CHAPTER 5

Gustav Schmoller: A Socialist of the Chair

Nils Goldschmidt and Matthias Störring

Introduction

Who was Gustav Schmoller? Today, this question would probably be left largely unanswered by the great majority of students of economics, even in Germany. Yet Gustav Schmoller (1838–1917) was, towards the end of the nineteenth century, a highly respected and influential economist; indeed, he was the leading mind of an entire school of thought—the Historical School of Economics. Schmoller was also an exceptionally productive writer throughout his academic career: Besides his standard work *Grundriss der Allgemeinen Volkswirtschaftslehre* and numerous other monographs, just his six volumes of individual essays and reviews, compiled in *Kleine Schriften zur Wirtschaftsgeschichte, Wirtschaftstheorie und Wirtschaftspolitik*, span more than 5000 printed pages. Although Schmoller's academic legacy is often reduced to the two so-called *Methodenstreite* (method disputes) between Schmoller himself and the Austrian economist Carl Menger (1840–1921) and between Schmoller and the German sociologist Max Weber (1864–1920), Schmoller spent his life in disputes over more than just theoretical methods. The social question—and the labor question in particular—shaped both his scientific and his political life's work. He expressed a reformist ambition to elevate the working man, to integrate him ethically, and to enable him to participate in society and the economy to the advantage of all. Quick to recognize that trade unions represented one suitable way of approaching this objective, he nevertheless saw that institutions at plant level would be even more effective. Integration and participation by way of workers'

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committees were, in Schmoller's opinion, the key long-term condition for enabling employees and employers to find and realize common goals (Schmoller 1978, p. 521). He aspired—in the same way that it is possible for the state—to 'a peaceful, constitutional charter for each individual business […] where every man in his domain bears certain rights and honors certain duties' (Schmoller 1978, p. 521).[1]

Ultimately, in order to adequately assess Gustav Schmoller's accomplishments and influence, we have to place them—quite in keeping with his own conception of science—within the proper historical context, in particular the history of economic thought.

The German *Sonderweg*

In the first half of the nineteenth century, beginning with the Swabian economist Friedrich List (1789–1846), the development of economics in Germany began to take a unique path, or *Sonderweg* (Zweynert 2008, p. 172). List's thinking was typical for his time; for him, nationalism and liberalism were inseparably entwined. Unlike Karl Marx (1818–1883) and Friedrich Engels (1820–1895), List assumed that industrialization would, in the medium term, promote the development of wealth throughout the entire population (Szporluk 1988, pp. 103f.). At the same time, he was vehemently critical of the—in his opinion one-sided—individualistic doctrine adhered to in classical economics and the Manchester liberalism. List's answer to this was an integrated perspective on the economy:

> As individual liberty is in general a good thing so long only as it does not run counter to the interests of society, so is it reasonable to hold that private industry can only lay claim to unrestricted action so long as the latter consists with the well-being of the nation. (List [1841] 1909, p. 139)

List was not an opponent of economic liberalism per se, but he disagreed with the concept of universally applicable legitimacy, a concept to which the Classical School of Economics (to which he dismissively referred simply as 'the school') was firmly wed:

> The school recognises no distinction between nations which have attained a higher degree of economical development, and those which occupy a lower stage. Everywhere it seeks to exclude the action of the power of the State; everywhere, according to it, will the individual be so much better able to produce, the less the power of the State concerns itself for him. (List [1841] 1909, p. 139)

Taking economic reality into account—that is, its context in place and time (and thus in history)—List voiced his opposition to the universal applicability

[1] All quotations from German sources are translated into English by the authors of this chapter.

of unconstrained economic liberalism. Nevertheless, he was fascinated by the economic development which had taken place in Great Britain, and he wanted to help Germany achieve the same status (Müssiggang 1968, p. 244). It was clear to him that England had reached a more developed stage of industrialization than its neighbors, surmising as a result that Germany would require an economic and political approach different from the British laissez-faire. With this policy of economic relativism, Friedrich List was already articulating a great number of the issues which would later, beginning in the second half of the nineteenth century, become key elements of economic discourse for the Historical School of Economics.

The members of the so-called Older Historical School were unified in their desire to eliminate what they saw as the established limitations of the Classical School. Worth mentioning here are, above all, Wilhelm Roscher (1817–1894), Bruno Hildebrand (1812–1878), and Karl Knies (1821–1898), who—while certainly making use of liberal concepts in their approaches—considered economics to be far more a moral and social science. They largely rejected the method of observing single economic processes or individuals in theoretical isolation; fundamental for the proponents of the Historical School was an ethical and normative perspective on the economy. They considered the economic system to be an integral part of society, and, in their view, every economic phenomenon was unique with regard to the various interrelationships of its historical context. For them, the analogies to scientific principles found in classical economics were invalid (Jahn 1967, pp. 41ff.). The economists of the Historical School—especially Bruno Hildebrand—made reference to the societal dimensions of the civic inequality created by industrial development:

> Rather, we are in unanimous agreement that we are currently living in a period of transition, a time in which the desire for a more just distribution of goods, for the elimination of the imbalance between the forces of capital and labour, is ever more urgently demanding to be satisfied. We do not ignore the great social problem of our time, but consider it in fact to be the greatest that mankind has ever been given to solve. (Hildebrand [1848] 1922, p. 184)

