, 71). But what could this necessity be? For Lexis, 'realistic theory attempts to adhere to concrete occurrences. Thus, it is forced to dissect the material under observation casuistically, in the process limiting the purview of its theorems but at the same time increasing their applicability in future cases' (Lexis 1910, 18–19).

BEYOND REALISM: THE HISTORICAL SCHOOL

The popularly held assumption (to the extent that the present subject matter is in a realm where anything can be called popular) is that *Kathedersozialismus*, Social Policy motivated by the Social Question, and the Historical School are somehow identical. This is very, very broadly true, but it is actually helpful to be more specific. We may say

that *Kathedersozialismus* is the thought that is to a good extent a reaction to the Social Question, and that its methodological impetus is realism. However, how about the Historical School?

As noted, one does not need to be an economic historicist in order to be a *Kathedersozialist*, but in fact almost all historicists were *Kathedersozialisten*, and many *Kathedersozialisten* were historicists. One must also keep in mind that Schmoller and his specifically 'ethical-historical' research programme link the historicism of the Younger Historical School and *Kathedersozialismus* very directly,[12] and as Schmoller is usually granted the helm of both movements, and as he also was the most influential economist in academic policy at that time, this prompts one to conflate the two concepts.

What does the Historical School believe? Seligman sums it up thus for the Older Historical School:

> the new ideas first obtained a truly scientific basis about the middle of the [nineteenth] century, when three young German economists – Roscher, Knies and Hildebrand – proclaimed the necessity of treating economics from the historical standpoint. They initiated a new movement whose leading principles may be thus formulated: 1. It discards the exclusive use of the deductive method, and stresses the necessity of historical and statistical treatment. 2. It denies the existence of immutable laws in economics, calling attention to the interdependence of theories and institutions, and showing that different epochs or countries require different systems. 3. It disclaims belief in the beneficence of the absolute *laissez-faire* system; it maintains the close interrelation of law, ethics and economics; and it refuses to acknowledge the adequacy of a scientific explanation, based on the assumption of self-interest as the sole regulator of economic action. (Seligman 1925, 15–16)

Wagner completely distanced himself from such views:

> My scholarly opponents can by no means attack 'Kathedersozialismus' lock, stock and barrel, for there is not at all a unified direction, neither in method nor in theory or the treatment and direction of practical matters. In spite of criticism of its ideas, many 'Kathedersozialisten', me among them, have never vehemently opposed classical national economics, especially its leading authorities, Smith, Ricardo, and Malthus. In my opinion, much can be learnt from what classical national economics teaches and how it deals with things, more than from the 'historical school', which dabbles in relativism to such an extent that it loses theoretical clarity and edge, as well as the practical ability of taking a stance on concrete matters as eternally weighing the 'pros and cons' does not lead to anything. (Wagner 1902, 18–21, fn 1, 19–20)

So, Wagner himself shows us – in addition to delivering a nice sketch of typical criticisms of economic relativism – that he was not a historicist at all (cf. Lexis 1908, 40–41); indeed, Brentano calls him 'constantly adhering to abstract method' (1931, 83; see 93), and Schmoller told him, 'But your innermost nature drew you to the "principles", to abstract theory, to the establishment of the system' (1913, 281). We find some methodological homogeneity even among the *Kathedersozialisten*, however, in the reaction against the classical view (cf. Salin 1951, 147; Brandt 1993, 194). And 'classical' is not an accidental term, as Brentano compares it to classical sculpture taste (Brentano 1923a [1888], 2–4;

[12] On the systematic connex of ethics and history in Schmoller, see for a good introduction Shionoya (1997) and J.G. Backhaus (1993/1994, esp. 9–16); cf. also Lexis (1910, 244) and Priddat (1991). On Wagner and ethics, see Corado and Solari (2010).

see also *passim* and 1919, 11 on classical economics). Wagner, however, insisted on refining the classical school rather than building a new one (Wagner 1908, 5).

