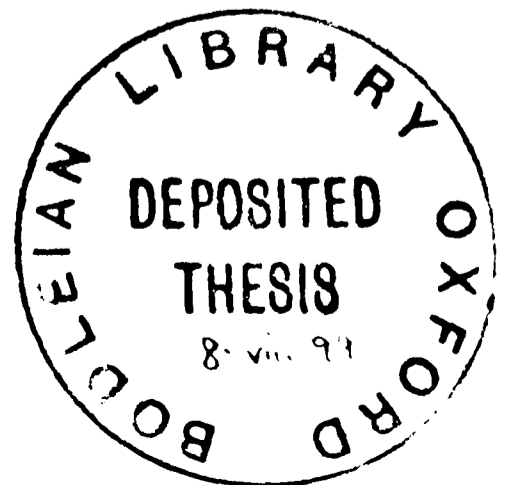


***THE SCIENCE OF PROGRESS:
THE RISE OF HISTORICAL ECONOMICS AND SOCIAL
REFORM IN GERMANY, 1864-1894.***

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Submitted for the degree of Doctor of Philosophy
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Abstract

***THE SCIENCE OF PROGRESS:
THE RISE OF HISTORICAL ECONOMICS AND SOCIAL
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This thesis reassess the so-called ‘Historical School of Economics’ of Gustav Schmoller and his colleagues Lujo Brentano, Adolf Held and Georg Friedrich Knapp, analysing the close relationship between the development of historical economics and the rise of social reform in Germany. It reveals that there is little evidence for a cohesive ‘Historical School’ and suggests that it was not primarily an outgrowth of romantic and historicist currents of thought as is commonly believed. Schmoller and his colleagues were a pragmatic, empirically-inclined group of statistically-trained economists who drew inspiration from the advances made in the natural sciences. Having directly observed the effects of rapid urbanisation, industrialisation, and the rise of labour movements and socialism in Prussia and abroad, they became dissatisfied with classical economic doctrines and *laissez-faire*, subjecting these to empirical tests and criticism. Drawing inspiration from British reforms and developments throughout Europe, they devised alternative hypotheses and made innovative policy recommendations. They were also important professionalisers of economics, modifying the curriculum, organising professional bodies, and creating new monographs and journals, the latter substantially aided by the interest and generosity of a leading publisher. Using empirical studies, statistics and history as analytical and critical tools, they sought practical solutions to economic and social problems by disseminating information to both the public and government officials through publications, conferences and petitions. They became leading advocates of trade union rights, factory inspection, worker protection laws, education reforms, worker insurance, agricultural reforms, and the democratisation of industrial relations. Their influence on economic and social policy, while indirect, was considerable, especially through government officials. However, the close association of historical economics with reform and social policy also made them a conspicuous target of criticism within academia and politics. Despite this, by the early 1890s the research methods and social legislation they propounded were gaining wider currency not only in Germany but also in Austria.

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D.Phil., Michaelmas 1998

Long Abstract

***THE SCIENCE OF PROGRESS:
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REFORM IN GERMANY, 1864-1894.***

This thesis investigates the origins and rise of the so-called ‘younger’ Historical School of Economics in Germany over the years spanning 1864-94. This ‘school’ of economics was in fact more statistical and empirical than merely historical. It was a heterodox strand of economic thinking which arose following the demise of classical economics as a consequence of numerous theoretical innovations and the swift pace of economic and social change in these decades. Inspired by reforms in Britain and elsewhere, historical economists sought to remedy the inequalities and frictions generated by extremely rapid urbanisation and industrialisation in Germany by integrating a growing working class into urban civil society through innovative social and economic policies. The ascent of historical economics was therefore tied closely to the rise of the social reform movement in Germany, and its influence was a product of its empirical-statistical orientation and direct, practical relevance to policy issues. For similar reasons historical economics also came to have a considerable impact in Britain and America. However, the First World War and Germany’s defeat cast a long shadow over it. German historical economics subsequently fell into discredit and was later made a scapegoat for a variety of failings. It has ever since been a useful foil for neoclassical economics.

While specific aspects of historical economics have been analysed, many of

these studies are now dated or leave much to be desired in terms of substance and accuracy. Moreover, the life and career of the leading historical economist, Gustav Schmoller, has never been the subject of a detailed study. While much important scholarship has been produced on German cameralism, *Staatswissenschaften* (state or political sciences, including economics), early sociology and social reform, focus has remained on the period before 1850 or on the Wilhelmine and Weimar eras. This study arose out of the desire to address some of these problems. It seeks to go beyond what has been claimed about the ‘Historical School’ to ask basic questions about what is really known about it. What methods and approach defined this ‘school’, what sort of activities were its members engaged in, what tools did they develop and use, and what impact did they have? It is necessary to critically differentiate between claims about what the historical economists did or represented and what they actually did and how they did it. To get this fresh perspective it was essential to investigate archival materials, particularly correspondences and other personal papers. A detailed contextual analysis of the writings of Schmoller and his colleagues and close scrutiny of university publications was also needed. This effort was rewarded with new, often unusual and unexpected insights which together form a substantial revision of the textbook account of Gustav Schmoller and the ‘Historical School’.

The thesis focuses upon the activities of Gustav Schmoller and his closest colleagues Lujo Brentano, Adolf Held and Georg Friedrich Knapp. It also explores their relationship to their teacher and mentor, the statistician Ernst Engel, as well as their publisher, Carl Geibel. It is broken down into three parts and seven chapters.

Part I seeks to address the identity of the ‘Historical School’ and investigates the mode of production and institutional structures which sustained and were shaped

by historical economists.

Chapter 1 is a critical reassessment of what the ‘Historical School’ was. It tests the validity of this rubric by evaluating how it was used contemporaneously, how it has been used over time, and what it has come to mean. There is actually little evidence that much of a ‘school’ existed, nor is there evidence to suggest that its members were exclusively or particularly ‘historical’ in their methodology. Instead what is revealed is a highly-heterogeneous group of scholars who have been corralled into categories based largely upon undemonstrated or unexplored intellectual linkages. Considerable evidence indicates that the historical economics of Schmoller and his colleagues was not part of a romantic and post-Kantian idealistic tradition of thought, as is often assumed. Schmoller and his colleagues were highly critical of speculative philosophy and post-Kantian idealism. They were substantially influenced by the development of new statistical methods and by the empirical methods of the natural sciences, with which quite a number of them had direct familiarity. This chapter argues that it would be more appropriate to speak of ‘historical economics’, by which is meant ‘historical-statistical economics’, rather than the ‘Historical School’.

Chapter 2 analyses German economics (*Staatswissenschaft*) as a university subject. It investigates the university and non-university institutions, professional bodies, publishers, monographs and journals which sustained the scholarly output of the historical economists. It also evaluates the influence of Schmoller and his colleagues upon this mode of production and the dynamics of its change over time. Evidence suggests that statistical bureaus were the most formative influence on the training and approach of Schmoller and his colleagues. The chapter also shows that Schmoller and his colleagues had a considerable impact on the curriculum of

economics in the universities, and they played an important part in the professionalisation of their discipline through new organisations, journals and monographs. In publishing their research, a decisive role was played by the publisher Carl Geibel, who was himself an avid social reformer and founding member of the *Verein für Sozialpolitik* (Association for Social Policy). A study of the mode of production of historical economics reveals that most of this activity and innovation was closely tied to solving the ‘social question’. It was therefore essential to investigate the social question and its salience to the historical economists in detail in part II of the thesis.

Part II is devoted to the links between empirical, historical and statistical methods and social reform, focusing on the alternative insights and tools these provided both economics and the social reform project.

Chapter 3 defines and traces the social question and its salient attributes for Schmoller and his colleagues by relating it to the rapid processes of social and economic change during the 1860s and 1870s. Acute concern with the social question appears to have been a product of the confrontation of Schmoller and his colleagues with the severity of urban social problems in Berlin and other East-Elbian Prussian cities in the 1860s. Urban conditions in Berlin were particularly appalling, as both German and foreign observers noted. However, it appeared that little accurate information was being gathered by, or available to, the German states on the dimensions of these social problems. As important to the historical economists’ perception of the social question was their engagement with early socialism and a growing body of non-socialist writings related to the social question. Highly significant too was the demise of classical economics as an adequate analytical and policy tool.

The demise of the certainties of classical economics was a product both of numerous theoretical innovations as it was also the wide-spread perception that it had compromised its scientific claim by providing an intellectual defense for the status quo and special interests.

Chapter 4 explores the close links between economic empiricism, statistics and historical scholarship. Having trained as statisticians in Gustav Rümelin's and Ernst Engel's statistical bureaus, Schmoller and his colleagues approached the social question empirically, directly testing the validity of classical and socialist economic doctrines, which they found wanting. Empirical investigations also revealed numerous alternative explanations for various economic and social phenomena which suggested a wider scope for policy. After direct observation of economic and social conditions in Britain, France and Germany (encouraged and supported by Ernst Engel) Schmoller and his colleagues came to believe that economic processes had to be subordinated to political and social ends; the economy had to be legally and institutionally constrained to create a more egalitarian civil society. Their interpretation of statistics and study of history suggested that the command over society of inexorable processes governed by laws of nature was rather limited. Social regularity, they concluded, was a phenomenon produced in large measure by common institutions, laws, customs and values. Moreover, material constraints, outdated laws and dysfunctional institutions could be shaped by political will and rational, pragmatic reform.

Part III investigates the interaction between Schmoller and his colleagues and the public, the involvement of historical economists in policy, as well as the dispute between Schmoller and the Austrian economist Carl Menger. It investigates how historical economists and their variety of social reform were received, what challenges

and problems they faced and how they responded.

Chapter 5 evaluates the historical economists' involvement in the development of an organised social reform movement by analysing the dynamics which gave rise to the *Verein für Sozialpolitik*, what the place of the historical economists was in this organisation, what disputes and controversies this sparked, and how Schmoller and his colleagues in turn responded to these challenges. The *Verein* was originally conceived as a super-partisan body to advance social reform by redressing public and official indifference and ignorance. It was also a response to the acute narrowing of the political horizons of German liberalism. Through the *Verein*, Schmoller and his colleagues came to exercise considerable influence on public opinion and civil servants, helping to popularise factory legislation, social insurance, trade union rights, cooperatives, agricultural reforms, improvements to vocational and technical training, and changes to industrial relations. Numerous empirical research projects and extensive publication of the *Verein's* monograph (enabled by the generousness and reforming impetus of the publisher Carl Geibel) gave the social reform movement and the historical economists a high profile which lent them considerable indirect influence over social and economic policy. However, this profile raised the ire of many who were hostile to the reforms proposed by the *Verein*, most notably Heinrich von Treitschke. Later, considerable disagreements also emerged between Schmoller and his colleagues. And with the death of Adolf Held in 1880, who was the *Verein's* secretary, this body was at a nadir. While it did survive, the *Verein* nevertheless increasingly became a scientific and professional body, avoiding divisive issues. At the same time, much energy was redirected into the journal which became Schmollers *Jahrbuch*. This became a mouthpiece for the moderate social reforms advocated by the historical

economists, again aided by the generosity and goodwill of the publisher Carl Geibel.

Chapter 6 addresses the historical economists' reaction to and impact upon social and economic policy in the 1880s by evaluating their role in social insurance legislation as well as their approach to agricultural and industrial policy up to the resignation of Caprivi in 1894. The historical economists differed in their policy recommendations but nevertheless opposed centralised, bureaucratic insurance schemes. Instead, they supported decentralised, self-administered insurance funds. They were thus in agreement with Bismarck's chief legislative advisor, Theodor Lohmann, who had himself attended *Verein* conferences, knew Schmoller personally and had read Brentano's writings on worker insurance. The historical economists both anticipated and had an impact on key provisions of the social legislation passed after 1882. While the social insurance provisions effectively put improvements to worker protection laws and factory inspection on hold, renewed impetus for these was given following Bismarck's resignation in 1890. The historical economists also studied the implications of the international integration of agricultural markets and supported ambitious land reform efforts, a shift to intensive agriculture, and the creation of a central European customs union. To this end they supported moderate, temporary grain tariffs. Though again differing, they also gave impetus to the democratisation of industrial relations, and Schmoller specifically argued for the development of consultative bodies within industrial firms and the public regulation of cartels.

Chapter 7 investigates how the historical economists' commitment to social reform led to the famous *Methodenstreit* (dispute over methods) between Schmoller and the Austrian economist Carl Menger. It traces and evaluates their relationship from the early 1870s, placing their dispute within the context of academic

professionalisation and the rise of social reform in Austria between roughly 1870 and 1894. The high profile and the close connection between historical economics and social reform was the genesis of this dispute. Menger vigorously opposed social reform as well as the empirical methods used and conclusions drawn by historical economists. However, the empirical and statistical approach the historical economists advocated became highly influential in Austria as well, especially as a social reform movement gathered pace in the 1880s and 90s. Vindication of these methods came with the highly-successful conference of the *Verein* in Vienna in 1894. The *Methodenstreit* was never primarily a dispute about method but more about the policy conclusions to be drawn from particular approaches and the public role of economics, thereby revealing issues far from resolved today.

PREFACE

Since beginning this project in the autumn of 1994 many people and institutions have generously given valuable advice and support without which this dissertation would not have been possible. I would like to express my gratitude above all to my supervisors Avner Offer and Hartmut Pogge von Strandmann, whose encouragement, incisive criticisms, useful suggestions and sensible words of advice have given this dissertation sound guidance from the beginning. I also owe a special debt of thanks to Emma Rothschild for continued encouragement and critical insights, as well as opportunities to present my findings at the seminar of the Centre for History and Economics, King's College, Cambridge. The Centre's Leverhulme Historical Political Economy Project provided significant research funding and allowed invaluable interaction with scholars from around the world.

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EG-S
Oxford, November 1998

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LIST OF ABBREVIATIONS

Abt.	Abteilung (archival section)
<i>AER</i>	<i>American Economic Review</i>
<i>AfGSA</i>	<i>Archiv für die Geschichte des Sozialismus und der Arbeiterbewegung</i>
<i>AfK</i>	<i>Archiv für Kulturgeschichte</i>
<i>AfS</i>	<i>Archiv für Sozialgeschichte</i>
<i>AfSS</i>	(E. Jaffé's, W. Sombart's and M. Weber's) <i>Archiv für Sozialwissenschaften und Sozialpolitik</i>
<i>AJS</i>	<i>American Journal of Sociology</i>
BAK	Bundesarchiv Koblenz
<i>CAM</i>	J.K. Whitaker, ed., <i>The Correspondences of Alfred Marshall, Economist</i> , 3 vols. (Cambridge, 1996).
<i>CEH</i>	<i>Central European History</i>
<i>CSSH</i>	<i>Comparative Studies in Society and History</i>
<i>EHR</i>	<i>Economic History Review</i>
<i>EJ</i>	<i>The Economic Journal</i>
<i>EN</i>	<i>Economic Notes</i>
<i>GH</i>	<i>German History</i>
GStAB	Geheimes Staatsarchiv preußischer Kulturbesitz, Berlin-Dahlem
HA.	Hauptabteilung (archival main section)
HHStA	Hessisches Hauptstaatsarchiv, Wiesbaden

<i>HdSt</i>	J. Conrad, L. Elster, W. Lexis and Edg. Loening, eds., <i>Handwörterbuch der Staatswissenschaften</i> , 6 vols. (Jena, 1890-94)
<i>HOEI</i>	<i>History of Economic Ideas</i>
<i>HOPE</i>	<i>History of Political Economy</i>
<i>HZ</i>	<i>Historische Zeitschrift</i>
<i>IJSE</i>	<i>International Journal of Social Economics</i>
<i>JbfGVR</i>	(F. Holtzendorff's) <i>Jahrbuch für Gesetzgebung, Verwaltung und Rechtspflege des Deutschen Reiches</i>
<i>JbfGVV</i>	(F. Holtzendorff's & L. Brentano's, then G. Schmoller's) <i>Jahrbuch für Gesetzgebung, Verwaltung und Volkswirtschaft im Deutschen Reich</i> (after 1913, <i>Schmollers Jahrbuch</i>)
<i>JbbfNS</i>	(B. Hildebrand's, later J. Conrad's) <i>Jahrbücher für Nationalökonomie und Statistik</i> (also called <i>Jenaer Jahrbücher</i>)
<i>JDE</i>	<i>Journal des Économistes</i>
<i>JEH</i>	<i>Journal of Economic History</i>
<i>JES</i>	<i>Journal of Economic Studies</i>
<i>JITE</i>	<i>Journal of Institutional and Theoretical Economics</i>
<i>JPE</i>	<i>Journal of Political Economy</i>
<i>LZ</i>	<i>Literarisches Zentralblatt</i>
<i>Nl.</i>	Nachlass (papers)
<i>NDB</i>	<i>Neue Deutsche Biographie</i>
<i>NPDE</i>	J. Eatwell, M. Milgate and P. Newman, eds., <i>New Palgrave Dictionary of Economics</i> , 4 vols. (London, 1987)
<i>NPL</i>	<i>Neue Politische Literatur</i>
<i>ÖBL</i>	<i>Österreichisches Biographisches Lexicon, 1850-1950</i>
<i>PrJbb</i>	<i>Preußische Jahrbücher</i>
<i>PS</i>	<i>Poznan Studies in the Philosophy of Science and the Humanities</i>

<i>QFSK</i>	<i>Quellen und Forschungen zur Sprach und Kulturgeschichte der germanischen Völker</i>
<i>QGDS</i>	K. E. Born, H. Henning and F. Tennstedt, eds., <i>Quellensammlung zur Geschichte der Deutschen Sozialpolitik, 1867 bis 1914</i> , 3 vols. (Stuttgart, Jena and New York, 1993-1996)
Rep.	Repositor (archival repository)
<i>Schriften</i>	<i>Schriften des Vereins für Socialpolitik</i>
<i>SH</i>	<i>Social History</i>
<i>SJ</i>	<i>Schmollers Jahrbuch</i> (before 1913, <i>JbfGVV</i>)
SS	Sommersemester or Sommerhalbjahr (April-August)
<i>SSF</i>	<i>Staats- und Socialwissenschaftliche Forschungen</i>
StA	Ständiger Ausschuß (Standing Committee) des Vereins für Sozialpolitik
U	Universität (university)
<i>VfSWG</i>	<i>Vierteljahrschrift für Sozial- und Wirtschaftsgeschichte</i>
<i>VfVK</i>	<i>Vierteljahrschrift für Volkswirtschaft und Kulturgeschichte</i>
WS	Wintersemester or Winterhalbjahr (October-March)
<i>WJbb</i>	<i>Württembergische Jahrbücher für vaterländische Geschichte, Geographie, Statistik und Topographie</i>
<i>ZfGSt</i>	R. von Mohl's, later A.E.F. Schäffle's and K. Bücher's <i>Zeitschrift für die gesamte Staatswissenschaft</i> (Also called <i>Tübinger Zeitschrift</i>)
<i>ZfU</i>	<i>Zeitschrift für Unternehmensgeschichte</i>
<i>ZfW</i>	<i>Zeitschrift für Wirtschaftspolitik</i>
<i>ZSB</i>	<i>Zeitschrift des Königlich Preußischen statistischen Büreaus</i>

INTRODUCTION

Science is a social process continually shaped by the problems it engages. This is perhaps most true of social sciences like economics, where a tension between theory, empirical observation and policy has been ongoing. Social change has continually raised new problems and political demands, keeping the pendulum of thinking swinging. Assumptions have repeatedly been adjusted, new tools devised, and policy recommendations modified, altering the relationship between states and markets. As with the rise of the New Deal and Keynesian economics during the Great Depression, particularly dramatic modifications of economic policy and theory have come in the wake of crisis or rapid structural change.

Before the Great Depression, one of the most important of such swings in thinking took place between roughly 1860 and 1890. This era witnessed the demise of orthodox classical economics. Rapid urbanisation, a second wave of industrialisation and the democratisation of European polities gave rise to massive cities, gigantic industrial enterprises, trusts and cartels, large trade union movements, and wider political participation. At the same time, a crisis began in European farming. In Europe and America the demand for social reform and government involvement in the economy grew.¹ In the realm of the sciences, critical historiography, statistics,

¹See E. J. Hobsbawm, *The Age of Empire, 1875-1914* (London, 1987); D. S. Landes, *The Unbound Prometheus* (Cambridge, 1969); A. Chandler, *Scale and Scope* (Cambridge, MA and London, 1990); N. Koning, *The Failure of Agricultural Capitalism* (London and New York, 1994); D. Winch, *Economics and Policy* (London, 1969); J. T. Kloppenberg, *Uncertain Victory* (Oxford, 1986); D. T. Rodgers, *Atlantic Crossings* (Cambridge, MA and London, 1998).

probability theory, and the empirical methods of the natural sciences gained ground, displacing axiomatic, deterministic and idealistic systems of thought.¹ Core classical economic doctrines were discredited, and alternative forms of economic inquiry arose in response: historical-statistical, institutional, and revisionist Marxian. In turn these heterodoxies were countervailed by updated and revised foundational orthodoxy commonly brought under the rubric ‘marginalism’: British neoclassical, Walrasian and Austrian economics.² Economics became professionalised through standard curricula and teaching, coordinated research, journals, monographs and professional associations.³ For the history of economics, therefore, the years 1860 to 1890 were of fundamental importance in shaping new approaches to theory and policy, defining the scope of the subject and creating its supporting institutions. But more significant even than this, the limits of state action were tested as never before, and the policies and institutions then created - among them the welfare state - have had an immense impact on western society.

Measured by its influence between German unification and the First World War, one of the most important of the heterodox variants of economics was the so-called ‘Historical School’. Historical economics and closely-related approaches such

¹L. Krüger, L. J. Daston, and M. Heidelberger, eds., *The Probabilistic Revolution*, vol. 1, (Cambridge, MA and London, 1987), 295-425; L. Krüger, G. Gigerenzer, and M. S. Morgan, eds., *The Probabilistic Revolution*, vol. 2, (Cambridge, MA and London, 1987), 103-46.

²R. S. Howey, *The Rise of the Marginal Utility School 1870-1889* (Lawrence, KS, 1960); I. Steedman, ed., *Socialism and Marginalism in Economics 1870-1930* (London and New York, 1995).

³J. Maloney, *Marshall, Orthodoxy and the Professionalisation of Economics* (Cambridge, 1985); A. Kadish and K. Tribe, *The Market for Political Economy* (London, 1993); D. F. Lindenfeld, ‘The Professionalization of Applied Economics’, in *German Professions 1800-1950*, ed. G. Cocks and K. H. Jaraus (New York and Oxford, 1990), 213-31; H. Hagemann, ‘Learned Journals and the Professionalization of Economics’, *EN* 20, no. 1 (1991), 33-57; N. Waszek, ed., *Die Institutionalisierung der Nationalökonomie an deutschen Universitäten* (St. Katharinen, 1988); D. F. Lindenfeld, *The Practical Imagination* (Chicago and London, 1997).

as institutionalism thrived in most European countries, the United States and Japan until the First World War. In the U.S.A, Japan and Germany such movements survived in parallel with neoclassical economics until well into the 1940s, and in some cases even beyond. The broad appeal of this heterodox approach was its strong statistical and empirical-factual emphasis, its focus on organisational processes and institutional structures, and close connection to social reform and progressive movements. In Germany historical economics arose and came to prominence at a time of unprecedented demographic expansion, industrialisation, and urbanisation between roughly 1860 and 1890, and the problems historical economists addressed related to reducing the tensions and risks accompanying industrialisation, making a transition from an agrarian to a more interdependent industrial economy, and integrating a growing working class into civil society through social policy. As laws, institutions, urban areas, and the workplace were adapted to accommodate these changes, the problems with which historical economists had grappled gradually declined in importance, and with it the 'School'. But just as it has been true of American social science since 1945, what also sustained the attraction of historical economics was the international prestige of German universities, the many foreign students who studied in them, the progress of German scholarship and research methods, as well as the rapid technological and economic advances in that country between 1870 and 1914. The outbreak of the First World War and the resulting isolation and loss of prestige of German scholarship was therefore a further important factor in the demise of historical economics. Gustav Friedrich Schmoller (1838-1917), who was its leading protagonist in Germany, was closely identified with the Hohenzollern state, and this and his cautious historical-statistical empiricism were after 1918 out of fashion, though

as T.W. Hutchison noted, the discredit into which his work subsequently fell went further than was deserved.¹ The British economist Sir William Ashley (1860-1927), commenting on the influence of German economic thinking in Britain, said that ‘the victories of 1870 did more to make us learn German than any spontaneous enlargement of interests’.² The Great War would give them plenty of encouragement to forget.

Following Germany’s defeat and throughout the interwar period to the Second World War, the origins, development and international impact of historical economics were obscured, something encouraged by the need to apportion blame for the war, defeat and financial mismanagement which accompanied and followed it. As time went on, the failings of Weimar economic policy and the rise of Nazism also needed explaining. The ‘Historical School’ and its members became convenient scapegoats for a wide range of problems: the perpetuation of the authoritarian imperial German state, the rise of protectionism and state intervention, the inflation and monetary problems of the war and the early Weimar Republic, the rise of cartels and trusts, the growth of socialism, the rise of Nazism, the alleged failure of German theoretical economics, and the rise of historical fatalism and determinism in law and economics. Schmoller, allegedly controlling most of the players on the academic stage, was blamed for getting German economics on a dead-end track which neglected abstraction and

¹T. W. Hutchison, *A Review of Economic Doctrines, 1870-1929* (Oxford, 1953), 185.

²W. J. Ashley, ‘The Present Position of Political Economy in England’, reprinted in *Die Entwicklung der deutschen Volkswirtschaftslehre im neunzehnten Jahrhundert*, ed. S. P. Altmann, *et al.*, vol. I (Leipzig, 1908), 9.

theory.¹

Shortly before and during the Second World War a number of reassessments were undertaken which, while illuminating important aspects of Schmoller's work and the development and contribution of historical economics, nevertheless remained either incomplete, inaccurate, or uncritical, and many were to varying degrees coloured by political opportunism.² Some notable exceptions were the history of the *Verein für Sozialpolitik* (Association for Social Policy) by Franz Boese, publication of the correspondence of Schmoller and Wilhelm Roscher by W. Biermann, and the partial publication of the correspondences of Lujo Brentano (1844-1931) and Schmoller by Walter Goetz.³ After the war the origins and achievements of 'historicism' in German economics were investigated critically, focusing on the 'older' Historical School.⁴ In the 1960s and 70s novel scholarship emerged which analysed the impact of statistics and historical economics on empirical social research and sociology, while

¹See M. J. Bonn, 'Geleitwort. Lujo Brentano als Wirtschaftspolitiker', in *Die Wirtschaftswissenschaft nach dem Kriege*, ed. M. J. Bonn and M. Palyi, vol. 1 (Munich and Leipzig, 1925), 6-7; L. Robbins, *An Essay on the Nature and Significance of Economic Science* (London, 1932), 104; W. Eucken, 'Die Überwindung des Historismus', *SJ* 62 (1938), 191-214; F.A. Hayek, *The Road to Serfdom* (London, 1944), 16-17.

²A. Spiethoff, *et al.*, 'Gustav von Schmoller und die deutsche Geschichtliche Volkswirtschaftslehre', *JbfGVV* 62 (1938). The Nazi perspective is strongest in C. Brinkmann, *Gustav Schmoller und die Volkswirtschaftslehre* (Stuttgart, 1937), and especially G. Wittrock, *Die Kathedersozialisten bis zur Eisenacher Versammlung 1972* (Berlin, 1939). Though the latter had access to archival sources subsequently destroyed by war, his treatment of Schmoller, Brentano, Schönberg and Wagner remained superficial and many of his judgements were inaccurate.

³F. Boese, *Geschichte des Vereins für Sozialpolitik 1872-1939*, in *Schriften* 188 (1939). Boese's study is useful for its comprehensive list of the titles of the *Verein's Schriften* between 1873-1939, though his narrative is not always reliable; W. Ed. Biermann, 'Briefwechsel zwischen Wilhelm Roscher und Gustav Schmoller', in *Zwei Beiträge zur Literaturgeschichte der Nationalökonomie* (Greifswald, 1922), 1-34; W. Goetz, 'Der Briefwechsel Gustav Schmollers mit Lujo Brentano', *AfK* 28, no. 3 (1938), 316-354; 29, no. 1-2 (1939), 147-183; 29, no. 3 (1939), 331-347; 30, no. 1-2, (1941), 142-207. While invaluable, Goetz is not always accurate and numerous letters have been edited out. While planned to cover the years 1870 to 1882, it only reached 1878.

⁴G. Eisermann, *Die Grundlagen des Historismus in der deutschen Nationalökonomie* (Stuttgart, 1956).

others focused on the social question as a methodological and epistemological problem in German social science.¹ The epistemological differences at the root of the dispute over methods (*Methodenstreit*) between Schmoller and the Austrian economist Carl Menger (1840-1920) were incisively investigated by Reginald Hansen.² Other studies focused on the impact of the *Verein für Sozialpolitik* on the social reforms of the Bismarckian period from a Marxian perspective.³ Easily the most important archivally-based studies relating to historical economics which emerged in that period were James Sheehan's biography of Lujo Brentano and Dieter Lindenlaub's survey of the disputes within the *Verein für Sozialpolitik* during the Wilhemline period.⁴ Other studies assessed the social question within the 'Historical School' largely reaffirming an older narrative of the 'Historical School' as a typically German phenomenon.⁵

With reference to research specifically on the so called 'younger Historical School', progress has since that time been made through a number of important archivally-based studies, such as the analysis of the relationship between Schmoller and Max Weber, a dissertation on the early intellectual influences on Schmoller, and a critique of the notion of an 'older Historical School' and the supposed continuity

¹A. Oberschall, *Empirical Social Research in Germany 1848-1914* (Paris and the Hague, 1965); E. Pankoke, *Sociale Bewegung - Sociale Frage - Sociale Politik* (Stuttgart, 1970).; U. G. Schäfer, *Historische Nationalökonomie und Sozialstatistik als Gesellschaftswissenschaften*(Cologne and Vienna, 1971).

²R. Hansen, 'Der Methodenstreit in den Sozialwissenschaften zwischen Gustav Schmoller und Karl Menger, in *Beiträge zur Entwicklung der Wissenschaftstheorie im 19. Jahrhundert*, ed. A. Diemer (Meisenheim am Glan, 1968), 137-73.

³M-L. Plessen, *Die Wirksamkeit des Vereins für Sozialpolitik von 1872-1890* (Berlin, 1975).

⁴J.J. Sheehan, *The Career of Lujo Brentano* (Chicago and London, 1966); D. Lindenlaub, 'Richtungskämpfe im Verein für Sozialpolitik', *VfSWG* 52 and 53 (1967), 1-482.