Unlike Karl Marx, the members of the Historical School did not conclude from their criticism of Manchesterism that a socialist revolution was a necessity. In 1848—at the height of German pauperism—Hildebrand thus wrote that despite the negative effects of 'the factory system […], its proximate and infinite advantages should not be forgotten' (Hilderband [1848] 1922, p. 184). He emphasized the beneficial consequences of industrialization, which in his opinion had 'not created or worsened the poverty of the lowest levels of society, but merely brought it to light' (Hildebrand [1848] 1922, p. 184). With regard to the great levels of civic inequality, however, Hildebrand did not consider 'the function of modern industry in the cultural development of humanity to be fulfilled' (Hildebrand [1848] 1922, p. 186). In order to implement

social reform, Hildebrand assigned political economics the task of directly shaping the economy and society. In his magnum opus *Die Nationalökonomie der Gegenwart und Zukunft*, Hildebrand devoted considerable attention to 'social economic theories', and he was committed to developing a bourgeois alternative to incipient radical socialism, distancing himself in particular from Friedrich Engels (Müssiggang 1968, p. 109). He rejected the conclusion which Engels had reached in his work *The Condition of the Working Class in England* (1845), namely, that class warfare was the solution, and responded as follows:

> If one is to try to solve the problems of the present, one must study with open eyes and without prejudice the actual conditions of the people and their historical development, establish the manifold causes of pauperism, and everywhere deduce from the practically observed wants the necessary reforms, yet without rejecting the unknown world of reality as barbarism, and without losing oneself in idle dreaming. (Hildebrand [1848] 1922, p. 223)

Hildebrand became convinced that it was the state and its better-situated citizens who were capable—with suitable social reforms, not revolution—of putting an end to the widespread suffering of the working classes. It was these fundamental ideas which the Younger Historical School around Gustav Schmoller developed further, combining them with demands for direct political social reform.

The Headmaster of the Younger Historical School

Gustav Schmoller was born on June 24, 1838, in Heilbronn, Württemberg.[2] Young Gustav grew up in intellectual surroundings and wealthy circumstances. The well-situated family on his mother's side had already produced prominent academics,[3] while his paternal forebears had frequently found employment in the civil service, among them Schmoller's father himself, Ludwig Schmoller, who was an administrator in the treasury [*Kameralamt*] of the Kingdom of Württemberg. After the death of his wife in 1846, the young widower Ludwig Schmoller dedicated himself to the care of his children (Balabkins 1993, p. 20). In his father's office, Gustav Schmoller was able, even at a young age, to form an impression of the problems great and small with which the various classes of society were afflicted. It was here that he first became acquainted with cameralism and was confronted with the everyday difficulties encountered by small businesses. Schmoller was quick to recognize the significance of class differences and familiarized himself with the social changes caused by industrialization. These practical observations were 'highly significant for my intellectual development', (Martin and Rieter 2006, pp. 151–2) as Schmoller himself put it in an essay discussing his youth in which he, shortly before his death, recounted insights into his private life.

[2] The following biographical remarks are based on Goldschmidt (2008).

[3] Gustav Schmoller's maternal grandfather, Karl Friedrich von Gärtner (1772–1850), was a doctor and botanist who had occasionally corresponded with Charles Darwin.

Schmoller's life proceeded with exceptional purpose. After secondary education, in 1857 he took up the study of cameral science [*Kameralwissenschaften*] at the University of Tübingen. Schmoller was an attentive and conscientious student, he 'needed no special admonition to abstain from the traditional student activities of beer drinking, duelling and the fraternity life' (Martin and Rieter 2006, p. 156). Beyond the requirements of his syllabus, he also attended lectures on philosophy, history, and the natural sciences. His doctoral thesis, presented in 1860 on the history of economical perspectives in Germany during the Reformation (Schmoller 1860), was prize winning. Following his studies, he began his traineeship at his father's treasury in Heilbronn, working later with his brother-in-law Gustav Rümelin (1815–1889) in Württemberg's Statistical Bureau.[4] The great significance which Schmoller attached to comprehensive statistical surveys for the analysis of economic processes can without doubt be said to stem from his brother-in-law's influence. In 1863, Schmoller published in Württemberg's statistical yearbooks the results of a trade census compiled during his traineeship (Schmoller 1863), thus laying the foundations for his academic career.

As a result of his statistical publications, in 1864 Schmoller was called to the University of Halle—without habilitation—where the following year he took up a full professorship in the political sciences (Hansen 1993, p. 113). Here, the two academic focal points of his future work were quick to emerge: historical accounts of the history of economics and administration and treatises on social problems. With his early work[5] *Die Arbeiterfrage* [The Labor Question] (1864–1865), Schmoller looks to develop the Historical School of Economics' own perspective by examining the social and economic conditions and their historical development. Especially with this essay, he formulated the program for all the scholars who would later, with Schmoller, found the *Verein für Socialpolitik* (Grimmer-Solem 2003, p. 138).

Schmoller was determined that his thinking and judgment be based essentially on 'real-life observation and experience, rather than just in abstract, logical concepts' (Martin and Rieter 2006, p. 152). He was also active politically: From his first year as a professor in Halle, he held an office with the town council in order to get to know the details of the city's constitutional life (Martin and Rieter 2006, p. 152). In 1870, Schmoller published his first major work, *Zur Geschichte der deutschen Kleingewerbe im 19. Jahrhundert*, continuing in the tradition of the Older Historical School and following a third way between liberalism and socialism. However, in contrast to the older school, Schmoller rejected much more emphatically the liberal dogma of harmony between all individual interests. Contending with both socially revolutionary

[4] Gustav Rümelin was a member of the Frankfurt Parliament of 1848–1849 and, from 1861 to 1873, the director of the Royal Württemberg Statistical-Topological Bureau. In 1867 he was made Professor of Statistics and Civics at the University of Tübingen, where he was chancellor from 1870 to 1889.