With Schmoller, the emphasis on change was much stronger, and it is Schmoller whom we can primarily credit with advancing towards an alternative theory of economic development. If one looks at the theory description part in his *magnum opus*, the *Grundriß der allgemeinen Volkswirtschaftslehre* (1900, 1, 111–124), one gets the idea quite strongly.[13] Schmoller sums up the goals of modern – that is, his – economics like this:

> 1. the acknowledgment of the idea of development as the ruling scientific idea of our era; 2. a psychological-moral consideration which takes drives and emotions as a realistic basis, acknowledges moral powers and regards all economics as a societal phenomenon due to morality and the law, institutions and organizations; 3. critical attitude towards both the individualistic concept of nature and socialism, schools whose correct teachings should be extracted and acknowledged while their wrong teachings should be rejected; also the rejection of any class point of view; instead clear aspiration to always support the common good and the healthy development of nation and mankind. (Schmoller 1900, 1, 122)

We should read this very carefully, because almost no school of thought has been so much maligned as Schmoller's, and none suffers more from a distorted image.[14] Brentano claimed, 'Schmoller condemned all aspirations to discover necessary causality. This was a step backwards to pre-Montesquieu times. In any case, Schmoller was more historiographer than national economist. This is proven foremost by his "Grundriß der Nationalökonomie"' (Brentano 1931, 99; cf. Salin 1951, 146–147; on Salin on Schmoller, however, cf. Balabkins 1988, 77–78). But that is simply not true: as Schmoller says, 'valuable observation leads to causal explanations. But observation always has to be at the beginning and the completed causal explanation at the end of a scientific method' (Schmoller 1904a, 297).

BACK TO THE PRESENT

What about Schmoller, Wagner and Brentano today? Compared to the importance and success of their work and to their potential relevance as a serious alternative to STE, especially in light of new social and economic movements, and in spite of some serious blind spots such as an almost complete lack of attention to the role of technology,[15] the extent to which they remain forgotten, or at least relegated to history rather than possible immediacy, remains bizarre. The transposition of Schmoller into today's (mainstream) economics, as demanded by Birger Priddat (1995, 280), however, would be quite tricky:

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[13] An excellent summary and interpretation of the *Grundriß* – the only useful one available in English I know, and the book has not been translated – is Balabkins (1988, 53–67).

[14] A survey of the reception of the *Grundriß* from its publication until some 30 years ago is in Balabkins (1988, 67–76). A good example of throwaway Schmoller criticism is McCloskey (2013), a review of Boldizzoni (2011), *a fortiori* so because the latter hardly deals with Schmoller at all.

[15] With the exception of Sombart, and even this is not especially strong compared with his other work (see Sombart 1967, in English for a change). But as Schumpeter is so closely linked with the Younger Historical School (see note 6), it is probably legitimate to borrow any technology theory, if needed in this context, from him.

'Sombart praised Schmoller for his "vivid outlook on world and people", his firm roots in philosophy and history. Today, this is less praise than reproach' (Beckerath 1962, 71).

But there has been, first, something like a Schmoller renaissance since the mid-1980s, with the works mostly published in English, even if it has remained confined to a very small, German-centred group (see Priddat 1995, 7; Giouras 1994, esp. vii–viii). And Jürgen Backhaus, perhaps the most important protagonist of this renaissance, is right when he insists on the necessity of Schmoller's programme today (Backhaus 1993/1994, esp. 9). Admittedly, this has been exclusively focused on Schmoller, not on the *Kathedersozialisten* or the Historical School. In this context, Matthias Altmann's *Contextual Development Economics* (2010), originally a PhD thesis supervised by Backhaus, deserves special mention, because his is the only existing monograph explicitly attempting to build development economics upon Historical School and indeed primarily Schmollerian principles. Altmann, too, emphasizes the legacy in method, especially attention to the high context dependency of economics, to a transdisciplinary governance approach to economics, and to a specific view of the human person (Altmann 2010, 195–201, 225–231).[16]

Second, we have some excellent works during the last decade or two, reintroducing the latter to, shall we say, the heterodox mainstream; generally not by focusing on the School itself, but centrally using it and its legacy for their narratives and arguments. These are the books by Geoffrey Hodgson (2001) and Ha-Joon Chang (2002) (supplemented by a historical account by Grimmer-Solem 2003), and Erik S. Reinert's (2007) award-winning, truly brilliant book, *How Rich Countries Got Rich . . . And Why Poor Countries Stay Poor*.