⁵A. Müssiggang, *Die soziale Frage in der historischen Schule der deutschen Nationalökonomie* (Tübingen, 1968).

between 'older' and 'younger' Schools.¹ In closely related areas, important studies of cameralism as well as works on the institutionalisation of economics in Germany have been written. Surveys of the impact of various socio-economic and political developments on the research of the *Verein für Sozialpolitik* and the development of the German state or political sciences (*Staatswissenschaften*) in the nineteenth century have also greatly advanced scholarship on the professionalisation of German social science,² while numerous other works have substantially deepened and extended knowledge of Wilhelmine and Weimar economics and sociology.³ Writings on the intellectual origins of Austrian economics reveal that the relationship between Austrian and German economics was much closer than was previously thought,⁴ and works on English historical economics and American Institutionalism and Progressivism have shown that historical economics was a phenomenon which hardly remained isolated

¹M. Schön, 'Gustav Schmoller and Max Weber', in *Max Weber and his Contemporaries*, ed. W. J. Mommsen and J. Osterhammel (London, 1987), 59-70; G. Pope, 'The Political Ideas of Lorenz von Stein and their Influence on Rudolf Gneist and Gustav Schmoller' (Oxford University, D. Phil. Thesis, 1985); D. F. Lindenfeld, 'The Myth of the Older Historical School of Economics', *CEH* 26, no. 4 (1993), 405-16.

²K. Tribe, *Governing Economy* (Cambridge, 1988); Waszek, ed., *Die Institutionalisierung*; R. vom Bruch, 'Von der Kameralistik zur Wirtschaftswissenschaft' (University of Munich, Habilitation Thesis, 1986); I. Gorges, *Sozialforschung in Deutschland 1872-1914* (2nd edn., Frankfurt a.M., 1986); Lindenfeld, *The Practical Imagination*.

³D. Krüger, *Nationalökonomien im wilhelminischen Deutschland* (Göttingen, 1983); H. H. Nau, *Eine "Wissenschaft vom Menschen"* (Berlin, 1997); F. Lenger, *Werner Sombart, 1863-1941* (Munich, 1994); B. vom Brocke, *Sombart's Moderner Kapitalismus* (Munich, 1987) M. Appel, *Werner Sombart* (Marburg, 1992); J.G. Backhaus, ed., *Werner Sombart*, 3 vols. (Marburg, 1995).

⁴E. W. Streissler, 'The Influence of German Economics on the Work of Menger and Marshall', in *Carl Menger and his Legacy in Economics*, ed. B. Caldwell (Durham and London, 1990), 31-68.; M. Alter, *Carl Menger and the Origins of Austrian Economics* (Boulder, San Francisco and Oxford, 1990); E. Streissler and K. Milford, 'Theoretical and Methodological Positions of German Economics in the Middle of the Nineteenth Century', *HOEI* 1/3, 11/1 (1993-94), 43-79; K. Tribe, *Strategies of Economic Order* (Cambridge, 1995), 66-94.

to Germany.¹

Research on Gustav Schmoller as an economist has seen since 1988 something of a renaissance, especially as a consequence of conferences and tributes marking his 150th birthday in 1988, resulting in a flood of new literature, much of it on his contemporary relevance.² A great deal of this work has nevertheless continually underscored the conclusion that there is a major gap in the history of the development of German economics from the Empire up to the Weimar period, especially the impact of Schmoller and other historical economists on the institutionalisation and professionalisation of their discipline in Germany.³ The methodological and practical relationship between historical economics and social reform in Bismarckian Germany has also never been adequately studied.

Because Gustav Schmoller and the 'Historical School' were tackling problems which were never only economic but also social and political, Schmoller and historical economics also have a considerable broader relevance to the history of Imperial Germany. More than a decade ago Geoff Eley pointed out that 'the area of social

¹A. Kadish, *The Oxford Economists in the Late Nineteenth Century* (Oxford, 1982); G. M. Koot, *English Historical Economics, 1870-1926* (Cambridge, 1987); D.C. Coleman, *History and the Economic Past* (Oxford, 1987); J. Herbst, *The German Historical School in American Scholarship* (Port Washington, NY, 1965); Rodgers, *Atlantic Crossings*, esp. 76-111.

²See the series of articles by T. Hutchison, *et al.*, in *JITE* 144 (1988), 527ff; N. W. Balabkins, *Not By Theory Alone* (Berlin, 1988); C.J. O'Brien, ed., *Gustav Schmoller: Social Economist*, special issue of *IJSE* 16 (1989); P. Schiera and F. Tenbruck, eds., *Gustav Schmoller e il suo tempo/Gustav Schmoller in seiner Zeit* (Bologna/Berlin, 1989); M. Bock, H. Homann and P. Schiera, eds., *Gustav Schmoller oggi/ Gustav Schmoller heute* (Bologna and Berlin, 1989); J. Backhaus, Y. Shionoya and B. Schefold, eds., *Gustav von Schmollers Lebenswerk* (Düsseldorf, 1989); and more recently A. Giouras, *Arbeitsteilung und Normativität* (Frankfurt, 1994), B. P. Priddat, *Die Andere Ökonomie* (Marburg, 1995) and P. Koslowski, ed., *The Theory of Ethical Economy in the Historical School* (Berlin and Heidelberg, 1995).

³H.H. Nau, 'Von der historischen Nationalökonomie zur Wirtschaftswissenschaft', *NPL* 42 (1997), 83-84; F. H. Tenbruck, 'Zusammenfassung und Vorblick', in *Gustav Schmoller*, ed. Schiera and Tenbruck, 255.

policy in the broadest sense' poses 'a problem of rather surprising neglect amongst German historians'.¹ This is confirmed surveying the use of the term 'social reform', which has been reduced in German historiography to an ideological term devoid of much substantive historical content.² It is revealing, for example, that the terms 'social reform' and 'social policy' never found their way into the most important German historical reference work, and 'socialism of the chair' (*Kathedersozialismus*) was treated only cursorily under the rubric 'socialism'.³ This is partly explained by the ideological and political nature of history in Germany, which has produced a divide between the historians of the working class movement and those of bourgeois society.⁴ In Hans-Ulrich Wehler's third volume of his massive *Deutsche Gesellschaftsgeschichte* covering the period 1849-1914, social reform is only treated briefly under 'state social policy' and 'social imperialism', both of which are devoted 14 and 11 pages, respectively, in a volume of more than 1500 pages; 'social reform' does not even find its way into the index.⁵ Yet as Thomas Nipperdey wrote shortly before his death, social reform was one of the main political themes of the German middle classes before 1914.⁶ Where social reform has been studied, the Bismarckian period has been investigated, if at all, only superficially, with scholars tending to focus

¹D. Blackbourn and G. Eley, *The Peculiarities of German History* (Oxford, 1984), 148-49.

²C. Dipper, 'Sozialreform', *AfS* 32 (1992), 324-25.

³W. Scheider, 'Sozialismus', in *Geschichtliche Grundbegriffe*, ed. O. Brunner, W. Conze and R. Koselleck, vol. 5 (Stuttgart, 1984), 982-85; social reform is briefly discussed with reference only to Lorenz von Stein in E. Wolgast's article 'Reform, Reformation', in *ibid.*, 355-56.

⁴G.A. Ritter, ed., *Der Aufstieg der deutschen Arbeiterbewegung* (Munich, 1990), 443-46.

⁵H-U. Wehler, *Deutsche Gesellschaftsgeschichte*, vol. III (Munich, 1995), 907-15, 885-990, 1086-90, 1137-41. Here social insurance was at once part of a repressive policy and at the same time enlightened legislation which recognized 'the negative effects of impersonal working conditions', 913-14.

⁶T. Nipperdey, *Deutsche Geschichte 1866-1918*, vol. 1 (Munich, 1990), 371.

mainly on the Wilhelmine era, where important contributions have been made.¹ Geoff Eley has more recently reiterated that archivally-based social history is conspicuously lacking for the Bismarckian period, or that it has been too dominated by autonomous socio-economic forces or the Iron Chancellor as arch-manipulator.² At the same time, German social policy has in recent years seen the publication of key primary sources for the Bismarckian era, calling into question the received wisdom on the rise of the German welfare state and greatly aiding research on this period.³

A recurring problem a number of scholars have pointed to is that Schmoller's thought has been treated in isolated compartments, and consequently sight has been lost of the important common themes tying this work together; Schmoller was responding in his writings to rapid processes of social and economic change, and almost all of his thought was based upon or contained a vision of social progress.⁴ Schmoller literally spoke and wrote volumes about the economic, political and social affairs of Imperial Germany and sought throughout his life to influence events. Far from being publicly shielded or isolated, Schmoller kept his finger on his nation's pulse. His continual public evaluations and comments made him very much a public

¹Plessen, *Die Wirksamkeit*; J. Campbell, *Joy in Work, German Work* (Princeton, 1989). Plessen's treatment is both superficial and ideological and Campbell ignores the period 1870-1890 almost entirely; E. I. Kouri, *Der deutsche Protestantismus und die soziale Frage 1870-1919* (Berlin, 1984); U. Ratz, *Sozialreform und Arbeiterschaft* (Berlin, 1980); *idem*, *Zwischen Arbeitsgemeinschaft und Koalition* (Munich, 1994); R. vom Bruch, ed., *Wissenschaft, Politik und öffentliche Meinung* (Husum, 1980); *idem*, *Weder Kommunismus noch Kapitalismus* (Munich, 1985).

²G. Eley, 'Society and Politics in Bismarckian Germany', *GH* 15 (1997), 106-7.

³K. E. Born, H. Henning, and F. Tennstedt, eds., *Quellensammlung zur Geschichte der deutschen Sozialpolitik (QGDS)*, 3 vols. (Stuttgart, Jena, and New York, 1993-96); L. Machtan, ed., *Mut zur Moral*, vol. 1 (Bremen, 1995).

⁴K. H. Kaufhold, 'Gustav von Schmoller (1838-1917) als Historiker, Wirtschafts- und Sozialpolitiker und Nationalökonom', *VfSWG* 75 (1988), 221; H. Harnisch, 'Gustav Schmoller und der gesellschaftliche Wandel seiner Zeit', in *Von der Arbeiterbewegung zum modernen Sozialstaat*, ed. J. Kocka, H-J. Puhle, and K. Tenfelde (Munich, New Providence, London and Paris, 1994), 561.

figure enmeshed in controversies until he died in 1917. He was therefore never only an economist and social reformer but, as Friedrich Meineke noted, also a figure whose life and work closely reflected the history of the empire.¹ The *Verein für Sozialpolitik* which he and his colleagues founded was the most important private fact-finding body within the Empire, often making up for the Reichstag's own investigative deficiencies. Schmoller and his colleagues played an important role in bringing to light social injustice, popularising social reform, and in developing the notion of the progressive social regulation of the economy and the formation of a *Mittelstandsgesellschaft* (society of the middle estate). These activities were pivotal in defining for the German *Bürgertum* the political, legal and institutional responses to the rise of an urban, industrial society. The ideas, language and institutions which emerged in this response, such as the idea of the *Mittelstand*, are, along with nationalism, among the most potent political and social ideals in modern German history, of direct relevance in contemporary Germany. Schmoller, his colleagues and their social reform movement thus have a direct bearing not only on the history of economic thought, but also on the development of German liberalism, the much-debated *Sonderweg* thesis and the question of German historical continuity. It was not coincidental that the valuable biographical study of Lujo Brentano's career written by James Sheehan in the 1960s, which filled in some of the gaps of Brentano's own autobiography, later blossomed into one of the most important studies of German liberalism.² Yet as many have pointed out, there is still a conspicuous gap in the literature assessing the role of

¹F. Meineke, 'Drei Generationen deutscher Gelehrtenpolitik', *HZ* 125, no. 3 (1922), 261.

²Sheehan, *Lujo Brentano*; L. Brentano, *Mein Leben im Kampf um die soziale Entwicklung Deutschlands* (Jena, 1930); J. J. Sheehan, *German Liberalism in the Nineteenth Century* (Chicago, 1978).

Gustav Schmoller as one of the most important scientists and public figures in Imperial Germany.¹

The fact that historical economics, the social reform movement and Gustav Schmoller himself all represent conspicuous gaps in scholarship make an archivally-based study of the links between historical economics and social reform in the Imperial era and Schmoller's role in this timely, desirable and necessary. Filling a space so large is obviously beyond the scope of this study. This thesis will therefore restrict itself to the activities of Schmoller and his colleagues over the 30 years from the first war of German unification in 1864 to Caprivi's resignation and the end of the 'New Course' in 1894. The dissertation is broken down into three parts and seven chapters. Part I mainly investigates the institutional structures which sustained historical economics. Chapter 1 is a critical reassessment of what the 'Historical School' was. It tests the validity of this rubric by evaluating how it has been used over time and what it has come to mean. Chapter 2 analyses economics as a university subject in Germany and the place in this of the historical economists. It investigates the university and non-university institutions, professional bodies, publishers, monographs and journals which sustained their scholarly output. It also evaluates the influence of Schmoller and his colleagues on this mode of production and the dynamics of its change over time.

Part II is devoted to the links between empirical-historical and statistical methods and social reform, focusing on the alternative insights and tools these provided both economics and the social reform project. Chapter 3 defines and traces the social question and its salient attributes for Schmoller and his colleagues by

¹Harnisch, 'Gustav Schmoller', 561.

relating it to the rapid processes of social and economic change during the 1860s and 1870s. It also traces the rise and spread of contemporaneous social thought and the simultaneous demise of classical economics between roughly 1850 and 1870. Following this, chapter 4 evaluates the closely-related ascent of a new historical-statistical empiricism and social reform. It explores the close links between empiricism, statistics and historical scholarship in economics within the context of the labour question and German unification.

Part III investigates the interaction between Schmoller and his colleagues and the public, as well as the involvement of historical economists in policy. It investigates how historical economists and their variety of social reform were received, what challenges and problems they faced and how they responded. Chapter 5 evaluates their involvement in the rise of an organised social reform movement by analysing the dynamics which gave rise to the *Verein für Sozialpolitik*, what the place of the historical economists was in this organisation, what disputes and controversies this sparked, and how Schmoller and his colleagues in turn responded to these challenges. Chapter 6 in turn addresses the historical economists' reaction to and impact upon social and economic policy by evaluating their role in the social insurance legislation of the 1880s, as well as in agricultural and industrial policy up to the resignation of Caprivi in 1894. Chapter 7 investigates how the historical economists' commitment to social reform led to the famous *Methodenstreit* (dispute over methods) between Schmoller and the Austrian economist Carl Menger. It traces and evaluates their relationship from the early 1870s, placing this dispute within the context of academic professionalisation and the rise of social reform in Austria between roughly 1870 and 1894.

Central to this dissertation are the social origins and function of economic science, specifically how historical economists provided responses to the social tensions in Prussia-Germany over the three decades beginning in 1864. This study should provide not only greater insight into an important phase in the development of economic and social thought but also a new perspective on the social reform movement and thereby to the political, social and economic dynamics of the first decades of the German Empire.

PART I:
STRUCTURES

CHAPTER 1:

WHAT WAS THE HISTORICAL SCHOOL? A CRITICAL REASSESSMENT.

It would be difficult to overrate the importance of the work that has been done by the great leaders of this [modern "real" or historical] school [of economists] in tracing the history of economic habits and institutions. It is one of the chief achievements of our age, and is an addition of the highest value to the wealth of the world. It has done more than almost anything else to broaden our ideas, to increase our knowledge of ourselves, and to help us to understand the central plan, as it were, of the divine government of the world... .

Alfred Marshall¹

The history of economic thought is strewn with landmarks of various schools of economics. Some are credited as important milestones, others appear only as obstacles which had to be overcome. The geology of this landscape has continually shifted over time, raising some features and burying others. One of the older and familiar obstructing landmarks in this landscape is the German Historical School of Economics, and yet for various reasons it remains something of an enigma. In the interest of clarity, it is necessary to test the validity of this term by illustrating the scope of meaning of 'Historical School' as it has been used in the economic literature, by historical economists themselves, as well as by their scholarly contemporaries, critics and the public. This done, it may be possible to come to some kind of judgement regarding its analytical usefulness and, if needed, to propose a working definition.

Surveying some of the older and more recent literature reveals at least four

¹'The Present Position of Economics' (1885), in *Memorials of Alfred Marshall*, ed. A. C. Pigou (London, 1925), 165.

related ways that the term ‘Historical School’ has been put to use. Most familiar will be its ordering function: introducing various approaches and methodologies in roughly chronological order under the rubric ‘school’, thereby also arranging economic ideas into a tidy, historical narrative. In such accounts the ‘Historical School’ is described as a somewhat amorphous, largely contrarian tradition of thought - a transitional hiccup in the progression of economic theory.¹ Closely related to this ordering function is the use of ‘Historical School’ in grouping together into uniformity what would otherwise be an unwieldy clutter of heterodox opinion and methods. There is a long history of such conglomerations being divided into national camps (i.e., German versus British, and later Austrian ‘schools’ of economics), implying that there was something akin to national consensus on such matters, national rivalries thereby gaining an economic microcosm.² Invariably, many such accounts tend to stress German peculiarity, emphasising romantic, nationalist and Hegelian antecedents.³

Another, sometimes concurrent, use of the term ‘Historical School’ has been to describe a positivist *Zeitgeist*, strongly implying progress. Typical in this regard would be Ingram’s *History of Political Economy* or Gide and Rist’s *History of Economic Doctrines* in which the ‘Historical School’ is seen as a broad reforming

¹E. Roll, *A History of Economic Thought* (5th rev. edn., London and Boston, 1992), 276-83; L. H. Haney, *History of Economic Thought* (rev. edn., New York, 1922), 485-98.

²W. Roscher, *Geschichte der National-Oekonomik in Deutschland* (Munich, 1874), 1032-45; E. Wiskemann and H. Lütke, eds., *Der Weg der deutschen Volkswirtschaftslehre* (Berlin, 1937), 114-29; H. Winkel, *Die deutsche Nationalökonomie im 19. Jahrhundert* (Darmstadt, 1977); K. Pribram, *A History of Economic Reasoning* (Baltimore and London, 1983), 209-24. Pribram does so by referring to ‘The German Historical Schools’. F. Schinzing, ‘German Historical School’, in *NPDE*, vol. 2, 516-18. In this account Adolph Wagner and Albert Schäffle feature prominently for some reason, though neither were historical economists.

³Roscher is again paradigmatic; cf. H. W. Spiegel, *The Growth of Economic Thought* (Englewood Cliffs, NJ, 1971), who claims the Historical School was a ‘Hegelian variant’ of economics; K. H. Betz, ‘How Does the German Historical School Fit?’, *HOPE* 20 (1988), 409-30. Betz stresses the importance of German romanticism and idealism to the development of the ‘school’.

movement which swept through much of Europe, introducing a new undogmatic, realistic and empirical ethos to economics.¹ Other uses of the term have served as ways of discrediting some and legitimating other economic approaches and methods. For example, Schmoller was prone to caricature analytical-deductive economists as the ‘Manchester School’ - a selfish political doctrine masquerading as economic science - while virtuously labelling the ‘Historical School’ ‘realistic research’ and ‘scientific economics’.² In Carl Menger’s account, by contrast, the ‘German Historical School of Economics’ was an amorphous object of derision which at times included the whole German economics profession, at others merely a group of ‘historians’.³ The ‘Historical School’ he accused of ‘one-sidedness’ and a litany of methodological ‘errors’, while he claimed his own approach was ‘exact’.⁴

Inasmuch as such usages are still employed - loaded as they are with varying images and associations, both historical and contemporary - the ‘Historical School’, whatever it was, seems real enough, and attempts to dismiss it would appear to be both fruitless and unnecessary. After all, numerous economists themselves made references to or claims of belonging to such a school. The ‘Historical School’ is therefore a landmark which, while somewhat submerged by the shifting sands of time,

¹J. K. Ingram, *A History of Political Economy* (Edinburgh, 1893), 196-239. In Ingram’s account, forming the final chapter of his book, the Historical School is a thoroughly European movement presented as the culmination of scientific economics. C. Gide and C. Rist, *Geschichte der volkswirtschaftlichen Lehrmeinungen* (trans. R.W. Horn, 3rd edn., Jena, 1923), 413-48. Gide and Rist credit the Historical School with reviving economics out of a dogmatic slumber through the use of statistics, economic history and the study of institutions.

²G. Schmoller, *Grundriß der allgemeinen Volkswirtschaftslehre*, vol. 1 (rev. edn., Berlin, 1920), 93 and 117.

³Carl Menger, *Untersuchungen über die Methode der Socialwissenschaften und der Politischen Oekonomie insbesondere* (Leipzig, 1883), xx-xxi and 74.

⁴*Ibid.*, 38.

nonetheless appears familiar. However, what justifies the collective rubric ‘school’? The term ‘school’, to be of any use, might refer to a category which (rightly or wrongly) was used with some consistency to describe the group of people in question. It might also refer to a group which shared a method, principles or closely collaborated in research. The term ‘school’ could in addition refer to a group which was taught by or were followers of one person. More broadly, ‘German Historical School’ can be used as a term emphasising the ‘special path’ (*Sonderweg*) of German romanticism, historicism or idealism in economics and the uniqueness of its normative political preoccupations. There is scant evidence to justify any of these uses. These points will be examined one at a time.

In a 1926 article, Joseph Schumpeter (1883-1950) himself admitted the inappropriateness of the term ‘younger Historical School’ as he had used it in his *Epochen der Dogmen- und Methodengeschichte* (1914), but this was never translated into English,¹ and his chapter ‘Sozialpolitik and the Historical Method’ in his posthumously published *History of Economic Analysis* remained unfinished when he died. There is little question that this helped to standardise an uncritical use of the term ‘Historical School’, and it should not come as too much of a surprise that the German and Austrian economists Schumpeter referred to as making up the ‘Historical School’ form up a highly heterogeneous group: Wilhelm Roscher (1817-94), Bruno Hildebrand (1812-78), Karl Knies (1821-98), August Meitzen (1822-1910), Georg Hanssen (1809-94); Karl Theodor von Inama-Sternegg (1843-1908), Gustav Schmoller (1838-1917), Lujo Brentano (1844-1931), Karl Bücher (1847-1930), Adolf Held (1844-80), Georg Friedrich Knapp (1842-1926), Werner Sombart (1863-1941), Max

¹J. Schumpeter, ‘Gustav von Schmoller und die Probleme von heute’, *SJ* 50 (1926) 355-56, n. 1.

Weber (1864-1920) and Arthur Spiethoff (1873-1957).¹ This heterogeneity is increased when a few others, who were for some reason omitted or mentioned in a different context by Schumpeter, are added to make a more comprehensive list of ‘historical’ economists: Siegmund Adler (1853-1920), Gustav Cohn (1840-1919), Karl von Eberberg (1855-1941), Eberhard Gothein (1853-1923), Wilhelm Hasbach (1849-1920), Heinrich Herkner (1863-1932), Ignaz Jastrow (1856-1937), Wilhelm Lexis (1837-1914), August von Miaskowski (1838-1899), Karl Oldenberg (1864-1936), Eugen von Philippovich (1858-1917), Karl Rathgen (1856-1921), August Sartorius von Waltershausen (1852-1938), Georg von Schanz (1853-1931), Gustav von Schönberg (1839-1908), Max Sering (1857-1939), Gerhart von Schulze-Gaevernitz (1864-1943), and Wilhelm Stieda (1852-1933).²

This vagueness of the rubric ‘German Historical School’ has a long history. Use of this term in newspapers, journals, books and government reports of the time was unsystematic and varied greatly. Often the name ‘Historical School’ was used interchangeably with the ‘socialists of the chair’ (*Kathedersozialisten*) and the *Verein für Sozialpolitik*, which in turn have been wrongly identified with state socialism.³ For example, in a famous debate in the Prussian Chamber of Deputies in 1897 the ‘Historical School’ was referred to as both ‘*die Kathedersozialistische Richtung*’ (direction of the socialists of the chair) and ‘*neuhistorische Schule*’ (neo-Historical

¹*Idem, History of Economic Analysis* (London, 1954), 808-19.

²The confusion is heightened by the variation of such lists: Gide and Rist, *Lehrmeinungen*, 418-48, Pribram, *History of Economic Reasoning*, 209-224; Schinzingler in *NPDE*, vol. 2, 516-18.

³This point is made by Lindenlaub, ‘*Richtungskämpfe*’, 94

School).¹ Increasing the confusion, newspaper articles commemorating Schmoller's 70th birthday variously refer to the 'Historical School' as '*die historische Schule der Nationalökonomie*' (the Historical School of Economics), '*geschichtliche Methode der Nationalökonomie*', (Historical Method of Economics) and '*neupreuussische Nationalökonomie*' (Neo-Prussian Economics).²

While '*Kathedersozialist*' and '*neuhistorische Schule*' were to some extent overlapping terms, they were by no means interchangeable. The term '*Kathedersozialist*' was itself a journalistic term of derision originating in a polemical exchange between leading figures of the *Freihändlerpartei* (Free Trade Party) such as Heinrich Bernhard Oppenheim (1819-80) and Viktor Böhmert (1829-1918) and the young economists Brentano, Cohn, Schmoller, and Adolph Wagner (1835-1917) who came to be called '*Kathedersozialisten*' after publicly criticising the views the liberally-inclined *Volkswirtschaftlicher Kongress* (Economic Congress).³ These differences were heightened by the decision of Schmoller and his colleagues to found the rival *Verein für Sozialpolitik* in 1872, with which the *Kathedersozialisten* thereafter became identified. Yet as the names Eugen von Böhm-Bawerk (1851-1914), Johannes Conrad (1839-1915), Karl Diehl (1864-1943), Erwin Nasse (1829-90), Joseph Schumpeter, Adolph Wagner, and Friedrich von Wieser (1851-1926) confirm, many leading figures in the *Verein* were not historical economists. And a number of

¹Prussian Landtag, Haus der Abgeordneten, 75th Session, 4 May 1897, Fortsetzung der zweiten Berathung des Entwurfs des Staatshaushaltes für 1897-1898 (Dauernde Ausgaben, Kap. 119, Tit. 1, Universitäten), 2381.

²*Der Tag*, 237 (morning edn., 24 June 1908); *Tägliche Rundschau Berlin* (24 June 1908); 'Was Bleibt?', *Berliner Tageblatt* (27 June 1908).

³It was Oppenheim who coined this name, H. Oppenheim, 'Manchesterschule und Katheder-Sozialismus', *Berliner Nationalzeitung* 573 (7 Dec. 1871). See also V. Hentschel, *Die deutschen Freihändler und der Volkswirtschaftliche Kongress 1858 bis 1885* (Stuttgart, 1975), 193-230.

historical economists (Adler, Herkner, Inama-Sternegg, and Philippovich) were not German.

Some of the confusion arising with the use of the term ‘German Historical School’ must be blamed on Roscher’s idiosyncratic *History of Economics in Germany* (1874).¹ In a chapter outlining recent developments in historical economics, Roscher refers to these collectively as a *Richtung* (direction or tendency). At the same time, however, the term *Schule* (school) featured on Roscher’s page headings.² Yet even before the publication of Roscher’s book, Schmoller and other historical economists made broad and varying usage of the term ‘school’. In an important 1873 speech, for example, Gustav Schönberg juxtaposed the ‘Manchester School’ to the ‘historical-ethical direction winning victory in German universities’.³ At the Eisenach congress of 1872 which led to the founding of the *Verein*, Schmoller mentioned the existence of ‘*abweichende Richtungen*’ (divergent directions) in German economics, namely historical, philosophical and statistical ‘schools’ without going into any detail as to the membership of these.⁴ Later sources only increase the confusion: in a 1897 letter to Friedrich Althoff (1839-1908, then director of Prussian university affairs) in response to newspaper accusations of bias toward the ‘*Kathedersozialistische Richtung*’ in university appointments within the Prussian Ministry of Culture,⁵ Schmoller made a list of those academic economists whom he considered belonging to his ‘school’ which

¹See H. Pearson, ‘Was there Really a German Historical School?’, *HOPE* (forthcoming).

²Roscher, *Geschichte der National-Oekonomik*, 1032-45.

³G. Schönberg, ‘Die Volkswirtschaftslehre’, in *Sammlung gemeinverständlicher wissenschaftlicher Vorträge*, ed. R. Virchow and Fr. Holtzendorff, vol. VII, no. 184 (Berlin, 1873), 3.

⁴‘Eröffnungsrede auf der Eisenacher Tagung am 6. Oktober 1872’, in Boese, *Geschichte*, 6.

⁵See especially *Kölnische Zeitung* 281 (28 March 1897).

few today would recognise.¹ This is because when Schmoller referred to *his* ‘school’ he meant those whom he had taught. Other German economists of the time made fast and loose use of the term ‘school’. For example, G.F. Knapp together with Wittich, Ludwig and others formed the so-called ‘Strasbourg School’ of historical economics, and Johannes Conrad spoke of the ‘Brentano School’.² On the other hand Wilhelm Lexis spoke of the ‘realistic German School’ when collectively referring to the followers of Gustav Schmoller and Adolph Wagner.³

Even assuming the validity of Schumpeter’s definition of the ‘German Historical School’, attempting to find a common set of themes, commitments or programme of the ‘School’ is highly frustrating.⁴ One of the few common themes uniting the alleged ‘School’ was research in economic history, but this alone was hardly a sufficient basis for scholarly unity. While the interest in economic history was particularly strong in Germany, it was nothing particularly novel.⁵ After all, an interest in economic history was especially solid in Britain, and it is revealing that Roscher himself considered the work of Adam Smith (1723-90), James Steuart (1712-80), and Thomas Malthus (1766-1834) (together with Karl Heinrich Rau [1792-1870] and Christian Kraus [1753-1807]) to have been the most significant impulses for the

¹Schmoller named Schanz, Stieda, Eheberg, Rathgen, Hasbach, Anton, Sering, Fuchs, Oldenberg, Birmer, Tröltzsch, Adler, Laves, Struck, and Sombart, GStAB, Nl. Althoff, 64: 4-8, Schmoller to Althoff, 31 March 1897.

²GStAB, Nl. Althoff, 63: 1-4, Conrad to Althoff, 3 July 1892.

³GStAB, Nl. Althoff, 64: 20-34, draft of memorandum to the Kaiser by Wilhelm Lexis, transcription, n.d.

⁴Lindenlaub, ‘Richtungskämpfe’, 106-7.

⁵Eisermann, *Die Grundlagen*, vii.

development of a ‘historical method’ in economics.¹ Similarly, Adolf Held considered Adam Smith ‘the excellent paragon’ of the ‘so-called historical school’.² When F.Y. Edgeworth (1845-1926) wrote Schmoller in 1890 asking for an article on ‘the progress which the historical method has recently made in Germany’ for the new *Economic Journal*, instead of taking the opportunity to wave the banner of his alleged ‘school’, Schmoller deferred to his student Wilhelm Hasbach, who wrote an article on the great diversity of descriptive and historical monographic research in Germany and the coordinated activity contributing to Johannes Conrad’s *Handwörterbuch der Staatswissenschaften* (Dictionary of the State Sciences).³

That the political and especially historical components were so prominent within German economics was related to the fact that the single most important issue of economic policy in Imperial Germany, social reform, demanded historical, political and ethical justifications. Social reform was after all not only a matter of party politics but also a process of nation-building, of finding historically and culturally legitimated policies. Yet historical economists did not have common political opinions and disagreed widely in their historical interpretations. And economic history was used to legitimate a variety of policies: Brentano used it to justify English-inspired co-operatives and trade unions; Schmoller employed it to advocate state-initiated social reform.⁴

¹W. Roscher, *Grundriß zu den Vorlesungen über die Staatswirthschaft, nach geschichtlicher Methode* (Göttingen, 1843), 150.