[5] Thirty years later, Schmoller described his three-part essay *Die Arbeiterfrage* as a typical early work (Müssiggang 1968, p. 130).

marxism on the one hand and laissez-faire liberalism on the other, Schmoller's intention was to utilize his research for the principles of governmental social reform, although he was relatively open-minded when it came to the role of the state itself, being of the opinion that the state should, if necessary, use force to implement its social and societal objectives. This outlook, and their criticism of liberalism's one-sidedness, ultimately led to Schmoller and his academic allies being labeled 'lectern socialists'.[6] Although this simultaneously normative and politically engaged conception of the scientific profession was typical for Schmoller and the socialists of the chair, it would be wrong to see them as genuine political actors. They saw their mandate more in acting as a source of ideas, as well as in commenting on socio-political methods and reforms, to which end the *Verein für Socialpolitik* [Society for Social Policy] served as their public forum.

In the year in which the *Verein* was founded, 1872, Schmoller's time as a professor in Halle also came to end. He was called to the newly founded *Reichsuniversität* Strasbourg, where he came into contact with colleagues who shared his approach to historicize economics. Schmoller finalized his research program in Strasbourg, maturing into Germany's leading economist. At the University of Strasbourg, with colleagues such as Georg Friedrich Knapp (1842–1926), Wilhelm Stieda (1852–1933), and Wilhelm Lexis (1837–1914), Schmoller developed the seminar format as a new form of teaching (Balabkins 1993, p. 22).

In 1882, as the successor of Adolf Held (1844–1880), who was also an important member of the *Verein für Socialpolitik*, Schmoller moved to Berlin's Friedrich Wilhelm University. This appointment, to the political hub of his time, was not least an acknowledgment of his engagement in social policy. Schmoller had already, in 1881, taken on the editorship of the *Jahrbuch für Gesetzgebung, Verwaltung und Volkswirtschaft im Deutschen Reich*, which was published from 1913 under the name *Schmollers Jahrbuch*, and still appears today (in English), with the subtitle *Journal of Contextual Economics*.[7] In 1884, Schmoller became a member of the Prussian State Council; he was accepted as a member of the Royal Prussian Academy of Sciences in 1887; and in 1908, finally, he was ennobled. Despite his growing reputation, and his numerous accomplishments and fellowships, Schmoller remained a quiet and introverted academic, one who kept his professional and his private life strictly separate, and whose public statements dealt almost exclusively with economic and political matters (Martin and Rieter 2006, p. 142). Three days after completing an autobiographical essay (Schmoller 1918a) describing his youth in Heilbronn,

[6]The academics' critical attitude prompted the liberal publicist Heinrich Oppenheim (1819–1880) to counter with a critique of his own. To discredit the emerging research approach, he referred to it in his diatribe as 'lectern socialism' [*Kathedersozialismus*] (Oppenheim 1872, pp. 33–41)—often rendered less cynically as 'socialism of the chair'—setting off a very public dispute.

[7]See http://www.duncker-humblot.de/zeitschriften/wirtschafts-undsozialwissenschaften/schmollersjahrbuch-1.html

which represents the greatest exception to his private reclusiveness, Gustav Schmoller died on June 27, 1817, on a journey in Bad Harzburg.

A Preliminary Answer to the Labor Question

By the 1860s, Schmoller was convinced that the industrial revolution—the increasing use of machinery and the development of large-scale industries in a growing number of sectors of production—was irreversible, but that this development could quite conceivably have a beneficial effect on people's lives (Schmoller 1864–5, pp. 394ff.), as he stated in his already mentioned essay. Initially, Schmoller considered industrialization to be a 'time of tremendous progress' (Schmoller 1864–5, p. 393), measuring its significance above all in the economic growth in production and consumer demand. Despite his euphoria, Schmoller's faith in progress did not prevent him from recognizing the drawbacks of this new economic order. In his work, he describes a fundamental institutional transformation accompanying this new way of running the economy, seeing in it—quite beyond the purely economical considerations—nothing less than the greatest current challenge for modern society:

> The economic world of the Middle Ages was based on stable legal norms, which […] established moderation and order in the face of inconstancy and immorality. […] The trades and crafts, with their familial and moral associations […] are becoming ever more displaced. […] The immoral pursuit of possessions and wealth on the part of the industrialists, and destitution on the part of the workers leads […] to the absolute dominance of capital in the economy, in society, in the state. (Schmoller 1864–5, p. 395)

For Schmoller, this radical change was the consequence of a historical process of transformation 'towards a new culture and a new form of economy' (Schmoller 1864–5, p. 396). In order to ameliorate social hardship while still accommodating this development, both inexorable and yet fundamentally adjudged to be positive, he considered it a necessity that the transformed economic circumstances be attended by national social reform (Nau 2000, p. 508). He distinguishes here between those 'evils' which merely accompany this transformation temporarily, and those, which adhere to it permanently (Schmoller 1864–5, p. 395).