Priddat asks, 'Should Schmoller and the economists of the "historical school" not have realized that their own economics would also fall prey to historical relativism?' (1995, 40). Certainly, but first of all, he actually did, as Schmoller had 'possessed the unparalleled self-denial of stressing the relativity of his deeds every step along the way' (Schumpeter 1926, 354).[17] Second, we can say that politically, he has been incredibly successful:

> Schmoller was not a classroom economist, seeking eternal verities. He knew that he was place- and time-bound. He wanted to save German masses from a violent, Communist-led revolution. He feared the Marxists and he was not popular with the fashionable crowd of 'progressive' leanings. As late as 1983, the pronouncement on Schmoller in America was that his methods 'were not fit to cope with theoretical problems.' As emphasized repeatedly, Schmoller's concern was how to cope with the social fiasco of the laissez-faire system. His concerns were the pressing social problems of the day, not speculative hypotheses, or equations and matrices on the blackboard. (Balabkins 1988, 81)

And in this, one has to admit – and even some enemies admit it, if with a negative connotation (see e.g. Lövenich 1989, 538) – *Kathedersozialismus* achieved its goal. There

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[16] Perhaps even more, Altmann emphasizes the German Historical School's contribution to the concept of economic styles as a basis for development economics (Altmann 2010, 203–224, 233–245).

[17] In epistemological terms, Schumpeter sums up Schmoller's programme very nicely: 'approaching the material with a minimum burden of *a priori*, thereby capturing interdependencies which enter as additional *a priori*; this yields the (provisional) framework for investigation, a framework that is further refined in a continuing interplay of subject matter and mental process' (Schumpeter 1926, 381–382; translation from J.G. Backhaus 1993/1994, 5).

arguably never was such a revolution in Germany, ever, as reform led to Social Policy and ultimately to the Social Market Economy; concepts shared by the European Union as well as much of the world (Kirkpatrick 1988), at least in perfomative theory, but also to a large extent in reality, embattled by crisis and competitors though it may be. In that sense, even if largely forgotten, *Kathedersozialismus* is at the root of what probably most people today perceive as the socio-economic order most desirable to live in; indeed, towards which they would like presumably to develop.

CONCLUSION

Kathedersozialismus is not a method, but methodologically it is characterized by a realistic impetus, based on the awareness that method matters and determines the outcome. The Historical School is a further development, a spin-off, of this realism, which is followed by most but not all *Kathedersozialisten*. But they are all politically motivated by the Social Question, which does not allow one to do economics as *l'art pour l'art*. To what extent Social Policy should be undertaken in order to ameliorate the problems at hand is a question of degree, not of principle; as is to what extent 'the system' should be modified – but the idea is that it should be modified, not overturned or abolished. But, as Peter R. Senn has argued in this context, if the final question of the social sciences is 'what *ought* to be done' (1997, 128), one will certainly not find the answer on an empirical basis alone.

What can be learned from *Kathedersozialismus* is, then, that realism is a question of attitude; and that social policy and economics belong together: if the economic policy is all right, much less social policy is needed to begin with. In order to find out what ought to be done, one must first find out what is. And that was the focus of the *Kathedersozialisten*. Beyond that – and that is the place of the German Historical School – the historical approach, as long as it remains a tool and not a goal, is the best way to do so. Lexis said, interestingly, 'The realistic method – which always also makes use of abstractions – and the historical method do not conflict with each other but form necessary complements for each other' (Lexis 1910, 22–23).

The legacy of *Kathedersozialismus* is a form of economics as an integrated social science with the primary focus on the real life, on people living in their world and on improving their welfare to the extent that is possible under those circumstances that cannot be changed. This focus forces one to consider methods that yield results that one can use. One has to steer the way between the Charybdis of STE-type formalism and mathematization, which become so abstract as to be self-referential, and the Scylla of historical antiquarianism – that is, the right tool becoming its own purpose – as, again, self-referentiality would set in. But once again, there arises the Aristotelian necessary combination of insight and meliorism, or of epistemology and ethics. This is the key principle and challenge of the social sciences, and one that is out of focus in early twenty-first-century STE. *Kathedersozialismus* addresses the different options and their implications in a way that makes particularly apparent what should be done and what can be done, thus providing a basis for alternative approaches to economic development, marked by high context specificity, methodological realism and addressing social problems as they exist as the main focus of and reason for it all. Seen thus, this legacy is as important today as it ever was.

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