²A. Held, ‘Adam Smith und Quetelet’, *JbbfNS* 9 (1867), 254.

³GStAB, Nl. Schmoller, 183: 3-4, Edgeworth to Schmoller, n.d. (1890); W. Hasbach, ‘Recent Contributions to Economic History in Germany’, *EJ* 1 (1891), 509-19.

⁴L. Brentano, *Die Arbeitergilden der Gegenwart*, 2 vols. (Leipzig, 1871-72); G. Schmoller, ‘Die soziale Frage und der preußische Staat’, *PrJbb* 33, no. 4 (1874), 323-42.

No single method, research subject or political orientation commonly infused the scholarship of the so-called 'German Historical School'. Schmoller was a liberal in his early years and later became more conservative. He was empirically oriented and devoted much of his research to Prussian administrative and economic history. Brentano was more open to theory, a life-long liberal, and wrote widely on trade unionism and the cooperative movement. Knapp, a conservatively-inclined liberal, worked in agrarian history as well as in theory, becoming famous for his state theory of money. Bücher, a left-wing liberal, was famous for a theory of stages of economic development and sided with Menger against Schmoller in the *Methodenstreit*. Sombart, on the other hand, had socialist leanings and was sympathetic to Marxist theory. He wrote extensively on the origins of capitalism. Adolf Held was a liberal free-trader who strongly opposed deductive theory and was best known for a pioneering study of the industrial revolution in England. Finally, Schanz was a liberal known mainly for his contribution to the history and theory of public finance. With the 'School' made up of researchers of such wide-ranging approaches, research interests and political orientation it should not be surprising that cooperation was not one of their strong points. Coordinated research, if it did occur at all, took place not in the 'School' but instead within the confines of individual professors' seminars. Indeed, the influence of Schmoller's seminar on lines of research was particularly strong.¹ It is noteworthy that Schmoller's largest coordinated historical research projects, the *Acta Borussica* and *Forschungen zur brandenburgischen und preussischen Geschichte*, were founded and managed without other members of the 'Historical School'. In fact, relations

¹See W. Stieda, 'Zur Erinnerung an Gustav Schmoller und seine Straßburger Zeit', *SJ* 45, no. 4 (1921), 227-29 and 238-39.

between members of the alleged 'School' were often aloof and full of rivalry, as the three-year row between Brentano and Schmoller or the lengthy dispute over value freedom revealed.¹

Members of the 'Historical School' were also not trained by, or the followers of, one particular person or group. For example, none of those Schumpeter labelled as forming the 'younger School' were taught or the followers of either Roscher, Hildebrand or Knies.² On the other hand, the so-called Austrian 'marginalists' Böhm-Bawerk and Wieser were sent to Germany by their teacher Carl Menger to study under all three of the older historical economists. Yet neither Roscher, Knies nor Hildebrand established an 'older Historical School'.³ Schumpeter himself noted it was 'not good practice to speak of an Older Historical School' since Roscher, Hildebrand and Knies, 'do not, in any useful sense, form a group, let alone a school'.⁴ Knies was predominantly an economic theorist, Roscher was essentially a classical economist who amended theory with historical insights, and Hildebrand was a historian and statistician who sought a stadial theory of economic development and was an early advocate of social reforms. As Max Weber later noted, of the three, really only Hildebrand worked with what could be called a historical method.⁵

Members of the supposed 'younger Historical School' were in any case often rather critical of these older 'founders'. For example, Knapp had a very low opinion

¹Brentano, *Mein Leben*, 132-135; Lindenlaub, 'Richtungskämpfe', 434-43.

²Lindenfeld, 'The Myth of the Older Historical School', 406.

³*Ibid.*, 406-15.

⁴Schumpeter, *History*, 507.

⁵M. Weber, *Roscher and Knies* (New York, 1975 [1903-05]), 54.

of Roscher, with whom he had taught at Leipzig. He once wrote Schmoller that he found Roscher unsystematic, superficial, and lacking historical ability.¹ He thought it shameful for Germany that volume 1 of Roscher's text, the *System der Volkswirtschaft* (1854), had been allowed to go through 20 editions.² There were great methodological differences between the younger and older historical economists, particularly the differences between Schmoller and Knies on the principle of teleology.³ The only real intellectual link, as will be discussed later, was between Hildebrand and Schmoller, and this one was primarily in statistics and its links to social reform, as well as in organising the *Verein für Sozialpolitik*.⁴ At the same time, Schmoller himself rejected laws of historical development and a unified law of economic phenomena of the kind espoused by Hildebrand, admitting only statistical and economic (i.e., empirical) laws.⁵ While appreciating their contributions, Schmoller would write of Roscher and the 'older Historical School' that they were too idealistic, universal-historical and speculative, lacked depth, were too rash to generalise, and that many of their conclusions were untenable.⁶

While Schmoller was certainly an influential teacher who had an immense impact in Berlin and Prussia, there was no geographical centre of the 'School'; unlike the Austrians centred at the University of Vienna, the 'Historical School' was scattered

¹GStAB, Nl. Schmoller, 130a: 405-406, Knapp to Schmoller, 29 Oct. 1888.

²GStAB, Nl. Schmoller, 130a: 342-43, Knapp to Schmoller, 16 June 1894.

³A. Spiethoff, 'Gustav von Schmoller', *SJ* 42 (1918), 22.

⁴Eisermann, *Historismus*, 184-85, 187.

⁵Schmoller, *Grundriß*, vol. 1, 110.

⁶*Ibid.*, 119-20.

throughout Germany, Austria and Switzerland. Brentano worked in Berlin, Breslau, Strasbourg, Vienna and Leipzig before settling down in Munich; Schmoller began in Halle and then Strasbourg, finally moving to Berlin; Held taught at Bonn and briefly at Berlin but died two years before Schmoller arrived; Knapp taught at Leipzig and then Strasbourg; Bücher, after teaching in Munich, Dorpat, and Basle spent most of his career in Leipzig, as did Stieda after leaving Rostock; Schanz's career was spent at Würzburg and Schönberg's in Freiburg and Tübingen; Philippovich taught in Freiburg and then moved to Vienna, where Inama-Sternegg worked; Weber took over Philippovich's post in Freiburg but spent most of his career in Heidelberg; Miaskowski's career was spent at Basle, Breslau, Vienna and Leipzig; and Sombart after years at Breslau and the Berlin *Handelshochschule*, moved to Berlin University the year Schmoller died.

There is also little evidence to suggest that Schmoller, acting as confidant to Friedrich Althoff, was narrowly prejudiced for historical economists in his suggestions for appointment to Prussian universities: while he severely criticised Ferdinand Toennies' (1855-1936) methods in a review and disagreed with his politics, this did not hinder Schmoller from later proposing him over the historical economist Schulze-Gaevernitz for appointment to Kiel University.¹ Moreover, both Schmoller and Knapp were champions of discriminated academics, such as the physicist Leo Martin Arons (1860-1919), officially blacklisted because of his Social Democratic politics, and the social theorist Georg Simmel (1858-1918), whose career was hindered because of his

¹G. Schmoller, Review of Tönnies' *Gemeinschaft und Gesellschaft*, *JbfGVV* 12 (1888), 727-29; *GStAB*, Nl. Althoff, 63: 22-23, Schmoller to Althoff, 25 Aug. 1892. See also Lindenlaub, 'Richtungskämpfe', 362-63.

Jewish background.¹ In any case, the Althoff papers show that Johannes Conrad, Adolph Wagner and Wilhelm Lexis were equally influential confidants of Althoff, and of these only Schmoller and Lexis could be considered ‘historical’ economists.²

Additionally, the ‘Historical School’ lacked an organ. The editors of German economics journals of the time showed a penchant for variety, and while historical investigations were pervasively published in almost all of these journals, so were non-historical, empirical and theoretical tracts, and those dealing with contemporary economic policy. It is particularly noteworthy that Austrian theorists published extensively in these journals, especially in the *Jahrbücher für Nationalökonomie und Statistik*, two highlights being key works by Böhm-Bawerk and Menger.³ Historical economists were themselves editors of a number of these journals, and no one journal had a claim to being *the* journal of the ‘School’. Hildebrand founded and edited the *Jahrbücher für Nationalökonomie und Statistik*; Bücher edited the *Zeitschrift für die Gesamte Staatswissenschaft*; Brentano and then Schmoller edited the *Jahrbuch für Gesetzgebung, Verwaltung und Volkswirtschaft im Deutschen Reich* (after 1913, formally *Schmollers Jahrbuch*); Georg von Schanz edited *Finanzarchiv*; Sombart and Weber together with Edgar Jaffé (1866-1921) edited the *Archiv für Sozialwissenschaften und Sozialpolitik*. Even Schmoller’s *Jahrbuch*, which is often assumed of having a one-sided historical bias, was open to variety and not exclusively

¹HHStA, Teilnachlass Schmoller, 4: Schmoller to H.A. Schwarz, Dean, Philosophical Faculty, Berlin University, 21 Aug. 1899, printed copy; GStAB, Nl. Schmoller, 130a: 347-48, Knapp to Schmoller, 10 May 1894 and 345-46, 13 May 1894.

²See also Lindenfeld, *Practical Imagination*, 267; Lindenlaub shows that Schmoller’s influence could be quite limited, Lindenlaub, ‘Richtungskämpfe’, 148.

³E. Böhm-Bawerk, ‘Grundzüge der Theorie des Wirtschaftlichen Güterwerthes’, *JbbfNS* 13 (1886); C. Menger, ‘Zur Theorie des Kapitals’, *JbbfNS* 18 (1888).

oriented toward the scholarly preoccupations of the alleged ‘Historical School’. Schmoller explicitly stated in the editorial preface he did *not* want the *Jahrbuch* to become primarily a scholarly economic journal, but one that dealt instead with the ‘greater questions that currently preoccupy public opinion, parliament and the German government...’.¹ The journal was therefore to cover subjects and issues of interest to a broader academic as well as non-academic audience. Indeed, it is in this regard revealing that the *Jahrbuch* published articles by Austrian ‘theorists’.² This is not to deny, however, that theory and formalisation were underdeveloped in the German economics profession and under-represented in its journals before the First World War.³ But this, too, hardly forms a ‘school’.

More broadly, the ‘German Historical School’ has been cited as evidence of Germany’s intellectual *Sonderweg* (special historical path) in economics and the other social sciences, according to which romantic and idealist antecedents predominate. The continuity between ‘older’ and ‘younger Historical Schools’ is also often emphasised, stressing the peculiarity of German intellectual antecedents.⁴ Overlooked by the uncritical reiterations of this German intellectual pedigree is the nation-building function of invoking the name of the ‘German Historical School’. Roscher’s own history of German economics is paradigmatic. In his teleological, surprisingly a-historical treatment, the historical ‘direction’ (*Richtung*) in economics became the

¹G. Schmoller, ‘Ueber Zweck und Ziele des Jahrbuchs’, *JbGVV* 5 (1881), 1.

²For example Schumpeter, 31 (1907), 34 (1910) and Ludwig Mises, 33 (1909).

³See Hagemann, ‘Learned Journals’, 33-57.

⁴Typical examples are T. Surányi-Unger, *Die Entwicklung der theoretischen Volkswirtschaftslehre im ersten Viertel des 20. Jahrhunderts* (Jena, 1927); G. Stavenhagen, *Geschichte der Wirtschaftstheorie* (Göttingen, 1951); T. J. F. Riha, *German Political Economy: The History of an Alternative Economics*, in *IJSE* 12, no. 3-5 (1985), 7; Betz, ‘German Historical School’.

historical culmination of Germany's peculiar intellectual traditions. Interestingly, Schmoller, Knapp and especially Brentano were all critical of Roscher's history. Knapp had no regard for his history of doctrines, and Schmoller wrote Roscher in a letter with his review of Roscher's book mentioning a 'mass of problems' and 'differences of opinion', hoping that his criticisms would not harm their friendship.¹ Most tellingly, Brentano wrote Schmoller that Roscher's history of economics 'does not describe theories on the basis of the times in which they emerged [and therefore] adhere to the demands of modern scholarship. If anyone, Roscher should be up to those demands'.² The 'Historical School', 'Historical-Ethical School', 'Realistic German School', 'Neo-Prussian School' and other variants were all labels that served the purpose of exaggerating the differences between German and foreign economics. Foreign (especially British) economics and its adherents in Germany - derisively labelled *Manchestertum* - were often caricatured as reductive, dogmatic, speculative and metaphysical.³

Sometimes 'historical' implied nothing more than a vague commitment to history, ethical issues or policy in economics. Most often 'historical' expressed a commitment to homespun, historically-derived ideas reflecting the peculiarities of German conditions. A good example of such views in Imperial Germany were the many hagiographic tributes to Schmoller in German newspapers, particularly the debt

¹GStAB, Nl. Schmoller, 130a: 7-8, Knapp to Schmoller, 11 Jan. 1874; Schmoller to Roscher, 20 March 1875, in Biermann, 'Briefwechsel', 29-31; cf. Schmoller's review of Roscher's *Geschichte der Nationalökonomik in Deutschland*, LZ 14 (1875), cols. 445-47.

²GStAB, Nl. Schmoller, 114: 78-80, Brentano to Schmoller, 10 Dec. 1874.

³These views had wide currency in public opinion as well as in academic circles. See for example G. Schmoller, 'Wechselnde Theorien und feststehende Wahrheiten', *JbfGVV* 21 (1897), 1387-1404. See also Schmoller's opening speech at the Eisenach convention of 1872, quoted in Boese, *Geschichte*, 6-11.

owed to Schmoller by Germany for having made a wider circle aware of and appreciate ‘indigenous economic institutions’ and ‘their historical development’.¹ By contrast, the Social Democrats’ newspaper, the Berlin *Vorwärts*, assessed Schmoller’s history of Hohenzollern social policy, while not a forgery of the ‘Prussian schnapps’, as an attempt to paste a new label on the bottle, making the ‘bad potato spirits’ (*Kartoffelfusel*) seem like the finest Rudesheim wine.² The ‘Historical School’ has also conveniently been blamed for various failings or commandeered for causes: conservatives considered the ‘Historical School’ an incestuous clique that was soft on socialism; Nazis liked to lay special claim to the distinctively ‘German’ character of the ‘Historical School’, though they were quick to point to its deficiencies, notably that it lacked an racial-organic ideology, and unlike the Austrian School, did not apply concepts like *Volksgeist*; liberals blamed the ‘Historical School’ and Marxists for determinism and the decline of classical economic theory in Germany.³

All such interpretations must be approached critically. Careful investigation reveals that historical positivism, natural scientific methods, the development of modern psychology, critical rationalism (emphasising inductive empiricism and experimentation), as well as the development of statistics were all important impulses for the historical economics of Schmoller and his colleagues.⁴ All evidence seems to point to an aversion to speculative philosophy and a wholehearted embrace of realism

¹*Berliner Neuste Nachrichten* (23 June 1908).

²*Berliner Vorwärts* (24 June 1908).

³Prussian Landtag, *Stenographische Berichte*, Haus der Abgeordneten, 75th Session (4 May 1897) 2380-2381; Wiskeman and Lütke, *Der Weg*, 128-129; Eucken, ‘Überwindung des Historismus’, 191-214.

⁴Hansen, ‘Methodenstreit’, 140-154; Oberschall, *Empirical Social Research*, 137.

and empiricism. Schmoller himself had little regard for romanticism, idealism and speculation in economics, and with reference to Adam Müller and others wrote:

The whole of post-Kantian philosophy (Schleiermacher, Fichte, Schelling, Hegel) rests in contrast to Kant, in following the heuristic principle of teleology and in believing this to be the only justified method, and declaring their results to be exact science.

In connection with this, the philosophical-political economic theories of Germany took a speculative path which separated it ever more from the rest of legal and economic studies in Germany and abroad. If this division was never fully completed, it was bad enough.¹

Schmoller, Brentano and many others identified with so-called ‘younger Historical School’ were influenced more profoundly by statistical methods than by romanticism, historicism or Hegelian philosophy. For Schmoller and Brentano the statisticians Gustav Rümelin (1815-88) and Ernst Engel (1821-96), respectively, were decisive teachers and mentors.² Bücher, Knapp, Held, Inama-Sternegg and Lexis, like Hildebrand and Knies before them, were active in statistical offices, which in Germany were closely linked to the development of both empirical social research and historical economics.³ Additionally, Erich Streissler has pointed out that the development of economics in Germany in the nineteenth century was influenced in large measure by important German classical and ‘proto-neoclassical’ economists who developed marginal valuation, such as F.B.W. Hermann (1795-1868), K.E. Mangoldt (1824-68), K.H Rau, and Roscher, who were, incidentally, significant influences not only on Carl Menger and other Austrian economists, but also on Alfred Marshall (1842-1924).⁴

¹G. Schmoller, ‘Lorenz Stein’, *PrJbb* 19 (1867), 267.

²See Brentano, *Mein Leben*, 40-52; G. Schmoller, ‘Gustav Rümelin’, in *Charakterbilder* (Munich and Leipzig, 1913), 141-88. Engel’s statistical seminar was a training ground for a large number of historical economists, among them Held, Brentano and Knapp.

³Schäfer, *Historische Nationalökonomie*, 132-81.

⁴Streissler, ‘The Influence of German Economics’, 31-68.

Both Held and Knapp trained with Hermann in Munich, and Schmoller under Hermann's student and follower J.A.R. Helferich (1817-92) in Tübingen. The intellectual gulf that supposedly separated German and Austrian economics has therefore been exaggerated.¹

Finally, what of the normative socio-political preoccupations of the 'Historical School'? Was this distinctive and therefore a basis for a 'School', or was German historical economics, as one of Max Weber's colleagues once remarked, just 'historical sauces on a classical dish'?² There is little doubt that the centrality of the 'social question' in German public affairs meant that economics in Germany continued to be a political economy encompassing a broad range of social phenomena and political questions. But this too was not particularly novel to the alleged 'Historical School'. After all, classical, Marxian and nationalist economics were tied to discrete political programmes - Smith, Ricardo, Marx and List's economics were analytical foundations upon which their respective programmes for political change were built.

A critical evaluation of the meaning of the term 'Historical School' thus reveals a highly complicated picture which would suggest the abandonment of the term 'School' altogether. At the same time 'Historical' refers to so much that it seems in danger of losing all meaning, its various overlapping uses and vague associations spawning more confusion than clarity. This does not deny that the 'Historical School', to which some economists felt they belonged, was a claim to intellectual identity commonly made in the era in question. The point is not to dispute this, but instead to

¹*Ibid.*, 31.

²Robert Wilbrand (1875-1954) quoted in R. vom Bruch, 'Zur Historisierung der Staatswissenschaften', *Berichte zur Wissenschaftsgeschichte* 8 (1985), 136.

show that a vague and overburdened rubric of this kind is of little use to a systematic, critical investigating the use of history as a tool of economic inquiry and the place of this in the broader context of the rise of social reform in Germany between 1864 and 1894. For these reasons this dissertation will be referring more appropriately to 'historical economics', by which is meant 'historical-statistical economics', focusing on the most important of these, Gustav Schmoller, and his close colleagues Lujo Brentano, Adolf Held and Georg Friedrich Knapp. These historical economists were a pragmatic, empirically-inclined group of statistically-trained economists who, having directly observed the effects of rapid urbanisation, industrialisation, the rise of labour movements and socialism in Germany and abroad in the 1860s, became dissatisfied with orthodox classical economic doctrines, subjecting these to empirical tests and criticism. Historical economists sought a new base of knowledge through empiricism, emphasising factuality and realism. By using history as a critical and analytical tool and combining it with statistics, they sought practical solutions to economic and social problems and to advance projects of social reform by disseminating knowledge to both the public and government officials.

To really understand these 'historical economists' their mode of scholarly production needs detailed investigation. This will provide the foundation upon which the rest of the thesis can be built.

CHAPTER 2:

THE MODE OF PRODUCTION.

Aristotle taught that it is often possible learn more about human intentions by analysing actions rather than statements. Such a path of inquiry is especially tempting in light of the confusion revealed in the previous chapter; it also happens to be one others have left relatively untrodden. What is really known about historical economics? How and in what sort of institutions did the historical economists work? What was their mode of production? Their ‘mode of production’ is defined as the mechanisms of their industry of scholarship, the organisations in which they worked and interacted, and the institutions which enabled and constrained their output. Addressing this question is particularly salient since this mode of production was undergoing a process of professionalisation precisely at a time when historical economists were gaining influence in Germany. ‘Professionalisation’ is defined as the organisation of economics as a distinct discipline with a discrete subject matter, commonly-shared standards of research, common teaching syllabi, a scholarly division of labour, and the development or consolidation of other supporting institutions like scholarly societies and journals. This chapter will investigate: 1.) the universities in which historical economists worked, particularly the economics faculties, seminars, lectures, curriculum, and degrees, the number and turnover of students and their subsequent careers, the number of teaching staff and chairs, the opportunity, scope and trajectory of academic careers as well as the hierarchies, tensions and pressures which university authorities and state governments imposed upon members of the university; 2.) non-

university institutions such as statistical bureaus and statistical seminars in which historical economists trained or worked; 3.) scholarly and professional organisations which organised conferences and research projects in which historical economists participated; 4.) publishers which printed, marketed (and not uncommonly) subsidised their scholarly output; and finally, 5.) scholarly journals and monographs in which they published their findings.

With such a potentially large field to investigate, this chapter will limit itself to the scope of this mode of production as it directly involved Gustav Schmoller, Lujo Brentano, Georg Friedrich Knapp and Adolf Held. These four figures' activities provide an ideal window, since they were the most influential figures within historical economics and, as importantly, they were close friends of the same generation, linked by common experiences, institutions, teachers and acquaintances. Moreover, their career paths crossed or were joined repeatedly at certain key universities and statistical bureaus. They were also the founding members of a major scholarly organisation which further fostered their interaction. They organised, shaped, edited and contributed to important monographs, collections, and scholarly journals, and they had strong, indeed personal, links to a prestigious academic publisher in Germany.

2.1 The University

German universities, especially the Prussian ones, had been reformed or founded in the early 19th century with neohumanistic charters which emphasised the freedom, independence and autonomy of inquiry, teaching and learning. This was enshrined in the ideals of *Lehrfreiheit*, the autonomy and independence of teaching, and *Lernfreiheit*, the prerogative of students to freely attend lectures. Many subjects

in the arts and sciences (philosophical faculty) had therefore been left free to develop their own curriculum, state examinations having only been introduced in medical, legal and teaching professions. This was in deliberate opposition to the French Napoleonic university system, which was seen by the Prussian education reformer Wilhelm von Humboldt (1767-1835) as excessively functional, technocratic and geared too much to the needs of professions.¹ While in France the faculty of arts and sciences had subsequently declined in importance, in Germany it had gained a prominent place in the university.² Figures attest to the dramatic expansion of this faculty between 1840 and 1910, which by 1901-1906 was attracting as many as 44 percent of all university students.³ The popularity of the philosophical faculty reflected both the increased attractiveness of the natural sciences and its many new sub-disciplines, as well as - and significant for this discussion - dramatic growth in economics as a discipline. This was the result of industrialisation and heavy urbanisation, which increased demand for trained applied economists, statisticians, officials and managers, as well as for specific economic and social knowledge: industrial organisation and management, insurance, banking, trade, transport, as well as public finance, services, health and welfare. Such knowledge was growing rapidly and became increasingly heterogeneous and specialised, posing a challenge to economics as a unified doctrinal discipline. Increasingly also the utility of this knowledge became a major motivation for research. In German universities of the 1860s and 1870s a markedly positivist and empiricist research climate had gained a foothold, and specialised empirical research was

¹F. Paulsen, *The German Universities and University Study* (trans. F. Thilly and W. Elwang, London, New York and Bombay, 1906), 51-52.

²*Ibid.*, 55-58.

³J. Conrad, 'Einige Ergebnisse der Universitätstatistik', *JbbfNS* 32 (1906), 451.

displacing comprehensive synthesis as the driving force of scholarship in economics.¹ Indeed, many contemporary authorities on the university realised that the neohumanist hope that university learning would culminate in *Bildung* and *Kultur* was a chimera. As Friedrich Paulsen observed, ‘it [was] becoming more and more evident that it [science] does not realise such an all-encompassing worldview that will satisfy both feeling and imagination. It only discovers thousands of fragmentary facts...’.² Reflecting these changes, the mode of production of university scholarship was continually modified. Out of the relatively autonomous, small-scale, craft production of the Humboldtian university grew more differentiated and coordinated team production of knowledge on a much larger scale. Out of the faculties which had pursued research more as a sideline grew new seminars and institutes devoted to research, and increasingly also, to the production of practical, instrumental knowledge.

Focus will be on Berlin, Bonn, Breslau, Halle, Leipzig and Strasbourg universities. It was here that Brentano, Held, Knapp and Schmoller took up major career-making appointments in the 1870s and 1880s, and where they had decisive influence over the curriculum as well as the careers of their many students. Strasbourg and Berlin, where a number of historical economists taught, either in conjunction or succession, deserve special attention. Strasbourg was newly founded as a university in 1872 after the annexation of Alsace-Lorraine from France. The University was unique since Alsace-Lorraine was a special *Reichsland* administered directly by the Imperial government in Berlin. Though this meant that the university was effectively administered by Prussian officials, it was nevertheless the only Imperial university in

¹Lindenfeld, *Practical Imagination*, 206.

²Paulsen, *German Universities*, 67.

existence. Schmoller took an appointment there as Professor in the winter semester (WS) of 1872-73. He was joined in 1875 by Knapp (previously at Leipzig) for six years, who in turn (after Schmoller left Strasbourg in 1882 for Berlin) was joined by Brentano for some six years. Because of its new foundation, unique status, and because Schmoller, Knapp and Brentano all held senior appointments in it from the early 1870s until the First World War, Strasbourg provides outstanding insights into the university as it was formatively shaped by historical economists, since as a new institution these key historical economists shaped a faculty, a seminar and a teaching curriculum. It should also be mentioned that contacts made in the faculty at Strasbourg had important implications for the future shape of the discipline of economics in Germany generally. For example, Schmoller became a close friend and life-long confidant of Friedrich Althoff, then teaching French civil law in the university faculty of *Rechts-und Staatswissenschaften* (Legal and State Sciences), who was in 1882 made head of university affairs and later Ministerial Director (1897) in the Prussian Ministry of Culture.¹ Berlin University, where Brentano and then Held briefly lectured and later where Schmoller occupied a life-long senior appointment, will be the other focus of this analysis. Schmoller left Strasbourg in 1882 to take up an appointment at Berlin made vacant by Held's death in 1880. This university eventually became synonymous with Schmoller, his many students, 'socialism of the chair' and German economics generally. Berlin rapidly became not only the largest, most important and influential university in Prussia and Germany, but its sub-faculty of *Staatswissenschaften* was one of the most prestigious of its kind.

¹In Prussia this was formally known as *Ministerium der Geistlichen, Unterrichts- und Medicinalangelegenheiten*.

German universities, reflecting the legacy of disunity in German history, had always displayed a high degree of variety and plurality. Until 1871, the German states that later made up the Empire had been sovereign states each with their own education system. While particularly successful educational models were frequently copied, they nonetheless displayed a significant degree of variation. Secondly, German universities, since the Reformation and Thirty Years War, had become state institutions. In the aftermath of the Thirty Years War they became important tools of absolute governments, foremost Prussia, in the struggle to consolidate rule, rebuild the economy and protect the state's sovereignty. After the Napoleonic invasion and reform era, state involvement in and expenditure on universities intensified, although at the same time the universities gained important legally-defined freedoms and autonomy, especially with regard to teaching and research. There was, however, a long tradition in Germany of rulers viewing universities as important instruments of the state, and it is particularly notable that absolute princes recognised very early the rates of return of the university's output, especially in securing technological advances, thriving manufacturers, efficient administration and an expanded fiscal base. With unification of the German lands in 1871, individual states retained constitutional cultural sovereignty (*Kulturhoheit*) and thereby autonomy over educational affairs. As a consequence the imperial government - except in the case of the newly founded University of Strasbourg - was involved neither in funding nor in regulating higher education in Germany, although it did contribute to the creation of a few important specialised research institutes outside of the university. While the scope for imperial involvement in education was small, state governments exercised considerable discretion over their universities, particularly through their budgetary powers, as well

as their regulation of faculty appointments and certain examinations.

2.2 *Staatswissenschaft* as an Academic Discipline

Reflecting the close relationship between absolute rulers and their universities, economics in Germany grew out of *Staatskunst* (statecraft) and *Staatswirtschaft* (state economy), which had evolved as a training in crown administration and was therefore often also called *Cameralien* or *Cammer-Sachen* (Cameralism). This *Staatswirtschaft* was literally the ability to balance the fiscal needs of the sovereign with the economic needs of his subjects, reflecting the belief that the strength and security of the state was based on an economically flourishing, growing population.¹ *Staatswirtschaft* and *Cameralien* were initially taught as a preparatory subject in practical philosophy, ethics and politics in the philosophical faculty for higher study in the faculties of theology, medicine and especially law.² As it developed, ‘*Cameralien*’ or ‘*Cammer-Sachen*’ included practical training in landed estate management, commerce, mines and technology, and therefore also came to be taught in conjunction with such subjects as land economy and technology.³ In 1727 the first two university chairs in this early form of economics (*Oekonomie, Policey und Kammer-Sachen*) were established by the leading exponent of rational administration, Frederick William I of Prussia (1688-1740), at Halle and Frankfurt an der Oder, both of which became leading centres of Cameralism.⁴ By the turn of the 18th century nearly every other German and

¹Tribe, *Governing Economy*, 8-9 and 20.

²K.H. Hennings, ‘Die Institutionalisierung der Nationalökonomie an deutschen Universitäten’, in *Institutionalisierung*, ed. Waszek, 44.

³Lindenfeld, *Practical Imagination*, 11-45.

⁴Hennings, ‘Institutionalisierung’, 43; see also Tribe, *Strategies*, 8-31.

Austrian university had followed suit. In some cases, such as Giessen and Mainz, distinct faculties of Cameralism were founded. As a subject concerned with administration (*Verwaltung*) and regulation (*Policey*), Cameralism also developed closer links to law faculties in some south German universities and Austria. In Austria Cameralism was fused entirely with the law faculty after 1782.¹

With the spread and popularisation of more ‘civil’ (less administrative) variants of economics, such as *Nationalökonomie* and *Volkswirtschaft* (literally ‘national’ and ‘peoples’ economy) as a consequence of the growing influence of classical economics, the spread of constitutional government, nationalism and the growth of civil society,² a few universities founded their own distinct faculties of *Staatswirtschaft*, such as Munich, and most famously, Tübingen. Yet even here economics was linked closely to technology, as it had been under Cameralism.³ In most other places where universities were reformed or newly-established following the Napoleonic upheavals, *Staatswirtschaft* evolved into *Staatswissenschaft* (state or political science) and was more commonly integrated into the philosophical faculty, with *Nationalökonomie* and *Volkswirtschaft* taught as a subjects under its broader aegis. As was discussed, this reflected the commitment of reformers to encourage independent scholarship, and it became the model for all Prussian, as well as most other German universities.⁴ This,

¹Hennings, ‘Institutionalisierung’, 45.