> The entire sickness [industrialization] was more a developmental fever which did not quite pass with the onset of puberty, but whose most dangerous symptoms abated. […] The question is simply whether the improvement itself is a permanent one, or merely temporary […] securing as it does for the great mass of the workers a proportionate and permanent share of the growing benefits of earthly goods. (Schmoller 1864–65, pp. 399–400)

Schmoller goes on to establish a further distinction within the class of the industrial worker, appearing optimistic with regard to a nascent middle class

among the wage laborers, which in his opinion 'provides, if not all the pleasures of life, at least an existence worthy of a human being, with all prerequisites for further progress' (Schmoller 1864–5, p. 406). This rather hopeful assessment—doubtless encouraged by the economic boom of the 1860s—is, however, immediately qualified by Schmoller when he states that 'our question as to the position and future of the working classes is thus merely concentrated – not concluded' (Schmoller 1864–5, p. 412). Schmoller summarizes his socio-political credo as follows: 'It is not a case of creating an equal existence for all, but still a humane one for the lowest classes, one which includes the opportunity for further acquisition and education' (Schmoller 1864–5, p. 524). Schmoller is adamant that the initiative here 'can and must […] come from the upper classes: It is their duty' (Schmoller 1864–5, p. 524). The methods which Schmoller suggested to 'outwardly' improve the lot of the wage laborers are not new: restrictions on employment for women and children, improved living conditions, and limits on working hours, among others. However, it was not his intention that applied social policy be limited solely to economic welfare provision. Alongside the 'outward' effects of social policy measures, Schmoller proposed an 'inward' effect: 'If reform does not transform inwardly, then it will all have been in vain' (Schmoller 1864–5, p. 421). He accused the socialist reformers aligned with Ferdinand Lassalle (1825–1864) of overlooking this, criticizing them for endeavoring to change external social and economic mechanisms without considering how to transform man's internal motives and ideas (Schmoller 1864–5, p. 421):

> The workers must be helped from within, not from without. Anything approaching them outwardly that does not change their customs, their skills, their way of understanding and living, helps for a moment, but not in permanence. (Schmoller 1864–5, p. 46)

Schmoller dismissed any attempts to find quick, populist solutions, for instance, by way of shortsighted financial aid. For our current political discourse, too, he could scarcely be more relevant as a result of this philosophy. Schmoller argued for an integrative approach to problem resolution, considering social policy to be inherently related to education policy. To him, education represented the decisive factor for the betterment of the lower classes—the fundamental prerequisite in enabling the working classes to participate sustainably both in society as a whole and in the workforce:

> Education and skills, these are the true forces that will advance the workers […] Education is the foundation of all moral betterment, […] by which individuals may continually work their way out of the bonds of the working classes and into the highest echelons of society. (Schmoller 1864–5, p. 535)

Schmoller assigned to the benevolent state the task of protecting the lower classes until they are able to withstand the level of competition in the new eco-

nomic system: '[I]n this way, he [the wage labourer] has just as much right as the higher classes to expect that the state will care for him, and support him should he have a hill to climb' (Schmoller 1864–5, p. 533). Schmoller considered state intervention in the economy as being, in principle, justifiable in as much as it serves the public good and helps to eliminate social hardship:

> […] which justifies state aid, showing in how many cases the state, as an agent of the higher moral interest, is entitled to coerce upon the individual his duties. […] The working classes possess neither sufficient sense of moral duty nor intellectual comprehension to understand that this [education] is the principal way by which they may be bettered, and thus without this coercion this betterment would simply not be achieved. (Schmoller 1864–5, pp. 534–5)

Schmoller considered the authority of the state to be the sole neutral entity qualified to oversee the class struggle and initiate targeted social reforms (Mombert 1927, p. 479). According to Schmoller, it must be the state's goal to eliminate social inequities and eliminate social imbalance, so that the development of a society towards a new culture and new form of economy is not hindered, but in fact encouraged. However, he was quick to defend his demands for an assertive, ultimately paternalistic state against stigmatizing comparisons with a 'police state', one of his critics' accusations (Schmoller 1864–5, p. 535). Schmoller objected far more to groundless state intervention in the processes of the market economy (Frambach 2006, p. 229), emphasizing long-term stability:

> […] the entirety of our modern times, and our modern industry in particular, is based on the vigorous and not overly constricted development of individuality; however, law and state – in particular the constitutional state – do not at all see the development of individuality […] as a barrier or obstruction, but as the outward guidelines for that which is itself good and right. (Schmoller 1864–5, p. 535)

Schmoller's conception of society is based on institutions, which guide social and economic life, and he saw in the state the driving force that develops these institutions (Peukert 2001, p. 76).[8] His desire to see an authoritative state order should, of course, not be misunderstood in this context. The provision of self-reliance and state reliance should, in his opinion, be subsidiary; thus 'it

[8] Schmoller gives the following description of an institution: 'a partial organisation of communal life, serving certain functions, able to develop independently, representing a fixed structure for action […] Every institution is a collection of habits and rules of morality, of customs, of the law, […] which are connected to one another, form a system, have been subject to common practical and theoretical instruction, firmly rooted in communal life' (Schmoller 1978, p. 61–2). Schmoller's work, in its conception of institutions, displays great parallels to the later work of the economist and Nobel Prize winner Douglass C. North (1920–2015) (e.g. North 1990). Schmoller implicitly, like North after him explicitly, distinguishes between formal institutions (laws) and informal institutions (customs), referring to a culturally intertwined dependence (Richter 1996, pp. 576–9).

would be good were the process to begin with the lowliest entities of the family, of the community, of custom' (Schmoller 1864–5, p. 534). Preeminent roles in the inward and outward application of the, in his eyes, necessary reforms were assigned to the institutions of self-reliance. He aspired to social reforms which would awaken the awareness of personal responsibility in the working classes; he thus aimed to enable self-reliance and create the conditions necessary for it. In his programmatic essay *Die Arbeiterfrage*, Schmoller provides an initial and optimistic solution: 'Self-reliance and personal responsibility' (Schmoller 1864–5, p. 421), which one could perhaps even formulate as self-reliance *inducing* personal responsibility. With his integrated approach to questions of social policy, his distinction between the inward and outward effects of social policy measures, and the significance he attached to education, Schmoller performed a balancing act between the conflicting fronts. This expression of his desire to bestow upon the capitalistic social order a level of social and political responsibility both created opportunities for new political perspectives and laid the groundwork for further scientific and public discourse.

The *Verein* Makes the Case for Social Policy

Schmoller's conviction that the only guarantee of economic prosperity, social stability, and cultural identity was to be found in reconciling conflicting social interests, which had emerged in the first half of the nineteenth century, remained with him his entire life. The 'labor question' was to him never solely a question of economics, but an ethical, cultural question (vom Bruch 1985, p. 67). As a result of his disputatious personality and yet conciliatory way of thinking, he soon became a focal point for politically like-minded economists who shared his both perspective on social equity and his criticism of the prevailing economic doctrine. In order to effectively campaign in public for their social cause, they required a common forum, particularly as the liberal-minded forces at the *Kongress deutscher Volkswirte* had a large section of the press behind them. (Müssiggang 1968, p. 137; vom Bruch 1985, p. 67).[9] The first step would be to raise awareness of the necessity of social reforms throughout the broader population, in the political parties, and within the Prussian government (Grimmer-Solem 2003, p. 140). As an institutional counterweight to the *Kongress*, the socialists of the chair founded the *Verein für Socialpolitik*.

Besides Gustav Schmoller, among the most important socialists of the chair were Adolph Wagner (1835–1917), whose efforts were likely responsible for the foundation of the *Verein* (Wittrock 1939, pp. 166ff.), and Lujo Brentano (1844–1931). It was important to Schmoller that the *Verein* be an institution whose creation would allow for the collaboration of science and practice and be

[9] The *Kongress deutscher Volkswirte* was an itinerant conference which met for the first time in 1845, in Gotha, and which argued for free trade and liberal economic ideas. Its members were particularly committed to freedom of trade, the free movement of persons, and cooperative societies.

able to work towards a compromise of interests. Consequently, he called for the conferences to be open to as many participants as possible: The *Verein* was to focus its recruitment not just on academics from relevant fields but also individuals from the spheres of politics, economics, and publishing who had an interest in societal questions and did not consider the unconditional laissez-faire of the Classical School of Economics a reliable panacea (Müssiggang 1968, p. 150). Ultimately, Schmoller was able to convince Wagner and Brentano of the need for this plurality, although they would have preferred a rather more homogenous participant profile (Gutmann 1993, p. 107).

After a round of preliminary, exploratory talks at Schmoller's private residence (Wittrock 1939, p. 171), the *Verein* was officially established in 1872 at a conference in Eisenach which had been convened to discuss the 'social question'.[10] As a prelude to this 'Eisenach Conference', Schmoller gave a groundbreaking opening speech that was to determine the guiding principles of the *Verein*, sketching out the conceptual framework of what can to all intents and purposes be thought of as the foundations of Bismarckian social reform. In his speech, Schmoller expressed his hopes that the *Verein* would create a basis for the reform of societal conditions, both unifying the opponents of Manchester liberalism but also setting them apart from socialist experiments (Schmoller 1873a, pp. 1ff.). As the participants were anything but a homogenous group with regard to their academic and political perspectives (vom Bruch 1985, p. 65), Schmoller expressed a desire to avoid discussions of principles, intending instead from a position of political neutrality 'to concentrate on the most important, most of-the-moment points of reform […] and to attempt to bring about their practical resolution' (Schmoller 1873a, p. 3).

In his speech, Schmoller took back the term 'socialism of the chair', applying it to himself and his like-minded contemporaries, and defining it more clearly. As Schmoller had already explained in *Die Arbeiterfrage*, he considered freedom of trade, of movement, and of establishment and contractual freedom in general to be the 'most important and most just requirements of our time' (Schmoller 1864–5, p. 532); as such, Schmoller understood the socialists of the chair to be liberals both in origin and in outlook, praising the progress made by the new liberal market. Nevertheless, he argued for greater state influence, 'which, standing apart from egotistical class interests, was to legislate, administrate with a just hand, protect the weak, elevate the lower classes' (Schmoller 1873a, p. 4). Of primary concern for the socialists of the chair was the gradually widening gulf between the classes in 'decency, education, outlook and ideals' (Schmoller 1873a, p. 4):

> [The contrast] soon became ever more striking, just as the social question, growing in importance by the day, was utterly unsuited to a solution based solely on the principle of state non-intervention, solely on the dogma of granting free rein to the egotism of the individual. (Schmoller 1873a, p. 2)

[10] Three years earlier, also in Eisenach, the *Sozialdemokratische Arbeiterpartei* (SDAP) was founded, a forerunner of the present-day SPD, the *Social Democratic Party of Germany*.

Historical accounts had brought Schmoller to the conclusion that 'all higher culture did ultimately decline as a result of similar oppositions, of class warfare and revolution, as a result of the inability to bring about reconciliation between the higher and lower classes' (Schmoller 1873a, pp. 4–5). In order to counteract this effect, social reform was to be integrated into 'the existing economic legislation, the existing forms of production, the existing educational and psychological circumstances of the different classes' (Schmoller 1873a, p. 5). In particular, with regard to the often tense relationship between employer and employee, Schmoller developed specific ideas concerning—among other things—trade unions (Schmoller 1873b), employment contracts (Schmoller 1874), workers' operational participation (Schmoller 1890a, 1892), and profit-sharing mechanisms (Schmoller 1890b). In the next section, these principles will be discussed in more detail.