²Tribe, *Governing Economy*, 149-82; *idem*, *Strategies*, 25-31.

³K. E. Born, *Geschichte der Wirtschaftswissenschaften an der Universität Tübingen* (Tübingen, 1967); H. Dickerhof, ‘Kameralstudium und Bildungssystematik in Bayern von der Spätaufklärung bis zum Vormärz’, in *Institutionalisierung*, ed. Waszek, 233-65.

⁴G. Schmolders, ‘Die Wirtschaftlichen Staatswissenschaften an der Universität Berlin von der Reichsgründung bis 1945’, in H. Leussink, *et al.* eds., *Studium Berolinense* (Berlin, 1960), 152-53; N. Waszek, ‘Die Staatswissenschaften and der Universität Berlin’, in *Institutionalisierung*, ed. *idem*, 267.

as will be discussed later, had important implications for economics in Germany. Nevertheless the link between administrative science and economics remained strong not only in Austria, but in all German-speaking lands. These developments were reflected in the universities in which Schmoller, Knapp, Held and Brentano taught between 1870 and 1914. For example, at the University of Bonn, Breslau and Leipzig, economics bore the name *Staats- und Cameralwissenschaften*, at Berlin *Staats-, Cameral und Gewerbwissenschaften*, and at Halle *Staats-, Cameralwissenschaft und Landwirtschaft*. In all of these universities it was part of the philosophical faculty. Only in Strasbourg, due to its new establishment, small size, and organisation by the Badenese jurist Franz von Roggenbach (1825-1907), was economics taught in a combined faculty of legal and state sciences, (*Rechts- und Staatswissenschaften*), as in all Austrian universities and as had been proposed but never implemented in Baden in the 1860s.¹

The coexistence of newer *Nationalökonomie* and the older *Staatswirthschaft*, became standard in economics through Karl Heinrich Rau's *Lehrbuch der politischen Oekonomie* (1826-37). This influential text transmitted Cameralist conceptions of economic administration to the generation of economists represented by Hildebrand and Roscher.² German economics was consequently bifurcated into a theoretical, general field based on Adam Smith's commercial system, and an applied, practical and empirical realm ('the real world') where the state resumed the role it had under

¹The only other examples of the combination of law and economics into a single faculty in Germany came later: Würzburg (1878) and Freiburg (1896); see G. Cohn, 'Ueber die Vereinigung der Staatswissenschaften mit den Juristenfakultäten' *JbbfNS* 20 (1900), 756, and Tribe, *Strategies*, 84.

²Tribe, *Governing Economy*, 196 and 201; Lindenfeld, *Practical Imagination*, 118-30.

Cameralism.¹ The influence of Rau and his textbook on the subsequent structure of the discipline is striking, particularly also its division into economic theory, practical economics and public finance.

As a student of Rau's in Heidelberg, Wilhelm Roscher was strongly influenced by the conception of economics embodied in Rau's *Lehrbuch*.² As economics was later formulated by Roscher in his own influential text, *System der Volkswirtschaft* (1854), economic activity was defined as the process by which humans satisfy their wants and needs, and that this was the source of economic life. This was a definition that had become conventional in German economics since the early 19th century and borrowed heavily from Cameralism and Aristotelean ethics.³ Like Rau, Roscher was quite open to the use of different approaches to economics wherever necessary, and his text became more a supplement than a replacement of Rau's text.

Staatswissenschaft was marked by plurality of both method and subject, with a strong orientation to what today would be called 'interdisciplinary' inquiry. In *Staatswissenschaft* the economy was not approached as an autonomous productive system, but one embedded instead in political and legal institutions whose basic function was the fulfilment of human need. Both Rau and Roscher's texts were influential in both Austria and Germany for the teaching and structure of economics as a university discipline.⁴ Schmoller and the rest of his generation were very familiar with these texts and the conception of economics they contained. This is confirmed

¹Tribe, *Governing Economy*, 175-76.

²*Ibid.*, 183.

³*Idem*, *Strategies of Economic Order*, 70.

⁴See Streissler and Milford, 'Theoretical and Methodological Positions', 43-79.

by even a superficial glance at the lectures and texts they themselves devised for their students. For example, Held's and Schmoller's lectures in *Nationalökonomie* began by introducing the concept of needs and their fulfilment by goods, followed by a discussion of production, commerce, finance, and distribution.¹ However, it also needs to be mentioned that the historical economists, while dependent upon this institutional heritage, were at the same time very dissatisfied with the intellectual *status quo* in German economics. Knapp was convinced, for example, that the German universities had not produced much in the way of economics: 'let us be under no illusion: the German universities have properly produced in no field as little to this day as in economics and social policy'.²

2.3 Faculty Structure, Curriculum, Exams and Degrees

The development of *Staatswissenschaft* out of Cameralism and its integration into the philosophical faculty had a number of important implications for the discipline and its development. For one, the great plurality of universities in Germany and the accompanying variety in university structure and faculty organisation meant that many variants of *Staatswissenschaft* coexisted. In Prussia and other German states *Staatswissenschaft* in the course of the latter 19th century was increasingly understood to mean *Wirtschaftswissenschaften* (economic science) under which a variety of related economic subjects were taught.³ This subject was divided into branches which bore

¹A. Held, *Grundriss zu Vorlesungen über Nationalökonomie* (Bonn, 1878); GStAB, NI. Schmoller, 88: Vorlesungen über allgemeine Nationalökonomie.

²GStAB, NI. Schmoller, 130a: 21-22, Knapp to Schmoller, 18 Feb. 1873.

³Cohn, 'Ueber die Vereinigung', 755. This point is confused by Lindenfeld in *Practical Imagination*, 209-13.

different, often synonymous, names reflecting the existing institutional variations. Nevertheless, analysis of the lectures the historical economists held at Bonn, Berlin, Breslau, Halle, Leipzig and Strasbourg in the late 1860s early 1870s from the relevant lecture guides confirms the following divisions of *Staatswissenschaft* or *Staatswirtschaftslehre* which roughly follow those introduced by Rau's textbook: 1) *allgemeine, theoretische Nationalökonomie* or *allgemeine, theoretische Volkswirtschaftslehre* (General, theoretical political economy); 2) *practische/specielle Nationalökonomie* or *Volkswirtschaftspolitik* (special/practical political economy or economic policy, meaning agricultural, mining, commercial and/or trade policy). This was also sometimes called *Verkehrspolitik* (trade or commercial policy); 3) *Finanzwissenschaft, Finanzpolitik* and/or *Geld und Bankwesen* (finance, financial policy and/or money and banking); 4) *allgemeine* or *specielle/practische Polizeiwissenschaft* and *wirtschaftliche Verwaltungslehre* (theoretical/practical regulatory and administrative science).¹ In addition to these subjects, other lectures were given from semester to semester on more or less an *ad hoc* basis. These included such topics as technology, politics and theory of state, constitutional history, history of Prussian administration, statistics, as well as history of economic and political doctrines. Occasionally also a course was offered in practical economic exercises. It became standard at universities such as Bonn, Breslau, Halle, Leipzig and Strasbourg for one senior Professor and one more junior faculty member to give the core lectures. Between these two a division of labour was worked out based upon the relative command of specific subjects. This was the pattern worked out between Erwin Nasse

¹This was deduced from the lecture guides of the Universities Berlin, Bonn, Breslau, Leipzig, and Strasbourg beginning in 1870, and for Strasbourg beginning in 1872. Full references to these are given in the bibliography.

and Held at Bonn, J.L. Tellkamp (1808-76) and Brentano at Breslau, Roscher and Knapp at Leipzig, and Schmoller and first Wilhelm Lexis, then Knapp, at Strasbourg. At Strasbourg, for example, Schmoller always gave the core lectures in practical and theoretical *Nationalökonomie*, while Lexis and then later Knapp gave them in statistics.¹ Full professors also lectured in special sub-branches of the discipline, but it was quite common for other *Extraordinarien*, (adjunct professors) and more often *Privatdozenten* (non-tenured junior faculty) to give these, especially those who had recently researched the subject in a *Habilitation* thesis. For example, while still a *Privatdozent* at Berlin, Brentano lectured on the workers' question in England, a subject he had researched in Britain and to which he had devoted his *Habilitation* thesis.² For more loosely-related subjects, faculty from neighbouring disciplines such as law, land economy or history could be called in to lecture. It was customary for many students in law to attend some lectures in economics, and at some universities like Strasbourg it was explicitly recommended by the faculty.³

Lectures were divided into the categories 'private' and 'public', the former were usually core lectures or the seminar in economics open only to certified students of the faculty and required payment of a lecture fee by those attending. The latter were usually in related fields, open to the public and required no fee. At Strasbourg, Professors were required by statute to give at least one course of each kind of lecture per semester.⁴ Between 1872 and 1882, for example, Schmoller's core private lectures

¹See for example U. Strassburg, *Verzeichnis der Vorlesungen*, SS 1873, 6-7.

²See U. Berlin, *Verzeichnis der Vorlesungen*, SS 1872, 12.

³U. Strassburg, *Studeinplan für die Studierenden der Rechts- und Staatswissenschaften* (Strasbourg, 1875), in GStAB, Nl. Schmoller, 6: 196-97.

⁴U. Strassburg, *Provisorisches Statut für die Universität Strassburg* (Strasbourg, 1872), 22, par. 75.

in practical and theoretical *Nationalökonomie* were given four days a week and required a fee of between 16 and 25 marks per student each semester. To give a rough idea of attendance, in winter semester 1872-73 Schmoller had 37, in summer semester 1876, 66, and in winter 1881-82, 51 students attending these core lectures.¹ Schmoller wrote that his yearly income from lecture fees (*Kolleggeld*) at Strasbourg was 2,000 marks on average.²

The lecture curriculum in *Staatswissenschaften* could vary considerably from one institution to another and was in some measure a consequence of the flexibility and independence that the discipline enjoyed in the philosophical faculty. Unlike law, medicine or teaching, state governments had not seen fit to devise a set of *Staatsexamen* (state examinations) to certify competence in economics; in *Staatswissenschaften* there was - apart from a faculty report of university attendance (*Abgangszeugnis*) - only the Doctoral diploma as a formal academic certificate whose examinations varied from one institution to another. Moreover the tradition of *Lernfreiheit* meant that students could easily move from one university to another until they found the lectures, curriculum, and as importantly, academic mentors and faculty which suited them. Students were only required by statute to pay a matriculation fee, at Strasbourg, for example, 10 marks for those transferring from other universities and 20 marks for first-time students.³ The freedom to attend lectures at a variety of universities was reflected in the high variation in student numbers from semester to

¹GStA.B, NI. Schmoller, 6: 86-108, Verzeichniß der für Vorlesungen des Herrn Professor Dr. Schmoller eingezahlten Honorarien WS 1872-73-WS 1881-82.

²BAK., NI. Brentano, 250: Schmoller to Brentano, 20 Nov. 1881.

³U. Strassburg, *Provisorisches Statut für die Universität Strassburg* (Strasbourg, 1872), 24, paragraph 93.

semester, as well as the high rates of turnover within the subject at many German universities. Strasbourg showed a particularly high turnover within the faculty of *Rechts- und Staatswissenschaften*, which between 1874 and 1895 showed from semester to semester roughly as many students im- or exmatriculating as remaining in the faculty, meaning that, on average, students stayed for only 2 semesters.¹ While Schmoller was at Berlin it was also common for the number of matriculated students to vary considerably from one semester to another: by more than 1,300 in 1895 and by over 2,300 in 1910, out of a base student population of 5,527 and 9,686, respectively.²

The statutes of the philosophical faculties at Prussian universities granted both a master and doctorate degree, for both of which it was required that the candidate had studied a minimum of 6 semesters (or be dispensed from this by having studied elsewhere), had proven his scholarly competence through a thesis, and passed an oral examination.³ A number of smaller and poorly funded universities in German petty states and Austria capitalised on the mobility of German students and had since the 18th century developed a rather lucrative trade in doctorates in economics and other subjects.⁴ While much was done in Prussia to reform and more rigorously control the doctoral promotion, the *Magister* had diminished almost to irrelevance in the *Staatswissenschaften* in the course of the 19th century due to the inflation of doctorates. Therefore, the only formal examination in the discipline generally by the

¹See U. Strassburg, *Amtliches Verzeichnis*, WS 1874-75 - WS 1895-96.

²U. Berlin, *Amtliches Verzeichniß*, WS 1895-96 and WS 1910-11, 165 and 305, resp.

³See J.F.W. Koch, *Die preußischen Universitäten* (Berlin, 1839).

⁴Cohn, 'Staatswissenschaften', 765-66.

1870s was that for the doctorate,¹ and in some newer universities, like Strasbourg, statutes provided only for the doctoral degree.² Only later in the 1920s was the *Diplom* introduced as an intermediate alternative to the doctorate.³

At Strasbourg admission to examinations for the *Doktor der Staatswissenschaften* (originally *Doctor cameralium*, later *Doctor rerum politicarum*)⁴ could be attained by petitioning the dean and submitting a *curriculum vitae* together with the *Abgangszeugnisse* (reports of universities attended) showing proof of three years of academic study. The examination was in three parts, two written and one oral. The written exam was an inaugural dissertation in Latin or German on a subject chosen by the candidate, and following a successful defense, had to be published. The other written exam was a treatise on a subject given by the faculty. Upon submission of the thesis a fee of 360 marks was paid and distributed among the faculty, dean and exam referees (in some cases the candidate was dispensed from paying fees). Both written exams were evaluated by members of the faculty. Admission to oral examinations assumed success in the written portion and was given in the following subjects: *Volkswirtschaftslehre* (political economy), *Finanzwissenschaft* (Financial sciences), statistics, and politics. In addition to these, certain legal subjects were examined: elements of Roman and German private law (trade law, exchange law, law of the German Empire) as well as legal history, common civil process and constitutional law. While this reflected the combination of law and economics into a

¹*Ibid.*, 764-69.

²U. Strassburg, *Provisorisches Statut*, 6, par. 11.

³Hennings, 'Institutionalisierung', 47,

⁴While economics and law were in a combined faculty at Strasbourg, it is significant that separate and distinct doctoral degrees were established with their own examinations.

single faculty at Strasbourg, examination in constitutional and private law was not uncommon in the *Staatswissenschaften* in Germany. The oral exam was given in German by specialists in the specific subjects from the faculty who made a decision to grant the degree by unanimous vote.¹ While these procedures were established by statute and were largely followed, exam results could easily be influenced by the weight of senior Professors, particularly since it was not uncommonly the case that thesis supervisors were simultaneously examiners, as was the case, for example, with the doctoral thesis of one of Schmoller's American Students, Henry Walcott Farnam (1853-1933), later a professor at Yale University.²

Doctoral dissertations varied greatly in length and quality. Generally, because of comprehensive reforms, better funding and emphasis on research, standards were higher in Prussia than elsewhere in Germany or Austria. Dissertations were also considerably shorter than is standard today and could cover a vast range of subjects broadly within the discipline. Examples of doctoral dissertations in economics written by Schmoller, Brentano, Held and Knapp reveal a considerable range of subjects and length. Schmoller's dissertation on economic ideas during the reformation period in Germany was a tome of some 256 densely printed pages,³ while Brentano's dissertation on von Thünen's natural wage and interest rates took up a rather more

¹U. Strassburg *Promotionsordnung der Rechts- und Staatswissenschaftlichen Facultät der Kaiser-Wilhelms-Universität Strassburg 1880* (Strasbourg, 1880).

²GStAB, Nl. Schmoller, 6: 256, Handwritten evaluation of Henry Farnam's doctoral thesis, n.d.

³'Zur Geschichte der national-ökonomischen Ansichten in Deutschland während der Reformationsperiode' (University of Tübingen, Dr. oec. publ. thesis, 1860), published in *ZfGS* 16 (1860), 461-716.

slim 59 pages.¹ Both Held's dissertation criticising Henry Carey's (1793-1879) economics and mercantilism, and Knapp's testing Heinrich von Thünen's (1783-1850) investigation of wage and interest rates in an isolated state, fell between this range.²

With the degeneration of the doctorate to little more than a master's thesis, those who wished to secure the *venia legendi* to pursue an academic career needed to complete a second doctorate, the *Habilitation*. This usually entailed a more substantial written thesis which had to fall within a different subject area than the doctorate - specifically, a subject in which the candidate wanted to lecture. But it was not necessarily much longer than a doctoral thesis, as Held's *Habilitationsschrift* (second doctoral thesis) on the theory of tax roll-over showed, making up, as it did, 75 published pages.³ In addition to the *Habilitationsschrift*, at Strasbourg - as was common elsewhere - the candidate had to pay a fee (25 gold marks), prove they had studied for at least five years, and successfully give an inaugural lecture in their chosen subject. Finally, it was common for new *Privatdozenten* to be restricted to lecturing in the subject of their *Habilitationsschrift* for a probationary period of 2 years.⁴

The flexibility as well as the relative autonomy of the discipline from the law faculty, which due to its importance to the state administrative cadre and the courts -

¹'Ueber Heinrich von Thünens naturgemäßen Lohn- und Zinsfuß im isolierten Staate', (University of Göttingen, Dr. Phil. thesis, 1867).

²A. Held, 'Carey's Sozialwissenschaft und das Merkantilssystem. Eine Literaturgeschichtliche Parallele (University of Würzburg, Dr. Jur. thesis, 1866); G.F. Knapp, 'Zur Prüfung der Untersuchungen Thünen's über Lohn und Zinsfuß im isolierten Staate' (University of Göttingen, Dr. Phil. thesis, 1865).

³'Zur Lehre von der Ueberwälzung von Steuern', *ZtfGS* 24 (1868), 421-95.

⁴GStAB, Nl. Schmoller, 6: 138, Habilitationsordnung für die recht- und staatswissenschaftliche Facultät zu Strassburg (transcribed manuscript, n.d.).

as well as the dogmatics of its lectures and its prescribed state examinations - tended to be rather more conservative and inflexible, allowed the *Staatswissenschaften* a considerable range of freedom in its development. This meant that institutionally the German and especially Prussian *Staatswissenschaften* were more sensitive to changes in the scientific as well as economic and social climate. Particularly, the curriculum of lectures (*Kolleg*) could be more easily modified or altered to reflect those changes. Even at Strasbourg, which had a combined faculty of law and economics, this autonomy and flexibility was retained. On assuming his chair in 1872, Schmoller forcefully expressed his misgivings with the joint faculty arrangement and was involved in the first year of his tenure in a successful but ongoing struggle to establish and then reaffirm the autonomy of the curriculum and doctoral degree in *Staatswissenschaften*. In this dispute Schmoller held that an overemphasis on legal training for economists had precedence nowhere in Germany and came at the expense of scientific inquiry.¹

With the tenure in the late 1860s and early 70s of Schmoller, Knapp, Brentano and Held at the universities of Halle, Strasbourg, Leipzig, Berlin, Breslau and Bonn changes to this curriculum are distinctly observable, particularly the more systematic teaching of statistics, the widespread introduction of the seminar system, and the wider scope for lecturing on the social question and the history of economic doctrines. Such changes to the curriculum suited historical economists particularly well, since it leveraged their set of skills and complemented their social and political commitments. Firstly, statistics became part of the core lecture and seminar curriculum. While

¹This is explicit in a report by one of the deans of the philosophical faculty at Strasbourg, Adolf Michaelis, of June 1873, GStAB, Nl. Schmoller 6: 58.

statistics had been taught as a core element at a few universities before the 1860s (by J.G. Hoffmann [1765-1847] and K.F.W. Dieterici [1790-1859] in Berlin and by Hanssen in Leipzig and Berlin, for example),¹ this was more an exception than a rule in Germany. Moreover, statistical tools underwent dramatic refinement between 1840 and 1860, upon which younger scholars making up Schmoller's generation could capitalise.² This reflected not only the growing importance of this tool to the discipline but, as will be discussed later, the extensive training which many historical economists themselves had gained in statistical bureaus. Indeed the generation of economists (both historical and non-historical) that had been trained in the 1860s had taken part in many discussions and debates over statistics and did much to popularise it as a tool of economic inquiry.³ Encouragement for this new statistical direction was expressly given by the leading statisticians of the time. Indeed Hildebrand wrote Schmoller as early as 1863 with strong encouragement for a more statistical approach, and in early correspondences between Schmoller and Knapp, the latter discussed at length the importance of statistics as an indispensable tool of realistic, scientifically-rigorous economics.⁴ Tangible examples of this were Knapp's lectures in statistics at Leipzig between 1867 and 1874 and the founding of Strasbourg's *staatswissenschaftliches Seminar* by Schmoller, including 'economic-statistical exercises' run by the same, in conjunction with lectures in statistics given first by

¹K. H. Hennings, 'Die Wirtschaftswissenschaften an der Universität Leipzig', in *Institutionalisierung*, ed. Waszek, 122-61.

²See Lindenfeld, *Practical Imagination*, 193-97.

³T. M. Porter, *The Rise of Statistical Thinking 1820-1900* (Princeton, 1986), 167-92.

⁴GStAB, Nl. Schmoller, 151: 92-93, Hildebrand to Schmoller, 3 July 1863; 130a: 93-94, Knapp to Schmoller, 6 Dec. 1870.

Wilhelm Lexis and then after 1874 by Knapp. Indeed, at Strasbourg Knapp was notable for his 1875 lectures in mathematical statistics and for the division of the seminar into a separate section on applied statistics run by him. Other good examples are Held's first lectures at Bonn in 1867, an introduction to statistics which became a regular series on population statistics, moral statistics and statistical theory.¹

Secondly, and illustrated by the previous point, a seminar course focusing on practical exercises in the traditional areas of the *Staatswissenschaften* and statistics became not only an established part of the curriculum, but also a research institution in its own right, often acquiring its own specialised library, rooms and monographs. Schmoller was the first person to establish seminars both in Halle and Strasbourg, which became a venue for advanced students to take part in his research.² At Strasbourg the series *Abhandlungen aus dem staatswissenschaftlichen Seminar* and the *Staats- und Sozialwissenschaftliche Forschungen* (the latter of which was later transferred to Berlin), were founded and edited by Schmoller, Knapp and later Brentano to publish the seminar's research and the theses of seminar participants.³ The Strasbourg seminar's earliest focus was on sources and literature on Strasbourg's medieval guilds, a subject on which a number of younger members of the seminar, such as Schanz and Stieda, published.⁴ Another vivid example was Bonn, where a

¹GStAB, Nl. Schmoller, 130a: 2-6, Knapp to Schmoller, 11 May 1874; U. Strassburg, *Verzeichnis der Vorlesungen*, SS 1873, 7 and *ibid.*, SS 1875, 7; U. Bonn, *Vorlesungen*, WS 1867-68, 6.

²See Spiethoff, 'Gustav von Schmoller', 11-30.

³For example, Henry W. Farnam's doctoral thesis, 'Die innere französische Gewerbepolitik von Colbert bis Turgot', *SSF* 1, no. 4 (1878).

⁴W. Stieda, 'Zur Erinnerung an Gustav Schmoller', 227-320; the seminar bore the title 'Die Gewerbeverfassung vom 15.-17. Jahrhundert. Erläuterung der Quellen und Literatur sowie Arbeiten darüber', U. Strassburg, *Verzeichnis der Vorlesungen*, SS 1874, 6.

seminar course (*Staatswirtschaftliche Uebungen*) was organised and run by Held in WS 1869-70 and was established as a regular part of Bonn's curriculum beginning in SS 1872.¹ The same pattern can be observed with Brentano's tenure at Breslau beginning in 1873.² This was evidence of the importance historical economists placed on empiricism, practice and coordinated research, as well as the favourable experiences with this institution in Ernst Engel's statistical seminar at the Prussian Statistical Bureau from the mid 1860s to early 1870s, where Held, Knapp and Brentano had all been trained and with whom Schmoller was then in close contact.

Thirdly, lectures on economic method and the history of economic, social and political doctrines became much more regular and important. Moreover, these lectures tended increasingly to historicise classical economics.³ Such lectures were among the first given by Schmoller in Strasbourg in WS 1872-73, and they figured regularly in Held's cycle of lectures in Bonn after about SS 1875 and in Brentano's at Breslau beginning in WS 1873/74.⁴ Fourthly and most significantly, Held, Brentano, Knapp and Schmoller all regularly began giving lectures on the 'social and labour question', particularly its comparative history and implications for policy. This was already in evidence as early as 1865 at the University of Halle, where Schmoller began a series of lectures entitled 'Poverty, Proletariat and the Labour Question',⁵ as well as when Brentano was still a *Dozent* in Berlin in 1872, where he gave lectures titled 'the labour

¹U. Bonn, *Verzeichniß der Vorlesungen*, WS 1869-70 and SS 1872, 5 and 6, resp.

²U. Breslau, *Verzeichnis der Vorlesungen*, SS 1873, 6.

³Typical in this respect were Held's lectures, published in *Grundriß zu Vorlesungen*, 16-27.

⁴U. Strassburg, *Verzeichnis der Vorlesungen*, WS 1872-73, 7; U. Bonn, *Verzeichniß der Vorlesungen*, SS 1875, 6; U. Breslau, *Verzeichnis der Vorlesungen*, WS 1873-74, 6.

⁵Lindenfeld, *Practical Imagination*, 218.

question in England with consideration of German workers' conditions'.¹ In Brentano's case at Berlin, the first part of his study of the English guilds and origins of trades unions was submitted as a *Habilitation* thesis, and he was therefore restricted to lecturing in this subject.² What is interesting to note is that the choice of *Habilitation* subjects among the younger generation of economists directly determined the range of subjects available in the lecture curriculum. Nevertheless, even as full professor in Breslau, current political and economic questions were so important to Brentano that they became the subject of a special series of lectures and seminars beginning in SS 1873.³ Knapp, while still an *Extraordinarius* in Leipzig, gave a series of lectures on the labour movement in SS 1872, and in WS 1874-75 was giving them on the history of social movements in Britain, France and Germany. Upon moving to Strasbourg, Knapp was convinced that it was now time to integrate socio-political history as one of the most important lectures in the *Staatswissenschaften*.⁴ Held set the precedent at Bonn in WS 1872-73 with a lecture series titled 'Labour Question'.⁵ Schmoller established a similar pattern in Strasbourg in SS 1873 with a 1-2 hour free lecture series titled 'On Current Social Theories and the Labour Question'.⁶ This

¹U. Berlin, *Verzeichnis der Vorlesungen*, SS 1872, 12.

²*Die Arbeitergilden der Gegenwart*, vol. I (University of Berlin, Habilitation thesis, 1872, published Leipzig, 1871).

³U. Berlin, *Verzeichnis der Vorlesungen*, SS 1872, 12. U. Breslau, *Verzeichnis der Vorlesungen*, SS 1873, 6.

⁴GStAB, NI. Schmoller, 130a: 223-24, Knapp to Schmoller, 3 Oct. 1874.

⁵GStAB, NI. Schmoller, 131a: 48, Knapp to Schmoller, 28 May 1872; Lecture guide for Leipzig University during WS 1874-75, reprinted in Hennings, 'Wirtschaftswissenschaften', in *Institutionalisierung*, ed. Waszek, 160; U. Bonn, *Verzeichnis*, WS 72-73, 6.

⁶U. Strassburg, *Verzeichnis der Vorlesungen*, SS 1873, 6; see also the curriculum recommended by the faculty at Strasbourg, in *idem*, *Studienplan*.

socio-political activism at the lectern followed Held's and then Schmoller's later career in Berlin, as well as Brentano's to Strasbourg, Leipzig and eventually Munich. For example, though Held drowned in Switzerland in August of 1880, he had announced lectures titled 'the state of the social question in Germany' for WS 1880-81, and Schmoller's 'socialism of the lectern' complemented Adolph Wagner's to such an extent that 2 of the 14 lectures offered in WS 1884-85 at Berlin focused specifically on socialism and social policy.¹

It was extraordinary to what extent the curriculum and lectern could be used, indeed modified, to voice issues of current economic, political and especially social concern - in the case of historical economists, particularly to vent their own strong convictions about the desirability of social reform. This was without much doubt due in some measure to the flexibility of the existing institutional arrangements of the discipline in Germany, or in the case of Schmoller at Strasbourg, the result of a vigorous and successful campaign to retain autonomy within a combined faculty of law and economics. By comparison, Austrian economists' political conservatism at the time, foremost Carl Menger himself,² was striking, prompting the question to what degree the direct and older links of law and economics in Austria ensured this conservatism.³ That this is not merely speculation is borne out by just one vivid

¹U. Berlin, *Verzeichniss der Vorlesungen*, WS 1880-81, 15; *ibid.*, WS 1884-85, 17.

²See F.A. Hayek in preface to *Collected Works of Carl Menger*, vol. 1, (London, 1935), xxxv; I. M. Kirzner, 'Menger, Classical Liberalism and the Austrian School of Economics', in *Carl Menger*, ed. Caldwell, 106; E. W. Streissler, 'Carl Menger on Economic Policy', in *ibid.*, 129; M. Alter, *Carl Menger and the Origins of Austrian Economics* (Boulder, San Francisco and Oxford, 1990), 183-84; Lindenfeld, *Practical Imagination*, 249.

³W. Wadl, *Liberalismus und Soziale Frage in Österreich* (Vienna, 1987), 21-22, 33-34; A. Fischer, *Das österreichische Doktorat der Rechtswissenschaften und die Rechtsanwaltschaft* (Innsbruck and Munich, 1974), 57-80.

example: ‘socialism of the chair’ or *Kathedersozialismus* did not escape the attention of Prussian conservatives and government officials, who viewed it with considerable and increasing unease, especially after the repeal of the repressive socialist laws in 1890 and the controversial ‘Case of Arons’ in 1897, in which it was discovered that a Berlin Privatdozent, Leo Arons, was an active Social Democrat. Arons’ *venia legendi* was subsequently suspended by a controversial law, the *lex Arons* of 1898. In 1897 controversy and crisis engulfed the whole Ministry of Culture relating to appointment policy in the *Staatswissenschaften*. The ministry had been repeatedly accused in newspaper articles by ultra-conservatives and free market liberals of having pandered to ‘socialism of the chair’, particularly Schmoller, thus biasing Prussian university appointments in favour of a clique of academics sympathetic to socialism.¹ This, it was claimed, was particularly the case at the University of Berlin.² Minister of Culture Robert von Bosse (1852-1901) and *Ministerialdirektor* Althoff were subjected to repeated such attacks by conservatives in both houses of the Prussian parliament when called to account at sessions to determine the budget of their ministry. In the Chamber of Deputies the supposed one-sidedness of university appointments in economics favouring the ‘*Kathedersozialistische Richtung*’ (school of the socialists of the chair) was repeatedly emphasised, and it was asserted that this ‘*neu-historische Schule*’ (neo-historical school) formed an academic clique (*Cliquenwirtschaft*) with sympathies for subversiveness and social democracy. Because

¹See leader in *Kölnische Zeitung* 281 (Saturday edn., 28 Mar. 1897), a clipping made by Friedrich Althoff, GStAB, Nl. Althoff, 64: 4-8.