Initially, in the years after its formation, the agenda of the *Verein für Socialpolitik* was to lay the foundations for social legislation that would make participants out of the mass of German factory workers, affording them a more self-determined existence than was possible under the conditions of the virtually unregulated market of the time (Balabkins 1993, p. 25). It is difficult to precisely determine the success and effectiveness of the *Verein*; its influence cannot clearly be distinguished from that of the socialists of the chair or the Younger Historical School more generally. It is irrefutable, however, that the *Verein* exerted an influence of varying intensity on both press and parties, hence affecting the general political climate (vom Bruch 1985, p. 125). By the turn of the century, the efforts of the *Verein* had changed the public perception of the social question in Germany (Hansen 1993, p. 152). Regardless of the success of their petitions to affect legislation directly, the socialists of the chair certainly influenced state policy, at least indirectly: Towards the end of the nineteenth century, almost every professorship for economics in Germany was held by a socialist of the chair, and as such the government officials and thus decision-makers on social legislation also emerged from this school of thought (Müssiggang 1968, p. 155). Consequently, one might argue that the army of Prussian officials whose thinking had been shaped by the work of the *Verein* could be considered just as directly accountable for the subsequent social reforms as the efforts of the more distinguished members of the *Verein*. Germany was the first country in the world to introduce, in the course of Bismarckian social legislation in 1883, statutory health insurance for workers, followed by accident insurance in 1884 and old-age and disability insurance in 1889. This paradigm shift in the German Reich's economic and social policies, towards a greater level of state involvement in the sphere of social policy, could also be seen in the way that the Chancellor Otto von Bismarck (1815–1898), when visiting Strasbourg in 1875, told Schmoller that he too was a socialist of the chair (Schmoller 1890c, pp. 464–5). The relationship between the socialists of the chair and Bismarck, who was following his own personal political goals with his approach to state social reform 'from above', was nonetheless an

ambivalent one.[11] Unlike Bismarck, the socialists of the chair were quite able to imagine reform coming 'from below', negotiated by way of incentives and an environment which would enable self-reliance (Eidenmüller 1995, p. 47). There is an undeniable irony to the fact that it was Bismarck's social legislation, of all things, which rather took the wind out of the *Verein* members' sails (Grimmer-Solem 2003, p. 210) after the success of their first decade as the 'spearhead of social reform' (vom Bruch 1985, p. 79). The *Verein* was thus prompted to increasingly disregard the labor question, returning to it only after the accession to the throne of Kaiser Wilhelm II (1859–1941) and Bismarck's subsequent dismissal. The 'February Decrees' of 1890, a reaction to the miner's strike in the Ruhr the year before, announced the introduction of operational workers' committees, among other things (Teuteberg 1961, pp. 362ff.), and brought the labor question back onto the agenda of the *Verein für Socialpolitik*.

The Ethical Integration of the Worker

Schmoller directed intense attention to the factually existent institutions both of the labor market in general and within corporations specifically. In numerous publications on this topic, he focuses in particular on the psychological and ethical relationship between employer and employee, which underwent dramatic change throughout the nineteenth century as a result of industrialization. His analyses concentrate less on the legal aspects of formal workers' contracts, and more on their informal, institutional effects on economic processes. The socialists of the chair identified in the economic and social reality of the labor market a discrepancy in the balance of power which benefited the employer, and which they thought had been neglected in the theories of classical liberal economists. The socialists of the chair were unanimous in their stance that work is not a good like any other, but that it is fundamentally different from the other factors relevant to production; sufficient alone for this assertion were the facts that work is inseparable from the worker's person, and that the worker's livelihood is dependent on his employer and his wages (Brentano 1874, p. 147; Schmoller 1874, p. 72). Schmoller's goal was the 'proper incorporation of wage labor, both into a life lived in free employment and into the mechanisms of new economic enterprise' (Schmoller 1918b, p. 205). He feared that, if the ethical integration of the workers were to prove unsuccessful, the workforce might turn against industrialized progress altogether. The best way for a corporation to protect itself against socialist unrest, according to Schmoller, was to integrate the workforce, in the long term and

[11] There are good reasons to conclude that Bismarck's social policies were far more the result of politically opportunistic motives than purely social ones (compare, for example van Meerhaeghe 2006, p. 295). Of at least equal importance to him was his strategy of weakening the forces of social democracy in their fight for social equality (seen in the Anti-Socialist Laws of 1878: *Gesetz gegen die gemeingefährlichen Bestrebungen der Sozialdemokratie*), while simultaneously pacifying the working classes with social legislation.

in their own interests; this would solve the problem of the discrepancy in the balance of power between employee and employer.

One institution which Schmoller thought would be of use here were the *Gewerkvereine* [trade associations, a forerunner of the trade unions] (Schmoller 1873b, p. 93). Unlike liberal thinkers, he considered these organized 'workers' coalitions' an integral part of a freely organized market. He thus advocated the state authorization of trade unions, and—with a view to developing the economy as a whole—campaigned for their advancement:

> And I must emphasise this in the most energetic way possible […] to counter these so-called practical demands; it is a great short-sightedness to always think only of the momentary detriments to working conditions and their resolution. A businessman, an industrialist might make these calculations – the economist must apprehend the entire process. […] For him, the question does not arise as to whether some businessmen may suffer further or fewer inconveniences, but in what way the entire contemporary economy is developing. (Schmoller 1873b, pp. 82–3)

Schmoller advocated freedom of association, and strikes as the workforce's last resort, seeing in them the only way of upholding the liberal values of freedom of trade and contract; otherwise, the inherently inequitable negotiating positions of employer and employee would not allow for the free settlement of contracts. 'Freedom of trade is nothing but the regulation of the public contest for material interests, within certain legal confines. However, if this contest is to be a fair one, one cannot bind the hands of one party' (Schmoller 1873b, p. 80). This is Schmoller's argument for free but fair competition on the labor market: The unions are accommodated within Schmoller's fundamental principle of social reform, which was that self-reliance would induce personal responsibility, 'keeping the moderate worker to the fore, and undermining the foundations of the revolutionary parties' (Schmoller 1873b, p. 88). With this approach, the socialists of the chair intended to alleviate the discrepancy in the balance in power between the industrialists and the workforce and in a way also laid the groundwork for the notion of the *Tarifautonomie* [free collective bargaining] in Germany.

Although Schmoller, for the reasons given above, was an advocate of the *Gewerkvereine*, he was not oblivious to their great potential for conflict, which might be triggered by a politicized, overly aggressive, and hostile attitude in the economy at large (Grimmer-Solem 2003, p. 238). Unlike Brentano, Schmoller thought workers' operational participation a considerably more effective institution than the unions, which acted outside of individual corporations (Teuteberg 1961, pp. 285–6). This could be characterized as an almost subsidiary notion of reform, trying as he did to implement the social integration of the workers at the lowest possible level:

> We must reform from the ground upwards, we must establish peace in each individual business, and then we shall find it in entire branches of industry, and in all of society. This will happen only if we give the employees in every individual larger business, by way of operational workers' committees […] an interest in the prosperity of the business. (Schmoller 1890b, pp. 460–1)

Looking at their composition and their remit, these workers' committees can in many ways be thought of as the forerunner of modern works councils (Teuteberg 1961, p. 111). The concept had already been developed by the economic commission of the Frankfurt Parliament (1848), although the Parliament's collapse meant that, initially, the idea was not drafted into legislation (Eidenmüller 1995, pp. 129–30). Admittedly, there was a small number of progressive employers in the second half of the nineteenth century who, of their own accord, granted their workers a certain measure of participation in operations.[12] This led to the emergence, for example, of 'constitutional factories', which were intended to be run on the model of constitutional monarchies. In this analogy, the owner was the monarch, the workers' committee the parliament, and the workforce the electorate. Schmoller acknowledged the fact that 'such workers' committees, factory councils and boards of elders […] almost always were created on the initiative of the employers' (Schmoller 1890a, p. 426). He remained convinced, however, that internal operational labor relationships could not be based on good will alone, but on legal rights (vom Bruch 1985, p. 86). It was thus first and foremost Schmoller who, through the *Verein für Socialpolitik*, demanded industrial legislation that would stipulate the introduction of workers' committees (Graetz 1974, p. 94):

> All those who feel any affinity with social reform, who believe in a better future for society, and yet are disinclined to support sudden socialist experiments, all those know that social progress is slow, perceptive work, they have reason to endorse with every energy the proliferation of such workers' committees. (Schmoller 1890a, p. 440)

Schmoller's goal, on the one hand, was to harmonize the interests of the industrialists and the workforce: 'This understanding can only mutually grow by way of an exchange of ideas, through collective discussion, through the advancement of collectively administered businesses' (Schmoller 1892, p. 475). On the other hand, he hoped that the committees would alleviate the imbalance in the relationships of dependence: 'I thus find that a redress of this inequitable dependency could only be reached if the manufacturer were to negotiate the organization of the factory with his workers' (Schmoller 1874, p. 99). Schmoller expected the operational involvement and greater say of the

[12] Max Sering (1857–1839) presented a comprehensive study of workers' committees in German industry to the *Verein für Socialpolitik* (Sering 1890). Among the socialists of the chair, he and Schmoller were the greatest proponents of the committees.

workforce to have an 'inward' effect on the workers themselves—more so than would be the case in the unions—and thus preferred this approach:

> If the larger corporations are thus transfigured from within, through workers' committees and through settlement procedures associated with the workers' and factory organisations […] in this way, by degrees, the economic and social status of the working classes shall be successfully improved, and, which is more, they shall be elevated intellectually and morally. (Schmoller 1892, p. 477)

Although initially only voluntary in nature, operational participation became law in the German Reich for the first time with the passing, on June 1, 1891, of the *Arbeitsschutzgesetze*, or working conditions acts (Schmoller 1892, p. 474; Graetz 1974, p. 95; Abelshauser 1999, p. 226):

> Still, the same principle must penetrate further into the heart of major industry. Our democratic times will not accept in any situation where large numbers of adult, married men freely collaborate that a few alone may command and the rest obey. A certain constitutional charter must nowadays be part of all social organisations. This is made possible in the individual factory by the factory's owner meeting with an elected committee of workers so that they may discuss certain matters with him. (Schmoller 1892, p. 475)

These observations make it clear that Schmoller considered a business to be not just an economic organization but also—and equally—a social institution with an influential role within the economy (Grimmer-Solem 2003, p. 238). The socialists of the chair believed that reform on the level of the business, 'from the bottom up' and 'from the inside out', could bring about peace for all of society via the pacification of industrial enterprises (Schmoller 1890b, pp. 460–1).