²At Berlin in 1897 the following academics were teaching who could have been identified with *Kathedersozialismus*: Wagner, Schmoller, Oldenberg, Sering, and Jastrow. U. Berlin, *Verzeichniss der Vorlesungen*, WS 1896-97, 21-22. Oldenberg and Sering were students of Schmoller, as Schmoller wrote to Althoff, GStAB, Nl. Althoff, A1, 64: 3, Schmoller to Althoff, 31 Mar. 1897.

of the growing importance of the *Staatswissenschaften* both to social and economic life generally and to an education in law, it was proposed, as a remedy for radicalism by the conservative deputy Octavio von Zedlitz-Neukirch (1840-1919), to remove the *Staatswissenschaften* from the philosophical faculty and combine this instead with law at all Prussian universities.¹ The industrialist Karl von Stumm (1836-1901) later repeated these attacks, especially against Schmoller, in the Upper House.² In that session Minister Bosse took up Zedlitz-Neukirch's earlier proposals to place *Staatswissenschaften* in the law faculties; the dogmatic methods, arid conservatism and links to the state of the law faculty would dilute the socialism of leading professors of economics:

We have, accordingly taken into view to practicably bring about linking the economics professorships [*staatswissenschaftliche Professuren*] with those of law, and I hope to thereby bring to expression a greater, if I may use the expression not in the party-political but in the best sense, conservative thrust. It is quite natural that the one-sidedness of the legal viewpoint, namely so far as it stood under the influence of Roman legal treatment, received a multitude of unfruitful impulses. ...[I]t can only be useful if they [economists], with the aid of the new civil code, become acquainted with legal thinking and legal circles. Though I do not hope to achieve everything through this, I nevertheless hope that this also becomes a working link in the chain which I have in eye to bring about an improvement [*Besserung*] in this area.³

Though nothing much came of Bosse's proposals for 'improvement' once the controversy simmered down, what has been discussed above nevertheless reveals vividly that historical economists' modification of the economics curriculum and the

¹Prussian Landtag, *Stenographische Berichte*, Haus der Abgeordneten, vol. 3, 75th session (4 May 1897), 2380-83.

²Prussian Landtag, *Stenographische Berichte*, Herrenhaus, vol. 1, 19th session (28 May 1897), 382-88.

³*Ibid.*, 389. Curiously, earlier in the Deputies on 4 May 1897, Zedlitz-Neukirch pointed to the positive experience of the combined faculty in, of all places, Strasbourg.

mode of production of academic economics was real and carried with it significant implications for the whole discipline of economics in Germany. As was discovered, these modifications reflected broader changes both to economic science and the general social and political climate, and also mirrored the specific skills, scholarly orientation, and political commitments historical economists brought to *Staatswissenschaften*. The origins of this socio-political orientation will be discussed in Chapters 3 and 4.

2.4 University Resources, Students and Careers

At this point it is necessary to discuss the rapidly-rising student numbers in all German universities and the implications this had for the *Staatswissenschaften*. Population growth, urbanisation and the continued growth of the German industrial economy resulted in an increased demand for statisticians, economists and administrators to fill posts in such rapidly growing fields as insurance, banking, mining, manufacturing, journalism, and chambers of trade and commerce. The accompanying expansion of federal, state and municipal bureaucracy further fuelled the demand for economically and statistically-trained administrators. This considerably altered university study, teaching and research. Correspondingly, there was a dramatic expansion in German higher education in the last quarter of the nineteenth century. This was both an expansion in the number of students as it was a widening of the breadth of subjects within the university and the founding of new universities, technical universities, business schools, and specialised research institutes. As will be seen below, the number of students in economics and related fields at Berlin and Strasbourg outstripped general growth trends at these universities.

According to statistics compiled by Schmoller's colleague, Johannes Conrad,

the expansion of student numbers, as a proportion of the population, began in the mid 1870s; before that time the number of students per million inhabitants was relatively stable, fluctuating between roughly 335 and 395. Between 1876-7 and 1881 the numbers increased to 445, between 1886-7 and 1891 it was close to 600, and by the period 1901 to 1906 it had increased again to almost 670 per million.¹ That is, controlling for population growth, the number of students in German universities roughly doubled over a period of thirty years. Women and more foreign students account for only a very small portion of this growth,² and the fact that the *Gymnasium* had to share its monopoly over the *Abitur* examination with *Realschulen* and *Oberrealschulen* plays only a minor role.³ Much more significant was the massive increase (more than twofold) in the number of *Abiturienten* generally. That is, many more people in Germany were sending children to the *Gymansien* and many more of these children were completing the *Abitur*, especially those segments of the population which themselves had no university education (particularly the lower middle classes), although the offspring of the educated middle classes (*Bildungsbürgertum*) were able to hold their position among the new university entrants tenaciously.⁴

This growth of the university system was caused and sustained - this must be emphasised - by the greater base of wealth to support higher education as a consequence of the dramatic growth of the economy since the 1850s. Economic

¹Conrad, 'Universitätsstatistik', 436.

²*Ibid.*, 439.

³*Ibid.*, 440-41.

⁴*Ibid.*, 448-49.

growth on a large scale meant that all German *Länder* had much larger budgets out of which to fund higher education. For example Prussia in 1866 had a budget of 455 million marks, of which 2 million (.44%) went toward university expenditure. By 1914 that budget had grown to 4,812 million marks of which 27 million (.56%) was devoted to universities. Smaller states, though they had smaller budgets and spent considerably more of their budgets on higher education in 1914 (Baden: 3.8%; Saxony: 4.3%), also had substantially larger budgets compared to 1866.¹ The other side of the demand and supply equation contributing to the tremendous growth of universities was, as mentioned before, the expansion of employment for graduates in a growing, differentiated and complex private sector and administrative apparatus.

This dramatic expansion in student numbers was reflected at the university of Strasbourg and in its faculty of Law and Economics between 1872 and 1894. Before Schmoller arrived, the university counted only 212 matriculated students, with 59 in its *Juristische Fakultät* (in its first semester, summer 1872).² During Schmoller's first semester in winter of 1873-74, student numbers had risen to 390, of whom the renamed *Juristische und Staatswissenschaftliche Fakultät* claimed 116.³ By summer semester 1874 there were some 621 students of whom 161 belonged to the faculty.⁴ Ten years later, in the WS 1884-85 the numbers were 872 and 182, and in another ten years, by WS 1894-95, they had grown yet again to 949 and 269, respectively.⁵ That

¹C. McClelland, *State, Society and University in Germany 1700-1914* (Cambridge, 1980), 307.

²U. Strassburg, *Amtliches Verzeichnis*, SS 1872, 18

³*Ibid.*, WS 1873-74, 38.

⁴*Ibid.*, SS 1874, 39.

⁵*Ibid.*, WS 1884-85, 44, and WS 1894-95, 49.

is, student numbers at Strasbourg between 1872 and 1894 grew by about 4 1/2 fold (348%), while in law and economics they expanded by a slightly greater proportion (356%).

Berlin University showed an even more dramatic rise in student numbers over a somewhat later period of relevance because it coincided with Schmoller's tenure. In WS 1890-91 some 5,527 students were matriculated at the university, of which 52 were studying *Cameralien* (Economics) or *Landwirtschaft* (Land Economy).¹ By WS 1895-96 the numbers of students overall had actually fallen slightly to 5,368 but had risen in the sub-faculty to 83.² In SS 1899 the number of students had fallen again to 4,997, yet the number of students in economics and land economy rose strongly to 139.³ By the WS 1904-05 student numbers had expanded dramatically to some 7,774 matriculated students, of which 258 were studying economics or land economy.⁴ In WS 1910/11 the university had again grown strongly to some 9,686 students (806 women) out of whom some 406 (30 women) were students of *Cameralien* or *Landwirtschaft*.⁵ That is, over a 20 year period the university saw a 75% rise in enrolment and a dramatic eight-fold (680%) rise in students of economics or land economy. It is particularly interesting to note that the slight falls in student numbers in 1895-96 and 1899 had no effect on the continual and rapid rise of students in economics.

¹U. Berlin, *Amtliches Verzeichniß*, WS 1890-91, 165ff.

²*Ibid.*, WS 1895-96, 173ff.

³*Ibid.*, SS 1899, 176ff.

⁴*Ibid.*, WS 1904-05, 269ff.

⁵*Ibid.*, WS 1910-11, 305ff.

During this rapid expansion of university enrolment, the ratio of students to full professors rose acutely, but the increasing teaching burden was placed largely on the shoulders of junior faculty who were poorly paid and had no faculty representation.¹ As Conrad's overall statistics show, the increase in the number of full professors in the philosophical faculties of the Reich did not keep pace with the dramatic growth in student numbers between 1870 and 1906. Neither did those of *Extraordinarien* and *Privatdozenten*, so that the ratio of students per *Privatdozent* in the faculty more than doubled.² Such a state of affairs was reflected both at Strasbourg and then at Berlin. Between SS 1872 and WS 1894-95 the faculty in Strasbourg grew by slightly more than two-fold from 7 to 15, while the number of students in the faculty grew more than 4 1/2 times. And while in 1872 (apart from full professors) only one *Extraordinarius* was employed by the faculty, by WS 1894-95 two *Extraordinarien* and two *Privatdozenten* were teaching.³ In Berlin the teaching staff in *Cameralien* and *Landwirtschaft* grew from 9 to 14 (56%) between 1890 and 1910, less than one tenth of the nearly eightfold growth in students in the subject - from 52 to 406 (680%) - over the same period.⁴ That is, student to teacher ratios at Berlin rose from about 6:1 to 29:1.

Due to the nature of the doctoral *Promotion*, and in the case of hopeful academics, the *Habilitation*, patrons in the faculty were indispensable to students. Both

¹F. K. Ringer, *The Decline of the German Mandarins* (Cambridge, MA, 1969), 54-55.

²J. Conrad, 'Universitätsstatistik', 475-76.

³U. Strassburg, *Amtliches Verzeichnis*, SS 1872, 4 and 18; *idem*, *Amtliches Verzeichnis*, WS 1894-95, 5 and 49.

⁴U. Berlin, *Verzeichniss der Vorlesungen*, WS 1890-91, 21-22 and WS 1910-11, 57-58; *idem*, *Amtliches Verzeichnis*, WS 1890-91, 165ff, and WS 1910-11, 305ff.

the lack of any real intermediate or external examinations and the inexorable pressure of rising student numbers meant that the seminar took on ever greater importance as a venue for student selection. Revealing ability and/or sympathy within the context of the less-formal seminar or in the customary stints in taverns which followed thus became a necessity for young prospective scholars. As one of Schmoller's students, Wilhelm Stieda (later rector at Leipzig) recounted, the seminar was where relationships were forged and careers were made.¹ A glance at attendance in Schmoller's seminar in Strasbourg reveals a very high concentration of future academics. For example, in WS 1877-78 Schmoller's seminar of ten students contained no less than three prominent future academics: K. Rathgen, K. Eheberg, and M. Sering.² In the case of Stieda and Georg Schanz, studying under Schmoller at Strasbourg in the mid 1870s, Karl Oldenberg under Schmoller in Berlin in the 1880s, or Heinrich Herkner under Brentano in Strasbourg in the 1880s, this entailed getting directly involved in the research projects of faculty members - such as Schmoller's project on medieval guilds while at Strasbourg - which in successful cases could lead to distinguished doctoral theses, publications, and less commonly, admission to begin the *Habilitation* and later take a post as a *Privatdozent*.³ As Schmoller increasingly became involved in editing his *Jahrbuch für Gesetzgebung Verwaltung und Volkswirtschaft*, this also provided an avenue for collaboration to younger scholars such as Karl Eheberg and Karl Oldenberg, who became assistant editors and important contributors to this journal.

¹Stieda, 'Gustav Schmoller', 227-29 and 238-46.

²GStAB, Nl. Schmoller, 6: 95, table showing attendance and fees collected by Schmoller in WS 1877-78 for '*nationalökonomische Uebungen*'.

³Stieda contributed extensively to Schmoller's, *Die Strassburger Tucher- und Weberzunft* (Strasbourg, 1879), and later wrote his *Habilitation* on a related subject; Schmoller's seminar was the origin of Schanz's *Zur Geschichte der deutschen Gesellenverbände* (Leipzig 1877).

The seminar therefore became the training ground for aspiring academics, many of whom eventually took posts in universities, agricultural institutes, and later, in technical universities and business schools.

Not all students of *Staatswissenschaften*, however, intended to pursue academic careers. An education in *Staatswissenschaften* was commonly viewed as a training in *Verwaltung* (administration), but this was a term which entailed a very wide range of professions in both the public and private sectors.¹ Indeed most of the students trained by Schmoller, Knapp, Held and Brentano took up positions in the civil service, the churches, became journalists, interest group representatives or worked in statistical bureaus, banking or industry. In a letter to Althoff in 1897, Schmoller remarked that in the last few years at least 25 of his students had gone on to become secretaries in chambers of commerce or representatives of agricultural and industrial interest groups. Many senior officials, he pointed out, had also been students of his, such as directors of banks, officials in the foreign ministry, mayors, newspaper editors and heads of poor relief agencies.²

2.5 Teaching Faculty

Reflecting the close relationship between university and state governments, German professors were salaried civil servants, and rectors, *Ordinarien* and *Extraordinarien* (ordinary and extraordinary professors) and *Dozenten* (lecturers) were equal in standing to councillors of state second, third or fourth and fifth class respectively. Pay varied greatly between the professors and *Dozenten*, salaries being

¹GStAB, NI Schmoller, 6: 196-97, Studienplan (1875).

²GStAB, NI. Althoff, Abt. A1, 64: 3, Schmoller to Althoff, 31 March 1897.

determined in secret and with the discretion of the relevant ministry of culture. Generally *Extraordinarien* were paid very poorly and *Dozenten* received no salary at all, relying instead entirely on lecturing fees paid directly by students. For example, Knapp complained bitterly to Schmoller of his poor pay while still an *Extraordinarius* in Leipzig, with which he could barely make ends meet.¹ The implications of this system were that the professorate was largely recruited from a strata of *Bildungsbürger* which had sufficient private means to support themselves (often as long as ten years) until a proper salaried position was secured.

Career advancement and appointments depended heavily on the patronage of senior professors, their influence within the faculty and, even more importantly, their contact and influence within the relevant state's ministry of culture. Bonn, Berlin and Breslau were Prussian universities, and the Imperial university of Strasbourg, while administered directly by the Imperial Chancellery,² was in effect also run by the Prussian Ministry of Culture.³ Posts could only be filled by a formal call of appointment by the ministry, and it was customary for faculty to draw up a list of candidates proposed to fill the post in order of preference and for this to then be confirmed, altered or vetoed by the ministry. However, particularly prominent academics such as Conrad, Lexis, Schmoller, and Wagner were close, secret confidants of Friedrich Althoff, continually providing his ministry with additional, often decisive assessments of academics proposed by various faculties, especially regarding the

¹GStAB, Nl. Schmoller, 130a: 2-6, Knapp to Schmoller, 11 May 1874.

²U. Strassburg, *Provisorisches Statut*, 24, par. 86 and 87.

³Brentano, *Mein Leben*, 135-37.

prospective candidate's scholarly competence and political reliability.¹ Thus Schmoller, Conrad, Wagner, and especially Lexis (who was formally retained by the ministry as an expert evaluator after 1893) came to have tremendous discretion, not only over appointments in economics at their respective universities, but over all of Prussia.

Political reliability was always a factor in university appointments. Among historical economists this was reflected rather starkly in a number of cases. For example, while in Strasbourg Brentano fell out of grace with university and ministerial authorities when he vigorously supported one of his students, Heinrich Herkner, who had written a biting critique of the Upper Alsatian cotton spinning industry's exploitation and repression of labour. Brentano came under pressure and subsequently left Strasbourg.² Because of his left-liberal politics, Ignaz Jastrow remained an outsider who had to wait many years for an appointment; similarly, Karl Bücher's former career as social policy editor of the liberal *Frankfurter Zeitung* was a considerable political liability to his appointment at a Prussian university, as were Werner Sombart's sympathies for social democracy and interest in Marxist revisionism.³ With direct relevance to the latter two, a particularly vivid example of both the role of the confidential assessment and political factors in appointments is provided by the contents of a letter from Schmoller to Althoff of 21 July 1889:

Regarding the post at Breslau I can, in the interest of the science, only complain if the post is not filled by an *Ordinarius*; above all I would believe that you will gain in [Karl] Bücher a very hard-working force

¹Lindenfeld, *Practical Imagination*, 267.

²See Brentano, *Mein Leben*, 125-41.

³On Sombart's problems with the *venia legendi* in Berlin see Lenger, *Werner Sombart*, 176 and M. Weber, *Max Weber* (trans. Harry Zohn, New York, 1975), 392.

and Knapp assured me in April that his political radicalism is in no respects so strong that any reservations could remain to call him to Prussia.

Regarding Sombart, he is a first-rate talent; he has not yet lectured, I have however heard him speak at the *staatswissenschaftliche Gesellschaft* [economic society], do not doubt at all that he will develop into an outstanding *Dozent*. ... He is still somewhat youthful, strongly state socialistic, writes a bit much, - but very good indeed. At the moment I would know of no one better if only an *Extraordinarius* is to be called.¹

Eventually Sombart was called to the post as *Extraordinarius*.

The heavy dependence on the personal discretion of such influential men as Schmoller, as well as Conrad, Lexis, and Wagner, meant that German universities and sub-faculties of economics had a decidedly paternalistic culture. Full professors could be arrogant and schoolmasterly toward their faculty inferiors, whose careers were almost entirely at their discretion. Such power and privilege led to rather inflated and sensitive egos which often clashed. Relations between colleagues could be aloof and full of rivalry, as the continuous tensions between Wagner and Schmoller at the University of Berlin revealed. Indeed, upon taking the post in Berlin, Schmoller and Wagner, in order to avoid open hostilities, developed a *modus operandi* according to which they would each semester alternately give the core lectures in economics.² Even colleagues who were normally on good terms could have dramatic breaks in their relationship, such as developed between Schmoller and Brentano over Heinrich Herkner's controversial dissertation. Schmoller and Brentano ceased corresponding and remained unreconciled for more than three years thereafter.³ In some cases

¹GStAB, NI. Althoff, AII, 95 II: 59, Schmoller to Althoff, 21 July 1889.

²Wagner to Schmoller, 23 May 1881, in H. Rubner, *Adolph Wagner* (Berlin, 1978), 197-99.

³BAK, NI. Brentano, 57: 28-29, Schmoller to Brentano 18 June 1887, the next in the series is letter 30, 30 June 1890. The former letters are saluted 'Dear friend', the latter 'My very honoured colleague'.

quarrels, personal biases and hostilities influenced the outcome of examinations and appointments. Paternalism, patronage, secretly-negotiated salaries, competition, rank-consciousness, favouritism and envy formed an un-collegial environment in which academic disputes could easily explode into ugly polemics, leading not uncommonly to slander trials.

These institutional arrangements, particularly the great discretion given senior faculty in filling appointments, the climate of competition, rank-consciousness and hierarchy, as well as the flexibility of the curriculum and examinations meant that sub-faculties of *Staatswissenschaften* could become captive to the scholarly approach and opinions of its senior professors. The implication was that once a particular pattern of research, a method or political orientation was established it often survived until senior figures retired. Even then it could survive if obedient students had been carefully groomed for junior posts. In this environment, new innovative tools or developments within the discipline elsewhere were often dismissed or complacently ignored. This was particularly the case with innovative new theoretical impulses from abroad or from outside of the university. It is a fact that highly innovative research in the social sciences was done outside of the bounds of the university, especially in the independent statistical offices and the *Verein für Sozialpolitik*, but also by such academic outsiders as Richard Ehrenberg (1857-1921), Hugo Racine (1855-?), G. Schnapper-Arndt (1846-1904) and others.¹

2.6 Non-University Research Institutions

The key non-university research institutions of relevance to the mode of

¹See Oberschall, *Empirical Social Research*, 71-99.

production of historical economics were a number of regional statistical bureaus and their dependent seminars, most notably the Prussian Statistical Bureau in Berlin and its famous seminar under the direction after 1860 of Ernst Engel. In the course of the 19th century statistical bureaus had spouted up - often through private initiatives - throughout Germany and rapidly became an indispensable tool of state administration.¹ In many cases older historical economists had been decisive in this development, such as Bruno Hildebrand founding the Thuringian Statistical Office in Jena in 1864. In other cases, such as Georg Hanssen in Berlin and Karl Knies at Heidelberg, much had been done to foster statistics as an independent discipline and statistical bureaus as research institutes.

A key element of these statistical bureaus was the seminar. The impetus for this was largely pragmatic and had originated under K.F.W Dieterici at the Berlin bureau. Dieterici, who (as was customary at the time) jointly held the post of director of the statistical bureau and an economics professorship at Berlin University, had seen fit to devise practical exercises to complement his lectures, in which students gave reports and then discussed their findings.² The reason for this was that Dieterici had found many of the officials within the bureau insufficiently trained in statistics.³ With the succession of Dieterici by Hanssen in 1860, the latter ended the union of the professorship and direction of the bureau and recommended his friend Ernst Engel as the new director. Engel was an extraordinarily entrepreneurial figure open to new ideas

¹Prussia (1805), Württemberg (1820), Saxony (1833), Bavaria (1833), Baden (1852), Thuringia (1864), Anhalt and Hamburg (1866), Schäfer, *Historische Nationalökonomie*, 134.

²N. Waszek, 'Die Staatswissenschaften and der Universität Berlin im 19. Jahrhundert', in *idem* ed., *Institutionalisierung*, 291-92.

³*Ibid.*, 292.

and driven by a restless and inventive energy. Under his leadership the bureau began doing its own census surveys and developed an in-house publisher. Engel believed that statistics were a public matter and insisted that the statistical bureau maintain a degree of autonomy from the Ministry of Interior, which provided its budget. Consequently, under his direction the bureau's statistical publications began containing much more interpretative social reforming commentary and opinion directed toward the educated public, sometimes at odds with official opinion.¹ Engel also innovated the seminar method of hands-on teaching with empirical materials instead of conceptual dogmatics, and under his leadership the seminar became a distinct research institution with an expanded range of projects related to various official surveys (*Enquêtes*). It also accumulated its own specialised library.² Held, Knapp and Brentano all received a training in statistics under Engel in Berlin in the 1860s to supplement their economics training in what was rapidly becoming the most important empirical tool in economics. By all accounts, Engel must have been a very effective mentor who helped to put statistics into the hands of the young historical economists. As Knapp recalled:

The movement for economic history (despite the fact that Roscher's works already existed) only began later; while it is to Engels credit that he elevated statistics to new heights and brought it to the attention and within reach of economics. Since then the German works with materials; and since then the German teaches by educating through interaction. And it is through this, despite the fact that he was not a Professor, that Engel has had a lasting impact on the universities. He belongs to that group outside the guild who mean so inexpressibly much to our subjects...³

¹G. F. Knapp, *Einführung in einige Hauptgebiete der Nationalökonomie* (Munich and Leipzig, 1925), 322-24. Knapp noted, for example, that Engel refuted the effectiveness of the death penalty.

²GStAB, Nl. Schmoller, 151: 40-41, Engel to Schmoller, 3 April 1869. Engel himself claimed he had 'invented' the Berlin statistical seminar upon his appointment; Knapp, *Einführung*, 324-25.

³Knapp, *Einführung*, 326-27.

Schmoller had similarly trained under his brother-in-law, the statistician Gustav Rümelin at his Württemberg Statistical Office.¹ Rümelin, a noted polymath devoted to Kantian rationalism and critical of Hegelian philosophy, was considered a leading authority in the methodology of statistical interpretation.² After moving to Halle in 1864, Schmoller (through Rümelin) was in close contact with Engel and the young scholars then under his direction, most notably Brentano, Knapp and Held. As early letters between Schmoller and Knapp reveal, it was through these regular visits to Engel in Berlin and the contacts made there with Brentano, Knapp, Held, Wagner and Schönberg that the earliest rudiments of an organisation which became the *Verein für Sozialpolitik* evolved.³ Engel's bureau played a key role not only as a training ground and nexus, but Engel himself was one of the most important early advocates of social reform and transmitted that enthusiasm to his students.⁴ As will be discussed later, his many contacts to British reformers were highly significant to the German social reform movement in which Brentano, Held, Knapp and Schmoller became leading figures.

Statistical bureaus such as Engel's, Rümelin's and Hildebrand's formed a distinct community connected to one another by a network of numerous links, even to such bureaus abroad, and so represented an important institution for comparative research and the dissemination of new methods. It should be mentioned that the

¹G Schmoller, 'Meine Heilbronner Jugendjahre', *Von Schwäbischer Scholle. Kalender für schwäbische Literatur und Kunst 1918* (1917), 60.

²*Idem*, 'Gustav Rümelin', 145, 171-79.

³GStAB, Nl. Schmoller, 130a: 86-87, Knapp to Schmoller, 2 Mar. 1871.

⁴BAK, Nl Brentano, 16: 3-5, Engel to Brentano, 6 Oct. 1868. Here Engel emphasised the importance of Brentano's study of British trades unions for bringing about reforms to German law governing worker coalitions.

International Statistical Congress played a role in this. The congresses, begun in 1853 through the initiative of Adolphe Quetelet (1796-1874), were extraordinarily effective in encouraging common standards and the development of international contacts between statisticians.¹ After 1887, the International Statistical Institute continued this work.² It was thus not unusual for members of a bureau or seminar to travel abroad to train or gather data with the recommendation or accompaniment of the director. For example Brentano's *Arbeitergilden der Gegenwart* (1871), volume 1 of which served as his *Habilitation* thesis, originated in a research trip with Ernst Engel in 1868 to Britain to investigate British cooperatives and trades unions.³ Another good example was Wilhelm Stieda, who while attached to the Berlin seminar in 1874 travelled to Paris to gain knowledge about progress in French statistics, attending Emile Levasseur's (1828-1911) lectures at the College de France. Through Engel's recommendations Stieda also met a number of distinguished economists and statisticians, like Maurice Block (1816-1901).⁴ Moreover, a number of statistical bureaus had their own publications to disseminate their findings, most importantly the *Zeitschrift des Königlich Preußischen statistischen Büreaus* in Berlin, the *Jahrbücher für Nationalökonomie und Statistik* in Jena, and the *Zeitschrift des statistischen Bureau der Stadt Leipzig*. It was common for directors or associates of statistical bureaus to publish in such journals. For example, Brentano's very first scholarly article was

¹These were held in Brussels (1853), Paris (1855), Vienna (1857), London (1860), Berlin (1863), Florence (1867), The Hague (1869), St. Petersburg (1872) and Budapest (1876).

²Congresses were held in Rome (1887), Paris (1889), Vienna (1891), Chicago (1893), and Berne (1895).

³Brentano, *Mein Leben*, 28ff.

⁴Stieda, 'Gustav Schmoller', 226

published in the Berlin bureau's *Zeitschrift* in 1868, just as had Knapp's in 1867.¹ Between 1868-74 Knapp also published 6 major articles in the Leipzig journal. More substantial treatises, sometimes with major methodological implications, were also published by those working in statistical bureaus, such as Knapp's ground-breaking theory of mortality measurement, published while he was director of the Leipzig municipal statistical office.²

2.7 Professional Organisations and Scholarly Societies

The *Verein für Sozialpolitik*, founded by Schmoller, Brentano, Held, Knapp and other colleagues in 1873, became perhaps the most important social reform organisation in Imperial Germany and its development and impact on reform will be treated in later chapters. Here its other function as a scholarly society, and particularly, as an institution for coordinated empirical social research and publication will be discussed. While the *Verein* had established itself as the main society of the economics profession in Germany and Austria by the 1890s, in the 1870s and 80s this was by no means assured, there being other competing bodies. As will be discussed in chapter 5, the *Verein* was not initially conceived as a professional body, but as one devoted to studying and advancing social reform.³ It was in this sense much like other middle class social improvement societies in Britain and America which reflected the civic optimism and entrepreneurial energy of the times. Indeed, Schmoller explicitly compared the *Verein* to the British Association for the Promotion of Social Science

¹See Brentano in *ZSB* 8 (1868) and Knapp in *ZSB* 7 (1867).

²*Ueber die Ermittlung der Sterblichkeit aus Aufzeichnungen der Bevölkerungsstatistik* (Leipzig, 1868).

³Boese, *Geschichte*, 3.

(1857), an organisation of academics and philanthropists which struggled to implement practical reform ideas.¹ Comparisons too have been made with the American Social Science Association (1865).² The *Verein* was also much like its older German counterparts, the *Kongress deutscher Volkswirte*, founded in 1858 by leading members of the liberally-inclined *Centralverein für das Wohl der Arbeitenden Klassen*, itself founded 1844 by the Prussian government to coordinate the efforts of poor-relief societies to combat pauperism. The *Kongress* published the *Vierteljahrsschrift für Volkswirtschaft, Politik und Kulturgeschichte* beginning in 1863, which became the mouthpiece of the German free trade movement.³ The *Kongress* had a claim to being the first German economics association, accommodating a broad range of political views, uniting as it did all those interested in economic policy as a tool to resolve social and labour questions. By the early 1870s, however, its members began to quarrel over the scope and mechanics of reform, and a split emerged between the more *laissez-faire* members of the *Kongress* and *Centralverein*, such as H.B. Oppenheim and Viktor Böhmert, and other members who called for more wide-ranging legislative action, such as Schmoller, Brentano, Gustav Schönberg and Adolph Wagner, who then held a rival congress in Eisenach in 1872 and founded the *Verein* in 1873.⁴ In reality, however, the dividing line between the *Centralverein* and *Kongress*, on the one hand, and the *Verein*, on the other, was difficult to draw, there being a considerable degree

¹G. Schmoller, *Über einige Grundfragen der Socialpolitik und der Volkswirtschaftslehre* (Leipzig, 1898), 204.

²Lindenfeld, *Practical Imagination*, 224.

³See R. Raico 'Der deutsche Liberalismus und die deutsche Freihandelsbewegung', *ZfW* 36, no. 3 (1987), 263-81.

⁴See Hentschel, *Freihändler*, 193-230.

of cross-membership of both bodies (e.g., the chairman of the *Centralverein*, Rudolf Gneist [1816-95], was elected first chairman of the *Verein*). The main weakness of the *Kongress* was that it was not as programmatically unified on social reform as the *Verein*.¹ By 1873 tempers on both sides had cooled enough for a process of reconciliation to begin. Adolf Held, the *Verein*'s first secretary and an early advocate of scientific social reform, sought to turn the *Verein* into a more professional body.² Reconciliation was further encouraged by the fact that, like his older Bonn colleague Erwin Nasse (who replaced Gneist as the *Verein*'s chairman in 1874), Held was a resolute free trader, and by the fact that the *Kongress* voted in favour of protective tariffs in 1875, while the *Verein* voted instead for free trade.³ Both bodies subsequently agreed to open meetings to each other and hold conferences in alternating years.⁴ In 1885 the *Kongress* fused entirely with the *Verein*.

The *Verein* organised yearly meetings. These were held in Eisenach until 1876, then for many years until the early 1890s in Frankfurt, and thereafter in major cities throughout Germany and to a lesser extent Austria. Until 1881 the *Verein* voted on policy resolutions and often also sent petitions to government, some of which were quite controversial, and as can be guessed, generated their share of divisive debates, confrontations, impasses and eventual compromises which have been studied in depth by Dieter Lindenlaub and will be treated where relevant to the historical economists

¹*Ibid.*, 204.