Schmoller identified the workers' committees as a formal institution for conflict resolution on the lowest level. In accordance with his psychological and ethical notion of humanity, however, he also saw them as an institution from which effects on informal processes emanate, creating a shared identity, a feeling of self-worth, and communal interests and mutual obligations (Teuteberg 1961, p. 288). Another institution associated with this concept is employee profit sharing: The idea of profit sharing [*Antheilswirtschaft*] was not unknown in the nineteenth century (Schmoller 1890b, pp. 444ff.). The socialists of the chair were thus moved to ask whether profit sharing might be suitable for mitigating the effects of the discrepancy in the balance of power in industrial corporations. The academic discussion did not necessarily proceed harmoniously, and criticism was rife in liberal circles (Prince-Smith 1868; Eidenmüller 1995, pp. 147ff.)—the fear was that private entrepreneurs would have their power compromised. Regardless, it was not Schmoller's intention to restrict industrialists' ownership rights; his goal was the emancipation of the workers. His conclusion, however, was that profit sharing would also be in the fundamental economic interests of the owners:

> The voices of the industrialists are united in stating that the people's efforts, their application, their diligence and their efficiency with material and machines have increased in greater proportion than the shares thereof paid to them in wages, and thus that the corporations […] have done a good piece of business. (Schmoller 1890b, p. 455)

As he did with regard to unions and workers' committees, Schmoller was looking to find fundamental solutions that could be institutionally integrated into the economic efficiency of the market (Frambach 2006, p. 229). In his opinion, the benefits of profit sharing were that it could be implemented easily, regardless of the size of a business, and also that—as a supplement to their usual wages—it would promote economic thinking among the workers:

> The worker who receives a share of any profits will begin to consider at all times what would benefit the business, he will become inventive, improving his products without being exhorted or impelled. He will of his own accord familiarise himself with the vicissitudes of business life, thus abandoning utopian demands and plans. Of the enemy who hates and envies his employer will be made his participative comrade. (Schmoller 1890b, p. 455)

In his conceptions of reform, however, Schmoller never lost sight of the historical reality of large corporations. As emphasized in his later works, integration did not, for him, mean 'that employer and worker share the management, that both parties are somehow by turns meant to command and obey […] The employer must retain the dismissal as a last disciplinary resort' (Schmoller 1918b, p. 219). He also displayed his sense for organizational problems, describing the basic idea of the principal-agent problem as early as 1900: 'The large corporations are becoming less and less suited to remaining in the hands of individual, personal proprietors […] In large companies, a growing number of clerks have inserted themselves between the managers and the workers' (Schmoller 1978, p. 516). Schmoller realized that in large companies, profit sharing may at times be insufficient to steer the workers towards effectively performing their increasingly complex tasks. At the same time, he formulated an initial approach to solving the principal-agent problem: Long-term incentives such as 'rising salaries, provision for old age, contracts for years or for life', and measures to increase intrinsic motivation that promote 'interest in the business [and] honesty' (Schmoller 1978, p. 518).

A Disputatious Advocate of the Workers

Gustav Schmoller's way of thinking was both historical-realistic and psychological-ethical, and it shaped the Younger Historical School and the entire field of economics in Germany. Schmoller's publications cover a broad spectrum of topics relevant to the economic sciences and society as a whole. Himself strongly opinionated his entire life, his approach polarized opinion

both in the political and the academic sphere; alongside his numerous allies, his outlook also earned him equally influential adversaries. A number of economists—then and now—consider Schmoller to have come off second best in both of his *Methodenstreite* with Carl Menger and Max Weber and speculate that this may have led to the demise of the Historical School (Rieter 2002, p. 153). However, the debate into which Schmoller truly put his 'body and soul' (Schmölders 1993, p. 99) was the ever-present dispute over peaceful social reform. In his pursuit of the advancement of the working classes, he himself became a disputatious advocate of the workers (Grimmer-Solem 2003, p. 281). In this role, he fought to secure numerous victories, or laid what hindsight has shown to be their foundations. Schmoller's realistic assessment of the nature of corporations and the labor market led him to formulate concepts of reform which were at least partially realized—and those that were not still seem desirable today (Schneider 1989, p. 328).

Undoubtedly, Schmoller's optimistic and often heavily state-reliant suggestions for reform are not applicable to the modern welfare state in every respect. Schmoller's own optimism occasionally deserted him, too, in the course of the sustained arguments regarding the ethical integration of the working classes. Still, Schmoller's universal cause—that social policy be considered a fundamental element of economic policy—was taken up in the twentieth century by the Freiburg School founded by Walter Eucken (1891–1950) (Hansen 1993, pp. 168f.; Blümle and Goldschmidt 2006), and thus has also found its way into the 'Social Market Economy' of the present-day Federal Republic of Germany. Many of the developments that have taken place since Schmoller's death would have been unthinkable without the pioneering work of the socialists of the chair.

Today, Schmoller's ideas are once again more relevant than ever. Considering the growing calls in the economic sciences for realism, pluralism, and social relevance (Goldschmidt et al. 2016), it seems clear that it was an error to have excluded the history (of economic thought) and thus the memory of Schmoller from the standard textbooks. His approach might be able to help to win back some of the trust that the economists' profession has lost in recent years, or least help them to learn from their own mistakes. His broad and undogmatic perspective on the socioeconomic problems of the people and on the relationship between academia, economy, and the state could serve as an example for a politics of unification in a time where society seems to be drifting apart.

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