²GStAB, Nl. Schmoller, 128: 88-89, Held to Schmoller, 24 Dec. 1872. See also, A. Held, 'Ueber den gegenwärtigen Principienstreit in der Nationalökonomie', *PrJbb* 30 (1872), 185-212; and *idem* 'Der Sozialismus und die Wissenschaft', *Concordia* 2 (1872), 11-12, 16 and 18.

³Hentschel, *Freihändler*, 229.

⁴Boese, *Geschichte*, 26

in chapter 5.¹ What must be touched on here are the methods of inquiry used, the range of subjects studied and the scale of the scholarly output commissioned and published by this body.

Like many civic improvement societies, the *Verein* counted among its members academics, senior civil servants, publishers, industrialists, trade union leaders and journalists. But the *Verein* was distinctive from the *Kongress* and other such societies in Germany and abroad in two important ways. First, its membership, especially its board, was dominated by academic economists, statisticians and administrators.² Secondly, the *Verein* conducted its own surveys and research and published its findings in its own monograph. In advance of conferences, the *Verein*'s board held meetings to nominate and vote on the subjects to be discussed at the conference. Sets of questions were then raised and parameters set for research and fieldwork (or in the case of surveys, questionnaires were drafted and administered) by a commissioned expert, and increasingly, groups of experts. The results of these investigations and surveys would then be compiled into summary studies which were circulated before conferences. These in turn were supplemented at the conferences by reports, thereby providing a common basis for informed deliberations and debate.³ As might be suspected, the subjects chosen were ones subjectable to empirical investigation - and as importantly - for which practical solutions could reasonably be expected. For example, at the Eisenach Congress in 1872, Schmoller produced a report on trade unions and strikes, Ernst Engel one on housing problems and homelessness, and

¹See Lindenlaub, 'Richtungskämpfe'.

²See Gorges, *Sozialforschung*, 67-75, and 155-57.

³*Ibid.*, 96-102.

Brentano one on factory laws.¹ While the *Verein's* surveys were based on statistics, these always remained statistically qualitative studies, combining surveys with detailed fieldwork which often provided graphic descriptions of conditions not unlike the later poverty studies of Charles Booth (1840-1916) and Seebohm Rowntree (1871-1954) in England. Following the conferences, the commissioned studies were published in the *Verein's* monograph, the *Schriften des Vereins für Socialpolitik*. Subjects were chosen and studied to combat what was held to be wide-spread public, legislative and official ignorance, prejudice and apathy regarding urban-industrial social problems. The *Verein* thus represented a partial privatisation of social inquiry from ministries and statistical bureaus to voluntary organisations because of public dissatisfaction with official efforts to address the social question. It was a secularised, scientific and *Bürgerlich* alternative to both traditional religious charity and the poor laws of the police state.

To get an idea of the scale of the *Verein's* research, by 1914 it had published some 140 volumes of its *Schriften* of an average length of about 350 pages each. This amounted to the most elaborate and authoritative collection of original empirical social research produced in Imperial Germany.² Schmoller contributed 7, Brentano 14, and Held 4 studies to various volumes. Knapp contributed 1. The historical economists' involvement in some of the first investigations of the *Verein* in the 1870s, (which required the help of some 73 experts in 14 different professions),³ investigating laws of incorporation (1873), factory laws, courts and boards of arbitration (1873), personal taxation (1873), old age and disability insurance funds (1874), profit sharing (1874),

¹See StA, ed., *Verhandlungen 1872* (Leipzig, 1873).

²Lindenlaub, 'Richtungskämpfe', 32.

³Gorges, *Sozialforschung*, 103.

punishment of breach of labour contract (1874), progressive income taxes (1874), reform of apprenticeship education (1875), municipal taxation (1877), and continuing education in trades (1879) were important not only as authoritative empirical investigations, but also as programmatic statements about the indispensability of empirical research to social policy. Even if some of these initial studies more often revealed the limited degree of information available, as well as the disturbing ignorance of official bodies, they nevertheless set a high standard of empiricism and objectivity which was widely accepted within the *Verein*.¹ And as the *Verein* later developed into the professional body of German economics, it is striking to what extent good professional practice became identified with empirical research.

While the impact of specific surveys and studies will be discussed in later chapters, it is relevant to mention that the *Verein*'s studies sometimes supplemented the Reichstag's own investigations, providing the empirical basis for debates and blueprints for legislation. Unlike the House of Commons, the Reichstag did not generally carry out extended investigations of issues before bills were debated and laws enacted, and so it often relied on the studies from outside sources like the *Verein* - in some cases even funding such studies. In this sense the *Verein* did exercise great indirect influence in agenda-setting and policy-making. Examples of this were the *Verein*'s 1894 survey on the state of handicrafts and a later study focusing on the crisis facing employment, both of which received direct government subsidies.²

Two other scholarly societies related to economics which must be mentioned:

¹See *ibid.*, 104-9 ; Lindenlaub, 'Richtungskämpfe', 97; Schäfer, *Historische Nationalökonomie*, 26-29.

²See *Schriften* 62-69 (1895-97) and *Schriften* 109 (1903); these monographs received a government subsidy of 5,000 and 300 marks respectively, Lindenlaub, 'Richtungskämpfe', 34-35.

the *Staatswissenschaftliche Gesellschaft* (State Sciences Society) and the *Gesellschaft für Staatswissenschaftliche Fortbildung* (Society for Further Education in State Science). The former was founded by Schmoller and other colleagues in 1883 (the year Schmoller was made a member of the Prussian Council of State [*Staatsrat*]) as a society to encourage discussion between academics and high civil servants on issues of relevance to the *Staatswissenschaften* broadly speaking, including legislation, jurisprudence and history.¹ The society held informal but confidential meetings, usually on the evening of the last Monday of each month at the Berlin Handelshof restaurant. Reports would be given by a member followed by discussions. As it turned out, a majority of the discussions were on social reform, and it is notable that key senior civil servants closely involved in factory, worker protection and social insurance legislation regularly attended or gave reports in the 1880s and 90s:² Theodor Lohmann (1831-1905), an influential specialist on factory conditions in the Prussian Ministry of Trade and until 1884 Bismarck's chief legislative representative and advisor on social insurance, who drafted the Health Insurance Law of 1883 and much of the Accident Insurance Law of 1884; Anton (Tonio) Bödiker (1843-1907), from 1881 in charge of commercial and insurance affairs in the Imperial Office of the Interior and later first president of the Imperial Insurance Board; Robert von Bosse involved in drafting and implementing social legislation as undersecretary, then director (1891) of the economic section of the Imperial Office of Interior (later also Prussian Minister of Culture, 1892-99); and Erich von Woedtke (1847-1902), a senior

¹R. vom Bruch, 'Die Staatswissenschaftliche Gesellschaft', in *Hundert Jahre Staatswissenschaftliche Gesellschaft 1883-1983*, ed. Vorstand der Staatswissenschaftlichen Gesellschaft (Berlin, 1983), 9-69.

²*Ibid.*, 52-54.

advisor in the Imperial Office of Interior, later in charge of the social policy section between 1886 and 1901 and drafter of the Disability and Old Age Insurance Law of 1889.

The *Gesellschaft für staatswissenschaftliche Fortbildung* was, as its name reflected, a society expressly organised to foster continuing education in *Staatswissenschaft* for civil servants as well as the public at large, something with which the *Verein* had itself experimented in the 1890s. It was modeled on the English university extension system. The society, founded upon the initiative of Friedrich Althoff and Schmoller in 1902, organised public lectures and summer schools and sought generally to bring the university into closer contact with the public.

2.8 Publishers

The role of publishers in any scholarly mode of production is obvious, yet the degree of their significance to historical economics and social reform has hitherto never been fully investigated. Two publishers, Carl Geibel, Jun. (1842-1910) owner of Duncker & Humblot in Berlin and Leipzig, and Gustav Fischer (1845-1910) founder and owner of the Gustav Fischer Verlag in Jena played key roles in the publication not only of scholarly books, but also of journals and series produced by, or in conjunction, with nearly all historical economists. Both were keenly interested in economics and social science as well as in social and political matters generally. They were both patrons of the discipline at a critical phase in its development, supporting a number of initially loss-making projects through cross-subsidisation or through their own personal fortunes.

Gustav Fischer created in 1878 the publishing house which bore his name out

of the old the Duft Verlag. He subsequently became highly esteemed as a leading publisher in the social sciences generally. This prestige was due to close links to senior academic economists, most notably to Johannes Conrad of Halle, founder and editor of the dictionary, *Handwörterbuch der Staatswissenschaften*, a monumental project typical of the time, defining the breadth of *Staatswissenschaft* before this discipline was divided into various social sciences shortly before the First World War. Fischer had himself given it early encouragement and was its publisher. A number of historical economists published contributions to this dictionary, which will be discussed below. Fischer also took over publication of the *Jahrbücher für Nationalökonomie und Statistik* which Conrad edited after Bruno Hildebrand's death in 1878. This journal was the main economics journal in Imperial Germany and an important periodical for many historical economists' early writings discussed below. Fischer's sympathies were with the National Liberal Party, and he served as a liberal representative in the Prussian Chamber of Deputies. His editorial preferences reflected his politics and he became in some respects the publisher of choice for similarly minded academics. Consequently, he was the publisher of many of Bücher's, Lexis', Weber's and some of Brentano's later books, as well as publisher of most of the significant non-historical economists: Conrad, Schäffle, and Wagner, among others.

Carl Geibel was an unusual publisher because of his early direct involvement in German social reform: he was a founding member of the *Verein für Sozialpolitik* and served as its secretary for many years. He was thus closely acquainted with Knapp, Held, Brentano and, above all, he was a close, life-long friend of Schmoller's. Geibel's father had bought the venerable publisher Duncker & Humblot in 1864 and allowed his son free rein in its operations. The younger Geibel subsequently focused

Duncker & Humblot's range of publication on history, law, economics and the emerging social sciences. While in Leipzig as an *Extraordinarius*, Knapp had got to know Geibel, who published Knapp's study of mortality in Saxony in 1869. Through Knapp, Geibel was introduced to Brentano, and later to Held and Schmoller.¹ Geibel subsequently published Brentano's *Arbeitergilden* (1871), and asked Schmoller to write a review of this book, which he did.² Schmoller had already expressed a desire to work together with Geibel, and in September of 1872 Geibel wrote Schmoller formally offering him his services as publisher, particularly to publish Schmoller's address to the Eisenach congress of October 1872 to discuss the social question.³ Thus began a lifelong publishing relationship.

Geibel's subsequent close involvement with historical economics and social reform was of major importance. He published most of the works of Schmoller, Brentano, Knapp, Held, Cohn, Sombart, Sering, Schulze-Gaevernitz, Rathgen, and Schanz. Moreover, he became publisher of the *Verein's Schriften* and his generosity and willingness to cross-subsidise (via the profits from the more popular works he published, such as Ranke's history) enabled the continuous publication of this series, especially in the early years.⁴ Most significantly, Geibel also published and subsidised Schmoller's *Jahrbuch*, as well as Schmoller's monograph series *Staats- und Sozialwissenschaftliche Forschungen* and *Forschungen zur brandenburgischen und*

¹Brentano, *Mein Leben*, 63.

²Letter 6, Brentano to Schmoller, 4 Feb. 1871 in Goetz, *AfK* 28 (1938), 326-28; Schmoller's review was published in *LZ* (1870), 1286ff.

³GStAB, Nl. Schmoller, 123: 7-10, Geibel to Schmoller, 11 Sept. 1872.

⁴Geibel told Schmoller that publishing the *Schriften* was a loss making enterprise, GStAB, Nl. Schmoller, 123: 15-16, Geibel to Schmoller, 22 June 1874.

preußischen Geschichte. Reflecting his keen commitment to social reform and close friendship with the Prussian Minister of Trade and active social reformer, Hans von Berlepsch (1843-1926), Geibel bought the journal *Soziale Praxis*, a key weekly focused exclusively on social policy, and he bore substantial costs to get it going.¹ As this reveals, Geibel's political and intellectual sympathies influenced decisions to publish, and these sympathies were so strongly in line with Schmoller and his colleagues that it is not inappropriate to call him *the* publisher of historical economics.

2.9 Journals and Dictionaries

Finally, journals and dictionaries need to be discussed. Without any doubt the most important journals for Schmoller, Knapp, Brentano and Held were Holtzendorff's and Brentano's, and then Schmoller's *Jahrbuch*, Hildebrand's and then Conrad's *Jahrbücher für Nationalökonomie und Statistik* and Schäffle's and then Bücher's *Zeitschrift für die gesamte Staatswissenschaft*. The relative significance of these journals and other lesser ones can be divided into two distinct phases: the period between about 1865 and 1880, in which the *Jahrbücher*, *Zeitschrift* and a number of other journals were key to the scholarly output of historical economics, and the period after 1880 until 1914, during which Schmoller's *Jahrbuch* clearly predominated, but when a number of new journals also emerged of significance to the younger generation which followed Schmoller's.

To give an idea of the growth in the industry of journal article output in the

¹See G. Schmoller, 'Carl Geibel', *JbGVV* 35 (1911), 1-12.

three major journals just mentioned, it should be noted that together in 1870/71¹ they generated some 56 articles and together comprised a little over 2,000 pages of published output. By 1910 these same three journals were generating as many as 144 articles and a combined published output of over 4,500 pages. Measured by articles, this represents a growth in the industry of about 157% between 1870 and 1910.

For an idea of the comparative output (not counting book reviews) of Schmoller, Held, Brentano and Knapp between about 1860 and 1880 (the year Held died), it should be noted that Schmoller published some 26 articles, Brentano 18, Held 32, and Knapp 14. That is, over this 20 year period, Schmoller produced on average over 1, Brentano slightly less than 1, Knapp .7, and Held 1.5 articles per year. Between 1860 and 1918 Brentano and Schmoller published some 146 and 109 articles, respectively. That is, on average Schmoller produced about 2 and Brentano 2 1/2 article per year over a productive lifespan of 58 years. This illustrates the importance of the era after 1880 - and particularly Schmoller's *Jahrbuch* - for this output. For example, between 1880 and 1918 Schmoller alone published 75 articles in this journal.

The oldest economics journal was founded by Karl Heinrich Rau in 1835 and appropriately called the *Archiv der politischen Ökonomie und Polizeiwissenschaften* until it was fused with the *Zeitschrift für die gesamte Staatswissenschaft* in 1853. The latter thereby became the oldest surviving journal, founded by Robert von Mohl (1799-1875) in 1844. Mohl was a professor of public law in Tübingen, where one of the first and only faculties of economics was established, and it continued to be edited by members of the faculty in Tübingen after his death. Albert Schäffle (1831-1903)

¹Counting the first (1871) volume of the *Jahrbuch für Gesetzgebung, Verwaltung und Rechtspflege des Deutschen Reiches* (*JbfGVR*) which later became Schmoller's *Jahrbuch* (*JbfGVV*).

became co-editor of the journal after being appointed to Tübingen in 1860. Adolph Wagner joined him as co-editor in 1887. In the *Zeitschrift* since Mohl, the *Staatswissenschaften* were defined very broadly, and a strong encyclopedic preoccupation predominated which was never quite abandoned. *Staatswissenschaften* as defined by this journal's editors was a 'science of public life', combining politics, history, statistics, international and constitutional law, administration, finance, cameralism, and police and military science, with economics predominating.¹ In 1903, the historical economist and long-time friend of Schäffle, Karl Bücher, became editor-in-chief, and reflecting the pluralism characteristic of many historical economists, a variety of economic methods were tolerated in the journal.

Between 1870 and 1910 one volume (4 issues) of about 800 pages was published yearly. Particularly notable was the fact that this journal often published extremely long articles (some in excess of 200 pages). An aspect of this journal of particular relevance to the mode of production of historical economists was the fact that the *Zeitschrift* often published distinguished dissertations, such as Schmoller's doctorate in 1860, a long treatise on incomes and taxation in 1863, and Held's *Habilitation* thesis in 1868.² Also, before Brentano's and then Schmoller's editorship of the *Jahrbuch für Gesetzgebung* in the late 70s and early 80s, the *Zeitschrift* published 3 articles by Brentano and Schmoller, respectively. Thereafter it played only a very minor role for historical economists, due in part to disputes with Schäffle, Schönberg, and Wagner, though a number of other historical economists, notably Karl

¹See H. Sauermann, 'Die Gesamte Staatswissenschaften im Spiegel dieser Zeitschrift', *ZfGS* 134 (1978), 1-14.

²See *ZfGS* 16 (1860), 19 (1863), and 24 (1868), resp.

Bücher and Gustav Cohn, remained regular contributors.

The *Jahrbücher für Nationalökonomie und Statistik* began as Bruno Hildebrand's personal project. A man of strong opinions, he had objected to the economics of the German free trade movement, been an activist in the liberal movement, and a deputy in the Frankfurt Assembly of 1848, for which reason he was forced into exile. After returning from exile he took up a professorship in economics at Jena in 1861, where he assumed the co-directorship of the seminar for *Staatswissenschaft*. At that time he went to work organising the *Jahrbücher*, which he founded and began editing in late 1862. Hildebrand was also instrumental in the founding of the Jena statistical offices and the creation of a statistical seminar. The *Jahrbücher*, reflecting the full name of the journal, was in fact envisioned to allow members of both the statistical and economic seminars to publish their research.

Unlike Mohl, Hildebrand explicitly envisioned the *Jahrbücher* (or Hildebrand's *Jahrbücher* as they were known) as a scientific journal for economics, and from the beginning the journal was devoted to empirical statistical studies, propagating Hildebrand's own theory of economic stages and debunking classical economic theory. Though his opinions sometimes showed through, the *Jahrbücher* had a legitimate claim to being the only journal in Germany focused solely on economics and statistics. Most importantly, Hildebrand's empirical-historical methodological preferences and strong interest in statistics had considerable influence on the content of the journal, sympathetic as it was to the work of Schmoller, Brentano, Knapp and Held.¹ Indeed,

¹See O-E. Krawehl, 'Zweihundert Bände Jahrbücher für Nationalökonomie und Statistik', *JbbfNS* 202 (1985), 1-6. Hildebrand expressed his sympathy for Schmoller's work and asked him for contributions to his new journal as early as 1863, GStAB, Nl. Schmoller, 151: 92-93, Hildebrand to Schmoller, 3 July 1863.

before Hildebrand's death, Schmoller, Knapp and Held published six articles each, some of which count among the most important articles of their respective careers. For example, Schmoller published both his opening address and report on trade unions at the 1872 Eisenach congress in the journal.¹ Moreover, his series of articles in response to Heinrich von Treitschke's (1834-1896) accusations of being a patron of socialism were first published here.² These articles formed an important defense of the methodology and politics of social reform and were later published in one of Schmoller's most widely-read and influential books.³ Though overlooked today, Held and Knapp also wrote important methodological treatises in the journal, particularly their critiques of statistical determinism and defense of free will, arguments which showed the possibility of social change through reform.⁴

After Hildebrand's death in 1878, the *Jahrbücher* moved increasingly away from theory toward detailed, often tedious, collections of facts and massive treatments of points of economic and social policy. Responsible for this shift was the new editor, Hildebrand's son-in-law Johannes Conrad, who himself was very empirically oriented. Conrad was known for his extensive statistical collection and interpretation, research on agrarian policy, and even more importantly, his impressive network of contacts and ability to organise joint research projects. Indeed, Conrad closely connected the research projects of his own economics seminar at Halle University with the *Jahrbücher*. The greatest of Conrad's cooperative efforts was the *Handwörterbuch der*

¹See *JbbfNS* 19 (1872), and 20 (1873).

²See *JbbfNS* 23 (1874) and 24 (1875).

³*Ueber einige Grundfragen des Rechts und der Volkswirtschaft* (Jena, 1875), later in *Über einige Grundfragen der Socialpolitik und der Volkswirtschaftslehre* (Leipzig, 1898), 1-211.

⁴See Held in *JbbfNS* 9 (1867) and Knapp in 16 (1871) and 18 (1872).

Staatswissenschaften, edited with a number of Conrad's students. The *Handwörterbuch* was a monumental, discipline-defining achievement for German economics because of the authority of its contributors as well as the comprehensiveness of the range of its subjects. Indeed, the later English *Palgrave Dictionary of Economics* was modeled on it. Wilhem Hasbach commented in the first volume of *The Economic Journal* in 1891 on the 'feverish activity' in economic history and descriptive work in Germany. This, he wrote, was encouraged by the rise of the 'Historical School', a variety of practical social and economic problems whose solution required a solid empirical foundation, and the incentives provided by Professors Schmoller, Knapp and Conrad. He noted how the *Handwörterbuch* was a culmination of this coordinated research effort:

In this way a little army of scientific forces is being organized, without which the completion of the 'Dictionary of Political Science,' the second volume of which has just been published, would be an impossible undertaking, but which under actual conditions may be considered more or less as the most concentrated manifestation of scientific life in German political economy.¹

The first edition (1890-94) encompassed 6 volumes of about 1000 pages each, later supplemented by two additional volumes of the same size. Fittingly, Schmoller contributed the central article on economics and economic methodology, Brentano himself produced two contributions, one on the chartists and another on trade unions, and Knapp one on peasant emancipation in Prussia.² By 1911 this highly-successful reference work was in its third edition and had expanded considerably, with a number of further contributions by the historical economists.

¹Hasbach, 'Recent Contributions', 519.

²Schmoller in *HdSt*, vol. 6, 527-63; Brentano in *ibid.*, vol. 5, 741-45 and, vol. 4, 1-7; Knapp in *ibid.*, vol. 2, 182-90. These were subsequently revised and expanded in later editions.

Under Conrad's leadership, and after 1891 with the co-editorship of Wilhelm Lexis, the scale and scope of the *Jahrbücher* mushroomed: longer articles, extensive book reviews - such as the series between 1882-1884 which covered the entire range of texts in economic history - reports from congresses, surveys of economic literature in other periodicals, and excerpts from official reports. He also published many specialised supplemental volumes such as the 'Volkswirtschaftliche Chronik', which compiled detailed statistics on developments in various branches of trade and industry. Thus between 1870 and 1890 the journal grew from two yearly volumes together of 884, to some 1,338 pages. By 1910 Conrad was publishing more than 1,700 pages a year. While the importance of this journal to German economics continued after 1878 - with regular contributions from Conrad, Lexis and their many students - it is nevertheless important to point out that Brentano published only one article thereafter and Schmoller none.

A number non-economic journals significant to the mode of production between 1865-1880 should also be mentioned at this point. The reason is that Schmoller, Brentano and Held published a number of very important articles on the social and labour question in these journals in the 1860s and 1870s. The journal of the *Central-Verein für das Wohl der Arbeitenden Klassen*, which after 1863 was known as *Arbeiterfreund*, was where Schmoller published in 1869 an important treatise on the history of the small trades before publishing it as a book in 1870.¹ Held was by far the most active contributor to this journal with some four publications, most of which reported on meetings of the *Verein für Sozialpolitik*. Another of these journals was

¹See *Der Arbeiterfreund* 7 (1869); later *Zur Geschichte der deutschen Kleingewerbe im 19. Jahrhundert* (Halle, 1870).

Preußische Jahrbücher, a highly-esteemed public affairs journal founded by Rudolf Haym (1821-1901) in 1858, and edited by Treitschke and Wilhelm Wehrenpfennig (1829-1900), and later by Schmoller's student, Hans Delbrück (1848-1929). It was in this journal that Schmoller published an early, yet highly important three-part article on the labour question,¹ and here also where the Schmoller-Treitschke controversy erupted.² Brentano and Held published a number of articles in this journal on such subjects as socialism and disputes over social reform.³ *Concordia: Zeitschrift für die Arbeiterfrage* was yet another early journal focused on the labour question. This journal was unique in that it was founded jointly in 1871 by Erwin Nasse and the industrialist Karl von Stumm. Brentano and Held contributed many articles, most notably Held's articles on social democracy which were part of a controversy with Wagner over the science of social reform.⁴

After 1880, Schmoller's *Jahrbuch für Gesetzgebung, Verwaltung und Volkswirtschaft im Deutschen Reich* became the most important journal to the mode of production of historical economics. The *Jahrbuch* was originally called *Jahrbuch für Gesetzgebung, Verwaltung und Rechtspflege des Deutschen Reiches*, that is - and reflecting its name - it was a journal concerned primarily with legislation, administration and jurisprudence. It was first published in 1871 by Franz von Holtendorff (1829-89), professor of law in Berlin, coinciding with the founding of the new Empire, and was meant as a journal keeping abreast of new administrative and

¹See *PrJbb* 14, no. 4-5 (1864) and 15, no. 1 (1865).

²Schmoller in *PrJb* 33, no. 4 (1874) and Treitschke in 34, no. 3 (1874).

³Brentano in *PrJbb* 33 (1874) and Held in 30 (1872).

⁴*Concordia* 2 (1872).

legislative affairs. Along with Adolph Wagner and August Meitzen, Brentano was one of the first economists to contribute to this journal. Brentano's first contribution to the *Jahrbuch* in 1876 was quite unusual for the journal because it was a rebuttal to claims made by the imperial finance minister, Otto von Camphausen (1812-1896), that rising wages and a shorter work-week were a cause of the recession. Brentano, in defense of the workers, retorted that productivity improvements justified both shorter working hours and higher wages.¹ This and other articles by Brentano that followed were very important because they marked an increased interest in the journal for economic and especially social issues. The attention Brentano gained also led to an editorial relationship with Holzendorff. As Brentano later noted in his autobiography, joint editorship with Holzendorff was the fulfilment of an old *Kathedersozialist* wish to have ones own journal.²

In line with the changes to the editorship and the increased interest in economic and social affairs, the journal's title was slightly altered, substituting *Rechtspflege* (judicial administration) with *Volkswirtschaft* (political economy). Therefore, it was Brentano, and not (as is often believed) Gustav Schmoller, who was responsible for giving the journal its new direction. The first volume of the new series (1877) was notable because it published many economics articles, particularly the first article in the journal by Gustav Schmoller. Adolf Held and Erwin Nasse also published in this new series. It is interesting that the timing of this changed orientation coincided with deepening public anxiety over the prolonged recession following the *Gründerzeit*

¹L. Brentano, 'Über das Verhältnis von Arbeitslohn und Arbeitszeit zur Arbeitsleistung', *JbfGVR* 4 (1876): 190-213.

²Brentano, *Mein Leben*, 106.

bubble. Brentano's timely article reflected these concerns.¹ Another series of agenda-setting articles were two on economic history by Schmoller, which helped set a precedent for this subject in the journal.²

Brentano's involvement as editor was short-lived. In his own view, he lacked the drive and organisational skills, and in 1880 Gustav Schmoller took over. Brentano later wrote that the job of editor could not have fallen into more able and committed hands, since Schmoller was able to devote much of his time to it.³ In the first volume under his editorship, Schmoller wrote an extensive editorial preface which became an important programmatic statement for the journal's future. In it, Schmoller outlined the role and function of the journal, emphasising that he did not intend to abandon the 'practical tendency' of the journal; instead, he wanted to strengthen it. As noted in the previous chapter, he did *not* want the *Jahrbuch* to become a scholarly economic journal, but one that dealt instead with the 'greater questions which currently preoccupy public opinion, parliament and the German government...'.⁴ He considered this particularly desirable, since other journals were not committed to practical economic and administrative problems. Schmoller aspired to tie the journal closely to his own research programme, and he was at particular pains to point out that in the human and social sciences it was impossible to disconnect research from a social context; that is, the researcher was always a part of the problem he was studying.⁵

¹*JbfGVV* 2 (1878).

²*JbfGVV* 1 (1877) and 4 (1880).

³Brentano, *Mein Leben*, 107.

⁴Schmoller, 'Über Zweck und Ziele', 1.

⁵*Ibid.*, 3.

That was particularly true of Schmoller himself, whose economic and historical research was intimately linked to the project of social reform. It was a basic belief of his that ‘all political, moral, economic and social principles are not so much the result of exact science, as the diverted singular teachings of systems and *Weltanschauungen*, and of schools and parties’.¹

Among the most important articles by Schmoller during his editorship was one on the issue of justice in economics, an extension of similar articles which had appeared in Hildebrand’s *Jahrbücher* during the controversy with Treitschke. This restated the centrality of ethics and justice to economics.² Another article of great importance was his review of Menger’s *Untersuchungen*, which became a catalyst for the *Methodenstreit*.³ As far as Schmoller’s theoretical work goes, three series of articles were of special importance: the first, on the history of Prussian economic policy, developed his theory of mercantilism;⁴ the second, his series on the division of labour, developed his division of labour theory of organisations and social classes;⁵ and the third was a series on the historical development of enterprise, which elaborated his theory of entrepreneurship.⁶ Other articles that followed restated his position on theoretical economics.⁷ There were in addition numerous important articles published by other authors. Georg Simmel’s articles in the *Jahrbuch* should be mentioned

¹*Ibid.*, 5.

²*JbfGVV* 5 (1881).

³*JbfGVV* 7 (1883).

⁴See *JbfGVV* 8 (1884), 10 (1886), 11 (1887).

⁵*JbfGVV* 13 (1889) and 14 (1890).

⁶*JbfGVV* 14 (1890), 15 (1891), 16 (1892), 17 (1893).

⁷*JbfGVV* 21 (1897).

because of their significance to sociology, particularly his early article on the psychology of money,¹ as should two of Knapp's articles, one on his theory of manorial capitalism and the other elaborating his state theory of money.² Also of some significance were several articles around and after the turn of the century published by the younger generation, notably Max Weber's famous three-part article on Roscher and Knies,³ and Toennies' important critique of eugenics and social Darwinism.⁴ The latter pointed to the dangers of biologicistic social science and became the statement of principle on this matter for the social scientists around Schmoller. Heinrich Herkner's 1912 discussion of the so-called 'value freedom debate' was significant as well, since it reflected the continued preoccupation of historical economists with moral-ethical issues and the divisive debate this had sparked in the *Verein* beginning in 1909.⁵

In Schmoller's hands the journal expanded continually. Its structure was much like Conrad's *Jahrbuch*: in 1880, before Schmoller took over the journal, 20 articles were published of an average length of about 25 pages, with the range between 3 and 54 pages. Like Conrad's *Jahrbuch*, it also contained a large number of reviews, in 1880 some 89 in all, of about two pages on average. Three issues made up a single yearly volume of 659 pages. Under Schmoller, this had grown by 1890 to a volume of nearly 1,400 pages made up of four issues. The number of articles had grown to

¹*JbfGVV* 13 (1889).

²*JbfGVV* 15 (1891) and 30 (1906).

³*JbfGVV* 27 (1903), 29 (1905), and 30 (1906).

⁴*JbfGVV* 29 (1905), 30 (1906), 31 (1907), 33 (1909), and 35 (1911).

⁵*JbfGVV* 36 (1912).

37, of an average length of about 30 pages (range: 1-82 pages). It also carried some 95 book reviews. By 1910 the *Jahrbuch* had become a heavy tome of nearly 2,000 pages, publishing some 52 articles of an average length of 33 pages and 169 book reviews. This represents a growth in content between 1880 and 1910 of just over 100%, and in terms of published pages, growth of over 200%.

That the name ‘Schmoller’s *Jahrbuch*’ was justified is borne out by the fact that by 1918 he had contributed no less than 78 articles and some 320 book reviews to the journal (in 1913 the journal was renamed *Schmollers Jahrbuch*). The other big publishers of articles in the *Jahrbuch* were Schmoller’s students: Karl Oldenberg (39), Wilhelm Stieda (19) and Karl Rathgen (9). So were Gustav Cohn (13), Brentano (10), Ferdinand Toennies (10), Max Sering (8), Heinrich Herkner (8), Knapp (7), Georg Simmel (7), Wilhelm Lexis (7), Werner Sombart (7), Adolf Weber (6), Miaskowski (5), Arthur Spiethoff (5), Hermann Levy (4) and Ignatz Jastrow (4). Even some of the older historical and non-historical economists published a number of articles in the *Jahrbuch*: August Meitzen (5); Erwin Nasse (3). It is likely that, had he lived longer, Held (4) would have been a major contributor to the Journal as well.

There are a number of other journals which sprouted up in the 1880s briefly worth mentioning. The *Archiv für soziale Gesetzgebung und Statistik* was a rather unusual journal on a number of counts. It was founded in 1888 by one of Schmoller’s students, Heinrich Braun (1854-1927), a socialist, who with Schmoller’s recommendation had gone on to train with Ernst Engel at the Prussian Statistical Bureau,¹ but who subsequently did not (or likely could not) embark on an academic career. With Schmoller’s encouragement, Braun founded the *Archiv*, which at the time

¹GStAB, NI. Schmoller, 176: 222, Braun to Schmoller, 13 Nov. 1879.

was unlike any other journal because it was devoted to economic sociology, specifically to studying the ‘phenomena of economic and general social life from the viewpoint of its revolutionisation through capitalism’.¹ As a journal devoted to the study of aspects of modern capitalism, it published widely on social policy and the labour question, and it is noteworthy that by 1915 Brentano had himself published 5 articles in it. The *Archiv*’s ‘younger’ orientation was affirmed when Max Weber, Werner Sombart and Edgar Jaffé took over the editorship (renaming it *Archiv für Sozialwissenschaft und Sozialpolitik*). Under their guidance and through their contributions the *Archiv* published pioneering work in sociology. Most notable was Weber’s two part article on the protestant ethic published in 1905 and 1906.² Another of these newer Journals was *Finanzarchiv* founded in 1884. It should only be mentioned because it was founded by another of Schmoller’s students, Georg von Schanz, who remained its editor and a major contributor for some fifty years. This journal focused on all aspects of public finance, including financial theory, history and law. Numerous other journals of lesser relevance to this thesis were later founded in the Wilhelmine period.

Now that the structures of the mode of production of historical economics have been studied, many questions come to mind, one of the most important of which is how to explain the tremendous preoccupation of Schmoller and his colleagues with the social question and social reform. That is the subject of part II of this thesis.

¹Quoted in Lindenlaub, ‘Richtungskämpfe’, 194. Thanks for Schmoller’s encouragement is explicit in a letter from Braun to Schmoller of 4 April 1888, GStAB, Nl. Schmoller, 181: 21-22.

²*AfSS* 20 (1905) and 21 (1906).

PART II:
CONTEXT, IDEAS & METHODS

CHAPTER 3:

THE SOCIAL QUESTION AND THE CHALLENGE TO ECONOMIC ORTHODOXY.

Just as Economists are the scientific representatives of the bourgeois class, so the Socialists and Communists are the theoreticians of the proletarian class. ...But in the measure that history moves forward, and with it the struggle of the proletariat assumes clearer outlines, they no longer need to seek science in their minds; they have only to take note of what is happening before their eyes and become its mouthpiece.

Karl Marx¹

3.1 The Backdrop: Demographic, Economic and Social Conditions, 1860-1870

To understand the broad scope and urgency of the social question in the 1860s and early 1870s requires some elaboration of the socio-economic backdrop in which Schmoller and his colleagues were then working. It may at first be tempting to ask what the impact of business cycles and employment patterns were on the social question. Much has been made of this, particularly the so-called ‘great depression of 1873-96’ and its supposedly profound implications for the political culture and economic policy of the Empire.² Yet it would be mistaken to subsume a treatment of the social question and social reform in Imperial Germany into this determinism. The earliest writings by Schmoller on the labour question, for example, were written in the

¹*The Poverty of Philosophy* (New York, 1963 [1847]), 125.

²H. Rosenberg, *Grosse Depression und Bismarckzeit* (Berlin, 1967); *idem*, *Machteliten und Wirtschaftskonjunktoren* (Göttingen, 1978).

mid 1860s, a time of business expansion and rising real wages.¹ Moreover, major tracts by Schmoller and Brentano which helped to legitimate social reform, as well as the decision to found the *Verein für Sozialpolitik* predated the downturn of 1873, and it is notable also that the organisation of the two social democratic parties, the mass organisation of unions and other workers' organisations, and the systematic expression of a programme of state-initiated social reforms considerably predated the onset of the 'depression'. What this seems to point to is that the social question was a problem of massive structural, not cyclical, change. Schmoller himself wrote that the economic changes, social tensions, as well as the civic, political and intellectual developments of the years 1860-1875 were the formative forces in the creation of the German social reform movement and the *Verein für Sozialpolitik*.²

The social question was an old theme in German history, having since the pre-revolutionary *Vormärz* period undergone various transformations: initially as a question relating to the problem of the increasing numbers of landless rabble, or fourth estate (*Pauperismus*), then as one directed at unemployed students and craftsmen, as well as food shortages (*Lebensmittelfrage*) before and during the revolutionary period, and by the 1850s permutating into the 'labour question' (*Arbeiterfrage*), directed squarely at the new urban working class.³ At its core the social question during the era in question was the problem of reconciling the compelling impression of greater economic inequality or 'social imbalance' with what was by the 1860s, at least

¹G. Schmoller, 'Die Arbeiterfrage (I & II)', *PrJbb* 14, no. 4-5 (1864), 393-424 and 523-47; 'Die Arbeiterfrage (III)', *PrJbb* 15, no. 1 (1865), 32-63.

²*Idem*, 'Der Verein für Sozialpolitik und die Soziale Reform' (1901), in *Zwanzig Jahre Deutscher Politik (1897-1917)*, ed. L. Schmoller (Munich and Leipzig, 1920), 43.

³W. Conze, 'Vom "Pöbel" zum "Proletariat"', in *Moderne deutsche Sozialgeschichte*, ed. H-U. Wehler (Cologne and Berlin, 1966), 111-36.

formally, a legally mobile, free and equal society.¹ That is, a greater public awareness and intolerance of inequality is an important component. But the degree of wide-spread awareness and the publicly-compelling nature of the social question in its various guises - measured, for example, by the massive literature this generated² - itself can only be adequately explained if one takes into view Germany's socio-economic transformation and resulting urbanisation after about 1810, which in terms of velocity, was up to that time without parallel in Europe.

The basic source of this rapid transformation was the rise in fertility which had begun in the middle of the eighteenth century and had contributed to population growth of around 60% between 1816 and 1865.³ The effects of this demographic expansion were compounded by sweeping liberalising agrarian and commercial reforms which had been forced upon a traditional and largely reluctant population by bureaucratic reformers, paradigmatic of which was the Stein-Hardenberg legislation in Prussia during and after the Napoleonic era. These reforms and numerous others which followed swept aside the remnants of the old estate order, freed trade, and loosened the cameralist regulation of the economy, which steadily released - as a consequence too of the continued commercialisation of agriculture - a steady stream of now more mobile rural labour.⁴ In conjunction with these developments, a shift from rural to urban markets was under way, encouraged by economies of scale and

¹See W. Fischer, 'Social Tensions at Early Stages of Industrialization', *CSSH* 9 (1966), 64-83.

²P. Mombert, 'Aus der Literatur über die soziale Frage und über die Arbeiterbewegung in Deutschland in der ersten Hälfte des 19. Jahrhunderts', *AfGSA* 9 (1921), 169-237.

³P. Marschalk, *Bevölkerungsgeschichte Deutschlands im 19. und 20. Jahrhunderts* (Frankfurt am Main, 1984), 27.

⁴See R. Koselleck, *Preußen zwischen Reform und Revolution* (3rd edn., Stuttgart, 1989); J. A. Perkins, 'The Agricultural Revolution in Germany 1850-1914', *JEEH* 10, no. 1 (Spring 1981), 71-118.

agglomeration and commercial reforms. This aided the transformation of the mode of production into proto-industrial and industrial enterprises, and as importantly, integration of formerly isolated regional economies into an increasingly national and international division of labour, all aided in turn by the steep fall in customs duties in Prussia in 1818, the customs union of 1834, and the expansion of canals, railways and shipping.¹ Increasingly these developments concentrated transport nodes, heavy industry, machine building, textiles, banking and insurance in old and new urban centres.

The simultaneous transformation, concentration and geographical shift of production and its increasingly mass dimensions meant a major transformation of the division of labour and painful adjustments for many. A whole strata of skilled craftsmen, the so-called *mittelständisches Handwerk* (middle estate handicrafts) and workers in cottage industry were forced to adapt by learning new skills and/or migrating to seek new sources of employment, increasingly in rapidly growing urban centres.² Both the release of under- and unemployed rural labour and the transformation and concentration of production contributed after 1850 to an increasing migration from east to west and an accelerated process of urbanisation, all on a scale which was until that time unprecedented in Europe. One measure of this process worth noting is the fact that between 1850 and 1870 no less than 2 million people emigrated from the German Confederation, nearly half of whom came from northeastern (largely Prussian) regions.³ Another is the fact that Berlin maintained urban growth rates about

¹H-U. Wehler, *Deutsche Gesellschaftsgeschichte*, vol. II (Munich, 1989), 25-139; K. Borchert, *Perspectives on Modern German Economic History and Policy* (Cambridge, 1991), 3-4.

²J. Kocka, *Arbeitsverhältnisse und Arbeiterexistenzen* (Bonn, 1990), 299-358.

³Wehler, *Deutsche Gesellschaftsgeschichte*, vol. III, 11.

double that of other European cities in the nineteenth century.¹

Population growth was fastest in Saxony, Thuringia, Anhalt and above all Prussia. For example, between 1850 and 1871 the population of Prussia alone grew by roughly 45%, by 1871 exceeding the population of Great Britain, excluding Ireland. This compared with growth over the same period in Bavaria of 7% and Wurttemberg of only 4%.² Industrial cities of the Ruhr in this era grew by as much as 6% per annum, and regional administrative and commercial centres with more mixed economies such as Berlin, Breslau, Cologne, Königsberg, Magdeburg and Posen witnessed annual growth of about 2%.³ It is worth mentioning that between 1840 and 1871 this urban growth manifest itself largely in greater population density, since municipal borders remained relatively constant.⁴ For these reasons the social question by the 1860s was one directed largely at the tensions and problems arising with urban growth in Prussia and Saxony, particularly as this put pressure on the social strata at the butt end of this process, a still rather heterogeneous urban *Kleinbürgertum* (petite bourgeoisie) and working class made up by the 1860s largely of redundant *Mittelstand* handicraftsmen, semi-skilled and unskilled labourers and their families.

Further compounding the problems which arose as a consequence of the large scale and rapidity of migration and urbanisation were the different patterns of urban employment throughout Germany around 1870, making the social question more acute in areas such as Thuringia, Saxony and especially East-Elbian Prussia. Striking was

¹*Ibid.*, 21.

²*Ibid.*, 9-10.

³H. Matzerath, *Urbanisierung in Preussen 1815-1914* (Stuttgart, Berlin, Cologne and Mainz, 1985), 138-39.

⁴*Ibid.*, 118.

the still regional nature of labour mobility and the resulting differences in labour markets between central German and East Elbian Prussian cities, on the one hand, and the industrial centres of the Ruhr and Rhineland, as well as the south and southwest, on the other. Heavy industry and mining in the Ruhr and Rhine absorbed a large number of craftsmen and other skilled and semi-skilled labour adaptable to industrial production largely from the surrounding region, the exception being mining, which also attracted a flow of semi- and unskilled labour from East-Elbia.¹ The more mixed economies in the centre and east, foremost Berlin, in contrast, tended to absorb, in addition to skilled and semi-skilled labour, large numbers of unskilled workers from the surrounding countryside and rural areas to the east. In the late 1850s and early 1860s the mobile rural population made up of *Tagelöhner* (day labourers) and handicraftsmen was growing dramatically in all the eastern provinces of Prussia, between 1858 and 1861 by as much as 60% in Silesia, 51% in Brandenburg, 38% in Pomerania, 36%, in the province of Saxony, and 30% in Prussia, compared with about 29% and 30% respective growth in their numbers in Westphalia and the Rhineland.² Moreover, their absolute numbers were substantially lower in the west than in the centre and east: in 1861 Prussia had more than 300,000, Silesia 186,000, Pomerania some 140,000 and Brandenburg 126,000 rural *Tagelöhner* and handicraftsmen, compared with only 83,000 in the Rhineland and as few as 61,000 in Westphalia. And with the exception of Silesia, in Prussia's eastern provinces the number of *Tagelöhner* and craftsmen began exceeding the number of fixed farm and estate employees (i.e.,

¹See J. J. Lee, 'Labour in German Industrialization', in *The Cambridge Economic History of Europe*, ed. P. Mathias and M. M. Postan, vol. VII, (Cambridge, 1978), 442-91.

²G. Schmoller, 'Die ländliche Arbeiterfrage mit besonderer Rücksicht auf die Norddeutschen Verhältnisse', *ZfGS* (1866), 176.

Knechte, Mägde, Jungen) in the 1860s, whereas in Westphalia and the Rhineland their numbers were more than 30,000 and nearly 40,000 lower than fixed-term employees, respectively.¹

Not only was there much more surplus rural labour in East-Elbia, but the mixed, less industrialised nature of the central and eastern Prussian urban economy meant that they were much more difficult to absorb than in the west, with the service sector (domestic service, construction, transportation, prostitution) having to absorb more of them because regular and moderately paid work was relatively more scarce, so that unemployment and underemployment with considerable seasonal variations were more common and disposable incomes correspondingly tended to be lower and less steady. This meant that worker uncertainty and mobility were also correspondingly greater. Compounding this were rapid price rises in cities like Berlin (due to such extraneous factors as rising rents) which further eroded the standard of living. As indicators of this labour market, it should be noted that rates of illegitimacy, prostitution and child mortality were higher in such central and eastern cities as Berlin, Halle, Posen, Breslau and Königsberg than in the more industrialised Rhine-Ruhr.² Most of the problems and tensions of urbanisation were more easily overcome in the 'production' cities of the west than in the 'consumption cities' of the east, despite the higher levels of urban growth in those western industrial regions.³ Just one indicator of this was the much higher level of income inequality in Berlin compared with the Düsseldorf district. Measured in budget units for 1875, the wealthiest 4% of Berlin's

¹*Ibid.*

²Matzerath, *Urbanisierung*, 194-200.

³*Ibid.*

population had incomes per head nearly 18 times higher than the next wealthiest 16% making up the middle class (4-20 percentile group), and more than 58 times higher than the next 10% (20-30 percentile group). In the same year Düsseldorf's wealthiest 4% had incomes per head only 9 times higher than the next wealthiest 16%, and 27 times higher than the next 10% of the population.¹ But even by international standards conditions in Germany in the 1860s were appalling. Infant mortality in Germany was in 1860s the highest in Europe (300 per 1000), roughly triple that in Norway and double that in England and Wales (110 and 160, resp.), having never been exceeded in Europe (even by Russia) and only ever exceeded by Mexico (326) around the turn of the century.² These points are critical, since the perception of the social question by Schmoller, Knapp, Held and Brentano was conditioned by observation of it in such central and eastern cities as Berlin, Breslau, Halle and Leipzig.

3.2 The Housing Question

Variations in patterns of urban settlement became the most visible and disturbing evidence of differences in labour markets and patterns of urban growth, and thus also the differing nature and severity of the social question in eastern and western Germany. Whereas the single family house was the predominating urban dwelling in the Rhine, Ruhr and most of western and southern Germany, in areas of Saxony and especially East-Elbian Prussia massive rented tenements became the predominating

¹S. N. Procopovitch, 'The Distribution of National Income', *EJ* 36 (1926), 79.

²J-C. Chesnais, *The Demographic Transition* (Oxford, 1992), 58-59, 60, and 73-74. The figures for infant mortality per 1000 births in other European countries between 1861 and 1870 were 130 in Sweden, 135 in Denmark, 160 in Belgium, 180 in France, 200 in the Netherlands, 230 in Italy, 240 in Switzerland, 250 in both Finland and Hungary, 260 in Austria, and 280 in Russia, 73.

form of working class housing. While the origins of these differences should not preoccupy the discussion at this point, there is little doubt that the already-mentioned lower and less stable disposable workers' incomes and a number of other factors were considerable, among them the degree of municipal reform. The latter strongly affected the degree to which urbanisation took place. Such reform had been introduced earlier and gone much further in eliminating the distinction between urban and rural citizen and restrictions on urban settlement in Prussia than in southern and southwestern Germany.¹ An important role was also played by building monopolies and property speculation through an alliance of *Bodenkreditbanken* (mortgage banks) and *Terraingesellschaften* (property developers) both in raising property prices and in building working-class housing.² Significant too was the pattern of urban planning in some Prussian cities, especially the Berlin plan of James Holbrecht, with its Hausmannesque emphasis on grand boulevards and 75 meter-wide blocks covered in majestic facades to reflect the grandeur of Prussia. This led to densely-built up city blocks and strict functional differentiation of city quarters. These various factors played a role in the rise of the *Mietskaserne* (rent garrisons), huge tenements with tiny, built-up courtyards, often without sewage systems, and with a custom of extensive nighttime lodgers (*Schlafgänger*), typical of working-class quarters in Berlin and other East-Elbian cities in the 1860s and 70s. Most glaring of all in this respect was Berlin, particularly because of how densely-built up and how homogeneously-parcelled and concentrated poverty was in such urban extremities as Moabit and Wedding, or worse, in the shanty town of the Cottbusser Tor. For example, in 1867 the average number

¹Wehler, *Gesellschaftsgeschichte*, vol. III, 15-16.

²StA, *Verhandlungen 1872*, 178-81.

of residents per building in Berlin was more than 50, and in Breslau about 40, compared with only about 16 in Elberfeld and other industrial cities of the Ruhr, and as few as 13 in Cologne.¹ By 1910, Berlin's buildings housed on average more than 75 people and Breslau's 52, while Elberfeld's and Cologne's had risen only to 18. In that same year London had only about 8, Manchester 5, and Paris 38 residents per building.² While the number of tenants per building is not necessarily an indicator of the quality of housing, the case of the Berlin and other Eastern city's *Mietskaserne* and working class districts received nearly universal condemnation from German and foreign observers alike. German observers of Berlin noted the social corrosiveness of its residents' frequent change of flats and persistent homelessness.³ The British economist Alfred Marshall (1842-1924), who had himself spent the Winter of 1870-71 in Berlin and had then noted the horrendous housing conditions, had in 1899 again taken time to roam every extremity of the city and pointed out how unfavourably Berlin's working class districts compared with London's slums in terms of everything that made working class lives bearable, describing the huge tenements with their built-up courtyards as 'horribly congested' and 'hatefully, cruelly splendid'.⁴ It was particularly the observation of urban conditions in Berlin, Breslau, Halle and Leipzig that helped to shape the view of the severity and potentially explosive nature of the social question among Brentano, Held, Knapp and Schmoller.

The scale of the problems of urban dwellings, particularly the scarcity of

¹B. Ladd, *Urban Planning and Civic Order in Germany 1860-1914* (Cambridge, MA, 1990), 153.

²*Ibid.*, 152.

³StA, *Verhandlungen 1872*, 167-70.

⁴Alfred Marshall to Thomas Horsfall, 21 Feb. 1901, in J. Whitaker, ed., *The Correspondences of Alfred Marshall*, *Economist*, vol. 2 (Cambridge, 1996), letter 635, 302-4.

affordable housing (*Wohnungsnot*), was a central component of the part of the social question commonly referred to as the *Wohnungsfrage*. The *Wohnungsfrage* had from the beginning important sanitary, hygienic, sexual and demographic implications, which in turn raised various moral, social and political dilemmas which became apparent in the 1860s. The scarcity of affordable housing was a hindrance in the sight of many *Bürger* to the moral, ethical *Bildung* of the working class, of their integration into middle class 'national life' and their proper political education.¹ This view was widely shared by the historical economists and their social reform movement. Social reform of things like housing thus always had a two-edged quality, combining physical improvement, on the one hand, with the imposition of moral-ethical discipline and social controls, on the other.

3.3 The 'Disappearing' *Mittelstand*

As with all changes in the division of labour, the commercial and urban transformation that had occurred in little more than fifty years had its winners and losers, and the rapidity of that change made these stand out particularly starkly. One clear winner in the 1860s and 1870s was large, efficient northern agriculture which in the east had switched to root crops and grains, and to cheap, increasingly migratory wage labour. So were urban property owners and rentiers, trade and transport sectors, entrepreneurs in rapidly-growing industries such as machine building, steel, railways and mines, as well as skilled craftsmen (i.e., locksmiths and plumbers), technicians, and semi-skilled and unskilled workers adaptable to industrial work, the growing

¹C. J. Fuchs, 'Die Wohnungsfrage', in *Die Entwicklung*, ed. S. P. Altmann, *et al.*, vol. I, 1-24 (ch. XXXIII).

building industry (masons), or those trades benefitting from the growth of the urban populations (butchers and bakers). The losers were small tenant farmers, rural labourers, unskilled or semi-skilled workers in less heavily industrialised areas, and an important component of the old urban *Mittelstand*, especially those trades with low barriers to entry, suffering from oversupply and simultaneously sensitive to industrial production and concentration (textile crafts, tailors, shoemakers, carpenters, joiners), as well as those artisans and workers mentioned earlier who could, for whatever reason, not adapt to urban-industrial patterns of work. Though the plight of artisans varied greatly from trade to trade, there is little doubt that industrial development and concentration increased the dependence of many artisans upon large producers, warehouses, and sub-contracting, as well as more centralised modes of distribution, and that this meant the demise of many independent workshops and therefore the impoverishment and proletarianisation of many artisans.¹ It should be noted that between 1858 and 1895 the number of master craftsmen and their employees per 1000 urban inhabitants fell from some 48 and 107.6, to little more than 27 and 70, respectively, and their share of commerce generally, as well as in terms of value added in industry, suffered a decline of roughly one half between 1882 and 1907.² Statistics also show that, taken as a whole, the majority of urban handicrafts were living on scanty incomes, often lower than those earned in factory work.³

In Prussia, municipal reforms which redefined citizenship as well as numerous

¹D. Blackbourn, 'Between Resignation and Volatility', in *Shopkeepers and Master Artisans in Nineteenth-Century Europe*, ed. G. Crossick and H-G. Haupt (London and New York, 1984), 38-43.

²F. Lenger, *Sozialgeschichte der deutschen Handwerker seit 1800* (Frankfurt am Main, 1988), 115, 117-18.

³*Ibid.*, 144.

commercial reforms had eroded the traditional privileges artisans had enjoyed under the old corporate municipal constitutions much more than in the south and southwest, and by the 1860s substantial elements of old urban *Mittelstand* were rapidly being absorbed in the large urban centres into the new *Kleinbürgertum* and working class.¹ In smaller towns and rural regions the *Mittelstand* was, if less dramatically and rapidly, also under commercial and industrial pressures, working in emaciating trades and cottage industries, often at a very low technical standard. This was particularly the case in Thuringia, Saxony and Silesia.

As a declining economic class, the *Mittelstand's* identity nevertheless remained strong and they exercised an influence far out of proportion with their economic power. The *Mittelstand* made a claim to representing an indispensable middle, a source of 'normal' morality and political reliability - the sturdy basis of economy and society and therefore a bulwark against the moral and ethical corrosive of the urban proletariat. Moreover, this self-identified *Mittelstand* continued to insist on state guarantees of living standards reminiscent of corporate 'subsistence'.² A good example of both the moral fervour and demand for protection which groups representing the urban *Mittelstand* made is given by a memorandum of the German Handicrafts Diet to the Prussian Ministry of State in 1864, in which it was claimed that it was the interest and therefore the obligation of the state, as a neutral arbiter between classes, to help preserve and propagate the shrinking *Mittelstand* against the demands of the 'bourgeoisie' and 'money capital', by stepping in where civil society

¹J. Kocka, *Arbeitsverhältnisse*, 335-51.

²D. Blackbourn, 'The *Mittelstand* in German Society and Politics, 1871-1914', *SH 4* (1977), 409-33; *idem*, 'Resignation and Volatility', 49-54; Wehler, *Gesellschaftsgeschichte*, vol. III, 130-37.

had failed and providing concrete protection against the corrosive privations of ‘commercial anarchy’ and industrial work which threatened the ‘religious and moral health’ of the nation.¹

The moral earnestness of groups claiming to represent the *Mittelstand* and thereby the core of ‘the nation’ have been dismissed as the exaggerated fears and reactionary attitudes of the German petite bourgeoisie, fears which were eventually exploited by conservative and authoritarian forces against liberals.² But this is a misleading picture and one which was clearly not the case in the 1860s and 1870s. The moral-political profile of the urban handicrafts and retailers was high because the identity of the *Mittelstand* had been tied closely to the notion of a German civil society (*bürgerliche Gesellschaft*) since the late 18th century, a group struggling against the rabble below and the nobility above. And these burgher classes self-consciously identified with the moral-ethical virtues ascribed to a middling social position by Aristotelean philosophy.³ The claimed virtues of this emergent *Bürgertum* included frugality, hard work, love of order, cleanliness, sobriety, justice, humanity, economic independence and political reliability. In this sense, *Mittelstand* needs to be differentiated from French ‘*classe moyenne*’ and the English ‘middle class’, the latter two only gaining wider usage around the 1830s with reference to the expansion of franchise, and notable for lacking the moral-ethical ring of the former.⁴

¹Doc. 32, memorandum of the *Deutscher Handwerkertag* to the Prussian Ministry of State, 6 Nov. 1864, *QGDS*, sec. I, vol. I, 83-96.

²See H. A. Winkler, *Pluralismus oder Protektionismus* (Wiesbaden, 1972); cf. Blackbourn, ‘Resignation and Volatility’, 49-54.

³Conze, ‘Mittelstand’, 49-51 and 54-62.

⁴*Ibid.*, 53-54.

The term *Mittelstand* was one which blurred the boundary between the grand and petite bourgeoisie, and it was used interchangeably with ‘*Bürgertum*’, ‘*Volk*’ and ‘*Nation*’ around mid-century. While the parallel term ‘*Mittelklasse*’ (a direct translation of the French and English terms for ‘middle class’) also entered usage, its meaning was associated with the wealthy (enfranchised) bourgeoisie of Britain and France, while the term *Mittelstand*, attested to by wide usage and numerous lexicon entries, retaining both its broad inclusiveness and moral-ethical connotations. It was on these grounds, for example, that Friedrich Engels (1820-95), in the introduction of *The Condition of the Working Class in England*, was at such pains to clarify his use of the term ‘*Mittelklasse*’ as denoting the propertied, politically-enfranchised class in France and England, a term he used synonymously with ‘bourgeoisie’.¹ It is also revealing that during the 1848 revolution Heinrich von Gagern (1799-1880) and the liberal majority of the Frankfurt National Assembly demanded a ‘moderate franchise’ in conscious opposition to the restricted, plutocratic suffrage of the French July Monarchy, which they felt did not fit German social conditions, where a bourgeoisie in the sense of *classes moyennes* was still underdeveloped.²

While there was a great deal of overlapping and conflicting use made of the terms ‘*Bürgertum*’, ‘*Mittelklasse*’, and ‘*Mittelstand*’, the inclusive notion of ‘middle class’ embodied in ‘*Mittelstand*’, as a term used synonymously with ‘civil society’, ‘nation’ and ‘people’, was central to the German liberal ideal of a classless civil society (Robert von Mohl) as well as the political aspiration of enfranchising citizens

¹*Ibid.*, 62-63 and 64; F. Engels, *The Condition of the Working Class in England* (Harmondsworth, Middlesex, 1987 [1845]), 30. The first English edition was published in the USA in 1886.

²Conze, ‘*Mittelstand*’, 65-66.

down to what later became the petite bourgeoisie, a strata, as was discussed, which only emerged after industrialisation.¹ Note that the German states had, in comparison with France and Britain, well-developed school systems and wide-spread literacy, and the broadening of the franchise was often justified on these very grounds.² Instead of wealth, *Bildung* and economic independence became conditions for political participation. Wide-spread literacy thus encouraged both political and economic aspirations, even if the scope for these, as will be discussed below, was rather limited.³

There is little doubt that industrialisation and urbanisation in the 1850s and 60s increasingly revealed the divergent interests within this very broadly-defined German civil society. While a greater differentiation from both the wealthy, propertied *Bürgertum* and the proletarian classes resulted, it is also true that this *Mittelstand* continued to see itself as a pillar of civil society. This is underscored by the importance of the *Mittelstand* handicrafts to liberalism in the 1860s, as revealed by their extensive membership in liberal trade associations, cooperative banks, producer and consumer cooperatives, the liberal trade unions, and liberal parties.⁴ Indeed, Lenger has spoken of the period 1848-1870 as a 'liberal phase' in the history of the *Mittelstand* handicrafts.⁵ It was also hardly the case that after the 1870s the *Mittelstand*, as a beleaguered strata, defected as a group to the Catholic and

¹*Ibid.*, 67-73.

²*Ibid.*, 68-69.

³Blackbourn, 'Resignation and Volatility', 44.

⁴Lenger, *Handwerker*, 106-108; Sheehan, *German Liberalism*, 165-66.

⁵*Ibid.*, 109.

conservative parties.¹ It should be noted, for example, that liberals were themselves often sympathetic to various schemes to protect the *Mittelstand* and made similar claims as had the Handicrafts Diet in 1864 regarding the social and moral-ethical indispensability of this strata to the state, while at the same time substantial components of the *Mittelstand* handicrafts remained loyal to such economically-liberal associations as the *Verein Selbständiger Handwerker und Fabrikanten* and the *Hansa Bund*.² As the variations in the adaptability of artisans and small retailers to urban growth and industrialisation revealed, the *Mittelstand* was a highly heterogeneous group, and with the rise and later fusion of the social democratic parties, it became a prickly 'swing' voter to which all parties, save the Social Democrats, appealed to and promised protection.³

The hopes and fears of the *Mittelstand* had particular resonance with Schmoller, Knapp, Held and Brentano, all of whom came either from traditional patrician or civil servant families in small to medium-sized, less-industrialised southwestern German cities within a 75 mile radius of Frankfurt on Main, places where the traditional city order and guild traditions, as well as a self-conscious *Mittelstand* identity were preserved much longer because the pace of social and economic change was much slower.⁴ For example, in Württemberg freedom of trade and unrestricted movement into cities was only introduced in 1861, in Baden in 1862

¹*Ibid.*, 154-59; Blackbourn, 'Resignation and Volatility', 49-55.

²See for example the liberal deputy Ackermann's 1881 speech in the Reichstag in H-G. Haupt, ed., *Die Radikale Mitte* (Munich, 1985), 195-98.

³Blackbourn, 'Resignation and Volatility', 49-55; Conze, 'Mittelstand', 81-90; Lenger, *Handwerker*, 156-158.

⁴Schmoller came from Heilbronn, Held from Würzburg, Knapp from Giessen, and Brentano from Aschaffenburg.

and as late as 1868 in Bavaria. Schmoller's home, the Swabian town of Heilbronn, had since the expansion of trade in mid 18th century developed a famous degree of political stability and social harmony.¹ Indeed, the southwest generally was known to support an unusually prosperous population of master artisans with a notably liberal inclination.² The strata of civil servants and patricians in western Germany from which Brentano, Held, Knapp and Schmoller sprang saw themselves as the defenders of the *Mittelstand*, which had traditionally been the basis of commercial prosperity and social cohesion in burgher cities. Consequently, the disappearing middle was a particular cause for alarm among the historical economists, foremost Schmoller, absorbing an enormous amount of their scholarly energies.³ As will be discussed later, it was during their organisation of a reform effort and the process of methodological definition that the economic ideal of the *Mittelstand* and of a *Mittelstandsgesellschaft* (classless society of the middle estate) received their most potent and compelling elaboration.

3.4 Class Dynamics and the 'Civic Deficit'

The rapid changes to the division of labour, the concentration and urbanisation of production, and the severe spatial segregation of urban housing in such cities as Berlin witnessed between 1850 and 1870 were important factors both in limiting social interaction and mobility, as well as in the homogenisation of the working class and the

¹Something Goethe himself had once commented on; see D. Reuter, 'Von der heimatlichen Symbiose zur offenen Assoziation', in *Vom alten zum neuen Bürgertum*, ed. L. Gall (Munich, 1991), 517-57.

²Lenger, *Handwerker*, 119 and 158.

³The *Mittelstand* was already a major concern in German economics, see Eisermann, *Die Grundlagen des Historismus*, 233-35.

development of the working class movement. It is perhaps no coincidence that the areas in Germany which witnessed the most rapid and troubled pattern of urbanisation, Berlin-Brandenburg, Anhalt, Thuringia, Saxony and the Ruhr would later also become the core regions of support for social democracy. But the limited scope for social interaction between classes was itself also symptomatic of the much more limited scope for social mobility in Germany generally, compared to other Western European countries.

Around 1870, Germans, as in the case of the *Mittelstand*, were still well aware of estates and the notion of estate privileges, even if market forces had created a much more class-ordered society. Indeed, estate identities in Germany served as ways to reinforce the exclusion of social groups from one another produced by emerging distinctions of class. An important example of this is that associational life, that quintessentially *bürgerlich* activity, was marked in Germany by a tendency to social exclusiveness, in that associations tended to reproduce and reinforce existing class divisions.¹ Another example is that unlike in France, Britain or the United States, the social composition of the German propertied *Bürgertum* changed surprisingly little during industrial take-off, displaying instead an estate-like social cohesiveness based on family origins. Likewise, the urban *Mittelstand* continued to take considerable pride in their trades, conscious of their links to guild traditions and their former privileges as an estate, and therefore their distinction from the working class. As in the case of the old urban *Mittelstand*, there was considerable scope for movement down the social ladder. At the same time the social distinctions between artisans and shopkeepers, on

¹T. Nipperdey, *Gesellschaft, Kultur, Theorie* (Göttingen, 1976), 174-205; Blackbourn and Eley, *Peculiarities*, 223-28.

the one hand, and the wealthy and educated *Bürgertum*, on the other, were strengthened by industrialisation. The divisions between the *Bürgertum* and the nobility, too, remained strong, though the political influence of landed families was rapidly waning.¹ There were in any case many fewer self-made men than in Britain or the United States, the entrepreneurial class being recruited instead from established business or civil servant families.² The *Bildungsbürgertum* (educated middle class) retained many of the qualities of an exclusive quasi-aristocracy and expanded only at a very moderate rate.³

Germany was not only relatively more socially immobile, but incomes were severely stratified. And this stratification actually grew worse after the 1850s. Income data from voting records in Prussia for the years 1854, 1875, 1896 and 1913 show that income per head of the wealthiest .5% of the population grew steadily and dramatically throughout these years (by 15% between 1854-75, 31% between 1875-96, and by 12% between 1896-1913) while incomes per head of the remaining groups making up the next wealthiest 19.5% of the population, including the incomes of the middle class (4-20 percentile group), grew hardly at all or remained stagnant throughout these same years.⁴ This income distribution was considerably less equal than the United States: by 1913 Prussia's wealthiest .5% were wealthier and its middle

¹Koning, *Agricultural Capitalism*, 173-76.

²See Wehler, *Gesellschaftsgeschichte*, vol. III, 115-19.

³J. Conrad, 'Universitätstatistik', 448-49; D. Langewiesche, 'Bildungsbürgertum und Liberalismus im 19. Jahrhundert', in *Bildungsbürgertum im 19. Jahrhundert*. ed. J. Kocka and J. Retallack (Stuttgart, 1989), 95-113; Wehler, *Gesellschaftsgeschichte* vol. III, 127-30.

⁴Procopovitch, 'Distribution of National income', 72-73, and 81. Income per head for 1854 is not given for the 4-20 percentile income group.

classes were poorer than the same income groups in the USA.¹ And figures available for Saxony in 1912 indicate too that lower income groups in Germany (20-40 percentile group) were poorer than their American counterparts.²

As in the case of the *Mittelstand* discussed above, and as will be seen in the writings of many observers below, as income increasingly determined social hierarchies, class became the object of considerable anxiety and criticism, being widely feared as a source of political conflict and potential revolution. One of the legacies of the greater degree of social immobility and social defensiveness of the *Bürgertum* in Germany, as well as severe income inequality (especially as this was complicated by universal manhood suffrage in the *Reichstag* after 1867) was that material and class interests strongly determined political affiliation, and liberalism came to be identified very closely with the material interests of the propertied *Bürgertum*. This was in contrast to Britain, where liberalism (aided by a highly-restricted franchise) remained an integrative political force at the centre of politics.³ German political language reflected this, where parties became differentiated between those that were ‘*bürgerlich*’ and those that were ‘*proletarisch*’, a reflection of the tremendous narrowing of the notion of civil society.⁴ The increasing association of liberalism with propertied and educated interests meant that many who sought both the retention of the *Mittelstand* and the integration of the working class in their vision of civil society found themselves increasingly at odds with liberal economic doctrines, and after 1873, with

¹USA figures are for 1910, *ibid.*, 72, 74.

²USA figures are for 1918, *ibid.*, 77.

³J. Breuilly, ‘Liberalism and the Bourgeoisie’, *AfS* 32 (1992), 398-400.

⁴Wehler, *Gesellschaftsgeschichte*, vol. III, 109.

liberal parties, which increasingly appeared dominated by propertied and educated elites and preoccupied by special interest politics.¹ For this very reason, many initially liberal social reformers, like Schmoller, would eventually drift away from liberal parties and associations.² The simultaneous narrowing of the political horizons and social base of liberalism was particularly problematic also because of the confessional divide in German politics (which worsened in the 1870s due to the *Kulturkampf*), the rise of openly-revolutionary working-class parties, and not least, because of the historical association of economic liberalism with bureaucratic authoritarianism.³ These factors, as will be seen, would have an important bearing on the way that the reform of economic theory and social reform were approached in Germany, particularly the tendency of the historical economists to market themselves and their projects not as ‘liberal’, but instead as at once super-partisan and apolitical, and yet also deeply moral. Central to that morality, as will be seen, was the old liberal ideal of a classless civil society (*Mittelstandsgesellschaft*), an ideal which would provide an enduring goal for their social reform efforts.

The narrowing of both the political horizon and social base of liberalism in the 1860s and 70s would reinforce certain political attitudes of great relevance to the social question. The first is what could be identified as a widely-shared meta-conservatism which, summarizing Ralf Dahrendorf, could be defined as risk aversion,

¹On the divergence of interests within liberalism see Langewiesche, ‘Bildungsbürgertum’, 99; Sheehan, *German Liberalism*, 169-77. It did not help that the Prussian government had suppressed such socially-liberal and critical newspapers as the *Rheinische Zeitung* see D. G. Rohr, *The Origins of Social Liberalism in Germany* (Chicago and London, 1963), 145.

²On the low profile of German ‘social liberalism’ after the 1850s see Rohr, *Social Liberalism*, 162-66.

³Borchert, *Perspectives*, 3-4.

avoidance of conflict, and the primacy of law and rules over dialogue.¹ While the origins of this risk-aversion and meta-conservatism are open to speculation, there is little doubt that they had been conditioned by a living legacy of authoritarian guardianship and tutelage. In Prussia a sophisticated bureaucracy predated the development of political parties and representative institutions and enjoyed considerable public approval for its benevolence.² It is notable too that leading German liberals, in defending *laissez-faire*, often praised the old Prussian bureaucracy for preserving the ‘general interest’, only one example being the Customs Law of 1818, which was pushed through against public opposition and at that time gave Prussia the freest trade in Europe.³ Another example of this legacy was the widely-shared belief that civil society was inherently unstable, that individual citizens or groups were, unless proven otherwise, ignorant and/or potentially dangerous to public welfare and order. Such views were themselves reinforced by the belief, shared by many *Bürger*, that Germany suffered from a civic deficit and therefore lacked the self-organising and regulating capacity of other societies. These ‘failures of society’ (*versäumnisse der Gesellschaft*) and a sense of ‘civic deficit’ permeate the writings on social reform.⁴ Other examples of this attitude are so ubiquitous that they have often been overlooked, such as the police surveillance of associations and gatherings, the prohibition of female membership of political organisations, the strict system of citizen registration and identification, the legal concept of ‘protection from oneself’ (*Schutz*

¹See R. Dahrendorf, *Gesellschaft und Demokratie in Deutschland* (Munich, 1967), 161-75.

²H. Beck, *The Origins of the Authoritarian Welfare State in Prussia* (Ann Arbor, 1995), viii and 241-42.

³Raico, ‘Der deutsche Liberalismus’, 279; Borchert, *Perspectives*, 3-4.

⁴Dipper, ‘Sozialreform’, 323-51.

vor sich selbst), and the ubiquitous regulation of every-day life commented on by foreign and German observers alike.¹ Analysing German liberalism, Sheehan noted how this distrust of freedom was able to unite seemingly heterogeneous groups:

In a sense, industrialists eager to defend their factories, intellectuals worried about the social impact of modern economics, and craftsmen anxious about their livelihoods were unlikely allies. But they were drawn together by their common distrust of freedom. Like those liberals who opposed political reform and feared the results of democratization, these men did not believe that the free operation of autonomous forces could preserve the social order. This is why they all wanted protection of some sort, protection from the *Volk*, protection from foreign competition, protection from the dangers of a free market economy.²

Risk-aversion shaped the ambiguous attitudes of Schmoller and his colleagues toward both the market economy and democratic political participation, which were at once sources of pride and awe and at the same time deemed to subject society to numerous risks which were unacceptable. This ambiguity is central to an understanding of the sometimes contradictory demands made by the historical economists and other social reformers, such as the simultaneous call for regulation and self-organisation.

3.5 The Practical Dimension of the Social Question

Commercial reforms, industrialisation, and rapid urban growth posed daunting practical challenges to state and municipal governments. In the 1860s and the early 70s these numerous problems tested the laws, institutions and financial resources of all municipalities and states. They became the practical dimension of the social question, and consequently, one of the main centres of focus of the social reform movement.

¹Brentano, *Mein Leben*, 147.

²Sheehan, *German Liberalism*, 175-76.

It was at the municipal level that both liberalism - due to more restricted franchises - and social reforming experiments had their broadest scope.¹ But practical solutions to the social question were themselves also shaped by existing legal and political institutions which in many ways determined the path and outline of the solutions found. Important in this respect were the various existing friendly and benefit societies (*Hilfskassen*) some of which, like the *Knappschaften* (miners' mutual aid societies) could be traced back to the estate order. Others had formed around occupations with the growth of associational activity. A precedent for self-administered (often municipally-controlled) public law cooperative institutions as the arm of state involvement in worker insurance had already been set: the Prussian Commercial Code of 1845 and 1849, as well as the legislation passed under von der Heydt in 1854 established local compulsory benefit funds (*örtliche Zwangskassen*) in some industries modeled on the *Knappschaften*, a rudimentary workers' insurance against the health and accident risks attending industry. This model was copied elsewhere in Germany and had a major impact on the future shape of social insurance. Yet coverage was limited and ended with unemployment, and the stability of such schemes varied greatly from town to town, imposing considerable burdens on local authorities.² Also, an updated and distinctly *bürgerlich* system of municipal poor relief known as the 'Elberfeld system' was formally introduced throughout Germany after 1853, whereby cases of need were dealt with on an individual basis directly at home through

¹H. Pogge von Strandmann, 'The Liberal Power Monopoly in the Cities in Imperial Germany', in *Elections, Mass Politics, and Social Change in Modern Germany* ed. L. E. Jones and J. Retallack (Washington D.C. and Cambridge, 1992), 93-117; G. Steinmetz, *Regulating the Social* (Princeton, 1993).

²See especially, F. Tennstedt, *Soziale Selbstverwaltung* (Bonn, 1877); *idem*, *Sozialgeschichte der Sozialpolitik in Deutschland* (Göttingen, 1981); G. A. Ritter, *Social Welfare in Germany and Britain* (trans. Kim Traynor, Leamington Spa and New York, 1983), 21-22.

volunteer guardians, who provided discretionary short-term grants. But this system, while very inexpensive and far less coercive and degrading than the British work house, could neither effectively deal with mass urban poverty nor with large-scale cyclically-induced unemployment.¹ Factory inspectors too had been introduced in Prussia in 1853, but like poor relief, were not up to the new challenges raised by ever louder public demands for improved factory safety and restrictions on child and female labour; the Prussian and North German commercial code had only a few vague worker protection clauses, and before 1871 lacked a liability law. The factory inspectorate itself was understaffed and their recommendations were not legally binding.²

Before any wide-ranging reforms and improvements to existing institutions and laws could be undertaken, basic information about industrial and urban conditions had to be collected. It is notable that as early as April 1872 Theodor Lohmann, of the Prussian Ministry of Trade, made a draft of a wide range of issues which government would have to tackle, such as the introduction of better factory inspection, a reform of taxation and modifications to legislation governing compulsory *Hilfskassen*, but he pointed to the biggest single hurdle in the face of such improvements:

What is required for this is exact knowledge of the whole field as it is currently in no way at hand. Of the conditions of the workers in various branches of industry and regions of states, of wage rates and their relationship to the most basic necessities of life, of the general and specific abuses existing in the same, of the numerous but sporadic efforts of individuals in existing associations for lifting the working class there is very scanty and particularly no systematic and continuously supplemented knowledge.³

¹See C. Sachße and F. Tennstedt, *Geschichte der Armenfürsorge in Deutschland*, vol. 2 (Stuttgart, Berlin, Cologne, and Mainz, 1988), 23-38.

²See Steinmetz, *Regulating the Social*, 135, 158-60, 203-7; G.K. Anton, *Geschichte der preußischen Fabrikgesetzgebung bis zu ihrer Aufnahme in die Reichsgewerbeordnung* (Leipzig, 1891), 99-132.

³Doc. 99, notes of Theodor Lohmann, 20 April 1872, *QGDS*, sec. 1, vol. 1, 287-95.

One year later Lohmann's colleague in the Ministry, Karl Rudolf Jacobi (1828-1903), bemoaned the lack of reliable commercial statistics, writing that existing knowledge about workers in Germany was more often based on conclusions drawn from English, French and Belgian sources.¹ This grave lack of knowledge, the numerous practical challenges and some of their early solutions formatively shaped the historical economists' approach to both economics and the social question. Indeed, the importance of this practical dimension is hard to overestimate, since Schmoller, Knapp, Held and Brentano spent extensive time studying in, working in and visiting Berlin between about 1865 to 1872, centred on the Prussian Statistical Bureau of Ernst Engel. As will be discussed in Chapter 4, Engel's own involvement in practical reform and insistence on empiricism helped to instill in his students an appreciation of the importance of direct empirical investigation of economic and social conditions.

Finally, in addition to the health, sanitary, moral and political implications of a densely-dwelling urban working class, the process of accelerated urbanisation also had profound qualitative implications for the urban population, and in turn, for the social question and the social reform movement, introducing new modes of mass communication and transport, participation in voluntary associations, organisations and politics, and exposure to the media and public opinion. This had its most accelerated and extreme form in Prussia and, again, especially in Berlin. The qualitative changes to modern urban life, such as the heightened awareness and intolerance of social inequality, were as important as the objective physical deprivations of the new urban working class. It was this combination of statistical enumeration, qualitative assessment

¹K.R. Jacobi, *et al.*, 'Über Fabrikgesetzgebung, Schiedsgerichte und Einigungsämter', *Schriften* 2 (1873), 130.

and mass dissemination which enabled the project of public enlightenment and social reform in which the historical economists would become involved. It is therefore important to emphasise that the social question, in addition to being a subject of scientific inquiry, was always also a creature of public mood and opinion, of associational activity, and mass dissemination.

3.6 The Rise of Social Ideas and Early Efforts at Reform

The process of rapid economic change and adjustment, the resulting catalogue physical deprivations, and the changing perceptions of the social question raised more questions and dilemmas than could be feasibly tackled by any single set of analytical tools or nostrums, and there was no shortage of ideas and prescriptions generated in response. Indeed, the decades of the 1840s, 50s and 60s saw a flood of prophecies, panaceas and theories on the social question from within various academic disciplines, across the political spectrum, and within government circles.¹ A number of these ideas would have a profound impact on the scope and direction of the work of the historical economists and their social reform movement and cannot be ignored in this discussion.

It is a fitting irony that of all the ideas floating around between 1850 and 1870 directed at the social question, those with the greatest impact on Schmoller and his colleagues were studies, not of German, but of British and French conditions by German observers beginning in the early 1840s. The observation of conditions abroad was particularly important because economic, social and political developments in the

¹See especially E. von Philippovich, 'Das Eindringen der sozialpolitischen Ideen in die Literatur', in *Die Entwicklung*, ed. Altmann, *et al.*, vol. II (Leipzig, 1908), 1-51 (ch. XXXI).

West were generally ahead of those in Germany. They thus provided tantalising indicators of the likely course of those same developments in Germany.

As early as the 1840s there had arisen in Germany a social strand of liberalism prominently represented by the industrialists Friedrich Wilhelm Harkort (1793-1880) and Gustav Mevissen (1815-99).¹ Harkort believed that the spread of knowledge and technology promised to liberate society from poverty but concluded that in Britain this idea had been perverted. Technology had instead become an instrument of tyranny. Through corruption and swindling, monopolies had been formed which destroyed competition and created work requiring little or no skill and paying near subsistence wages. At the same time, unbridled competition produced bankruptcies, unemployment, gluts, shortages and further material and spiritual impoverishment of the working class. Great improvements in agricultural production had come at the cost of the demise of the independent farmer.² Mevissen, who had first-hand knowledge of industrial conditions in the Midlands, was equally appalled, and concluded that the state, through education, could facilitate morality, progress, reason and a strengthened social conscience to avoid the social deprivations of the British pattern of industrialisation.³

Others drew lessons from France. The Hegelian Lorenz von Stein (1815-90) spent the early 1840s in Paris as a spy of the Prussian government reporting on the activities of German socialists, but while there, befriended leading French socialists such as Louis Blanc (1811-82) and wrote for socialist papers. Indeed, Stein was

¹See Rohr, *Social Liberalism*, 132-47.

²F. Harkort, *Bemerkungen über die Hindernisse der Zivilisation und Emanzipation der unteren Klassen* (Elberfeld, 1844); Rohr, *Social Liberalism*, 135-36.

³Rohr, *Social Liberalism*, 142-44.

himself strongly influenced by Saint-Simon (1760-1825), Considérant (1809-93), Cabet (1788-1856) and Reybaud (1799-1879).¹ His findings, published in 1842, were disturbing and caused a sensation, later added to by their prophetic effect, coming two years before the watershed Silesian weavers uprising, six years before the Revolution of 1848, and predating both Engel's and Marx's major writings.² Stein came to the conclusion that French society was riven with class-centred political conflict produced by increased social inequality - a product of free market competition. Socialism and Communism were thus simply an expression of justified proletarian aspirations to attain social equality. Following the revolution of 1848, a greatly expanded edition of his *Socialismus und Communismus* was published.³ In this he developed the notion that it was the state that held society together; without the state, society inevitably degenerated into economic interest groups reflecting the class hierarchies produced by property relations. It was the lack of a strong, super-partisan monarchical state and timely, bold social reforms in France which had invited repeated revolutionary upheaval and tyrannical class rule. Stein developed an economic and administrative theory derived from his *Socialismus* in which a monarchical state independent of class interests, through its impartial administration, could implement reforms against the will of dominant social classes to create an equitable society. One of the means to this end was mediating between individuals and the state through associations, societies,

¹Pope, 'The Political Ideas of Lorenz von Stein', 44-60.

²L. von Stein, *Der Socialismus und Communismus des heutigen Frankreichs* (Leipzig, 1842).

³*Idem, Geschichte der sozialen Bewegung in Frankreich von 1789 bis auf unsere Tage*, 3 vols. (Leipzig, 1850).

cooperatives and corporations.¹ Lorenz von Stein subsequently became the Marx of a great many educated German *Bürger*.

Another influential observer in the early 1840s was a young man from Barmen, a textile town in the Ruhr, and his observations were no less disturbing and influential in Germany.² Like von Stein, Friedrich Engels had been influenced by socialism abroad, in his case by British Chartism. Engels' vivid descriptions of the commercial vibrancy and the man-made hell produced as a consequence of industrial development, the chaotic urbanisation, the litany of abuses and deprivations inflicted on the working class and their resultant moral and ethical degeneration, but also of the failure of charity, the ruthlessness of factory owners and the complacency of the British government in dealing with these problems caused a sensation in Germany no less than had Stein's book just three years prior.³ Like Stein, Engels raised the spectre of an increasingly homogenous working class which was organising both industrially and politically. Here, too, was a modern society seemingly out of control. It is hard to overestimate the effect on the reading public of these two works, especially because they confirmed each other in important respects; they described to the German *Bürger* nightmarish societies and prophesied the same for Germany.⁴ By the early 1860s Schmoller was well familiar with von Stein and Engels and was fastidiously collecting lurid reports from British newspapers and reviews to update and compare with these

¹*idem*, *System der Staatswissenschaft*, 2 vols. (Stuttgart, 1952-6); *idem*, *Die Verwaltungslehre* (Stuttgart, 1865-68); Pope, 'Political Ideas', 235 and 259-61.

²F. Engels, *Die Lage der arbeitenden Klasse in England* (Leipzig, 1845).

³It should be noted that there were no translations of this book into English until 1886 and it was not published in England until 1892.

⁴Pankoke, *Soziale Bewegung*, 70-75.

accounts.¹ It is indeed very telling that Schmoller's extensive notes on Engels from the early 1860s are immediately followed in the same manuscript by notes on de Tocqueville's *l'ancien regime et la revolution*.² Tocqueville would certainly have reinforced a number of Stein and Engels' points: unless bold reforms were implemented, in time social upheaval, demagoguery and revolution would overwhelm Germany too.

By the 1860s there was a perceptible inclination to exaggerate the urgency of the situation, for obvious reasons especially in Prussia. Indeed, a mood of anxiety and hysteria was a significant undertone, one that became ever louder as the two social democratic parties formed, in 1863 the *kleindeutsch* and monarchically-oriented ADAV under Ferdinand Lassalle (1825-64), and in 1869 the internationalist and revolutionary SDAP under Wilhelm Liebknecht (1826-1900) and August Bebel (1840-1913). Both prophesied the demise of the *Mittelstand*, a social dinosaur on the verge of extinction, and proposed the sort of radical solutions to the social question described by Stein and Engels. Bismarck's success in introducing universal manhood suffrage to the *Reichstag* of the North German Confederation in 1866-67 - over the objection of most liberals - greatly added to these anxieties, ones which were finally brought to a crescendo by the Paris Commune in 1871.³ It was significant that the Internationalist SDAP openly

¹GStAB, Nl. Schmoller, 81: 116-118, 6 pages of detailed notes on Engels' *Die Lage der Arbeitenden Klasse in England*. Cf. GStAB, Nl. Schmoller, 49: 32, German report of Dr. Morgan's brochure on physical degeneration of workers in English industrial cities, with marginal note, 'Engels p. 21'; 34, notes from 'The Smoke Nuisance in Towns', *Public Opinion* (17 March 1866); 39, notes on Dr. E. Smith's 'The Food of the English Labourer' (1864).

²GStAB, Nl. Schmoller, 81: 118-21, notes on A. de Tocqueville, *L'ancien regime et la revolution* (4th ed., Paris, 1860). It is worth noting that in 1862 Victor Hugo published *Les Misérables*, a novel with a related theme which reflected the mood for social reform across Europe.

³G. Grützner, *Die Pariser Kommune* (Cologne, 1963), 22-37.

supported the Communards in the Reichstag, earning for themselves the derisive nickname ‘enemies of the Reich’.¹ From the very founding of the Empire they were seen by many *Bürger* as a subversive, anti-national enemy within.

There were of course more positive evaluations of conditions abroad and therefore Germany’s future, and it should not be forgotten that by the 1860s the model of social reforms, worker organisation and self-administration in Britain had found in Germany numerous enthusiastic admirers. So had the liberal optimism of Claude-Frédéric Bastiat (1801-50) and Herbert Spencer (1820-1903). Hermann Schulze-Delitzsch (1808-83) an admirer of Bastiat’s and deeply impressed by such British cooperatives as the Rochdale Pioneers, believed in the possibility of humanising the market from below. The vestigial privileges of estate society and state intervention had to be eliminated in order to give individuals scope to help themselves, the aim of which was turning workers into capitalists.² Since the 1840s, it had been an aspiration of many German liberals to broaden the *Mittelstand* downward to create a broad, politically-responsible class and prevent the radicalisation of unpropertied classes. This was precisely Schulze-Delitzsch’s hope. Schultze-Delitzsch’s advocacy of self-help through cooperative organisation was a means to unify the *Mittelstand* and the working class, a process which would eliminate the proletariat and which he saw as integral to nation building: ‘we must have a *Mittelstand* in Germany upon which the German nature, the German ethos and German *Bildung* develop ever more according to the inherent predisposition of the German national character.’³

¹See Bebel’s Reichstag speech in *Volksstaat* (31 May 1871).

²H. Schulze-Delitzsch, *Sechs Vorträge vor dem Berliner Arbeiterverein* (Leipzig, 1863).

³H. Schulze-Delitzsch, speech of 2 Nov. 1862, quoted in Conze, ‘Mittelstand’, 80.

Taking their cue from the British trades union movement and Schulze-Delitzsch, the progressive liberals Max Hirsch (1852-1905) and Franz Duncker (1822-88) beginning in 1868 tried to encourage the same in Germany as both a solution to the social question and an alternative to social democracy. Hirsch and Schulze-Delitzsch's friend, Ernst Engel, who had spent time studying cooperatives in Britain, was a vigorous advocate of such British-style profit-sharing schemes as the Industrial Partnership System and British-style trade unions in Germany. This was much in line with the early German 'social liberals' Harkort and Mevissen, who, drawing on largely negative British observations, had come to advocate profit-sharing, cooperatives, and such workers' relief funds as the *Knappschaften*, in addition to government action to restrict monopolies, diversify industry, restrict child labour and working hours, establish minimum wages, provide worker education and training, establish public works projects during slumps, make factories liable for sickness and disability payments, make housing improvements, and reduce tax and excise on necessities.¹ As discussed later, this 'social' stand of liberalism would find great resonance with Schmoller and his colleagues.

Other liberals were much less troubled by the social question. John Prince-Smith (1808-74), who in 1864 famously challenged there even being a 'labour question', claimed that the only way to improve the conditions of the workers was to increase profits and improve the workers' economic and moral habits.² Significantly, Prince-Smith and other advocates of *laissez-faire* tended to avoid the term *Mittelstand*, and when they did, as for example Victor Böhmert, they tended to see the decline of

¹See Rohr, *Social Liberalism*, 132-47.

²J. Prince-Smith, 'Die sogenannte Arbeiterfrage', *VfVK* 2 (1864), 192-207.

the working class and the rise of the *Mittelstand* as a ‘beautiful law of modern culture’, that is, as the natural outcome of industrial market forces.¹

It is notable that there were also rather more conservative liberal observers of the social question in Germany. Rudolf Gneist, who had himself undertaken field investigation in Britain in the 1850s, was also an admirer of Britain. In his case the social question had made him painfully aware of German and Prussian civic deficits, particularly the dangers arising from the vestiges of feudality and absolutism: centuries of bureaucratic tutelage and arbitrary rule, and more recently, continued encroachments of class interests in government.² England, on the other hand, displayed civic initiative, continuity and stability, embodied in its tradition of self-government by the rural squirearchy and legally circumscribed ministerial and bureaucratic powers. Self-government, Gneist believed, was an important mediator between society with its various interests and the state.³ He saw part of the solution in the reform of Prussian provincial and municipal administration modeled on British local self-administration.⁴ By getting the ubiquitous and meddlesome Prussian bureaucrats out of people’s lives Gneist hoped to encourage the initiative and self-organisation of civil society, which in turn held the best promise of finding local solutions to the social question. Many of Gneist’s ideas would later be developed further by the legal scholar Otto Gierke (1841-1921). Gierke, who became a leading critic of legal positivism, emphasised the social function of law, criticising individualistic Roman law conceptions and their

¹V. Böhmert, *Der Socialismus und die Arbeiterfrage* (Zürich, 1872), 146; Conze, ‘Mittelstand’, 79, 80-81.

²See especially Pope, ‘Political Ideas’, 155-76.

³R. Gneist, *Das heutige englische Verfassungs- und Verwaltungsrecht*, 2 vols. (Berlin, 1857-60).

⁴*idem*, *Selfgovernment, Kommunalverfassung und Verwaltungsgerichte in England* (Berlin, 1871).

negative social consequences. He saw self-administered cooperative associations as a way to limit economic individualism and as a way of transforming the authoritarian state into more a popular form of government.¹

Like Stein and Engels, conservative liberals were much troubled by the rise of a class-differentiated society and captivated by the hope of achieving social harmony through classlessness. Like de Tocqueville, Wilhelm Heinrich Riehl (1823-97) was haunted by the Bonapartism of Louis Napoleon and believed that unresolved class conflict invited rule by tyrannical demagogues which threatened to destroy the healthy and natural organisation of German society into estates. In *Die bürgerliche Gesellschaft* (written between 1851-52), Riehl argued that it had been the oppressive absolute state and its police bureaucracy, advancing a one-sided '*Kammerliberalismus*' (cameralist liberalism), whose only freedom was the freedom of commerce, together with philistine industrialists who saw society made up only of producers and consumers, which threatened to divide society into rich and poor, thereby destroying a natural, estate-differentiated but classless society.² Only through a broad *Mittelstand* could a constitutional nation-state be formed on the principle of 'social self-government' which could take into account the peculiarities of the German *Volk* and shape a fitting social policy.³ The historical economists were familiar with the ideas of both Gnesit and Riehl. They too were aware of the excesses of bureaucratic liberalism and sympathetic to both the notion of local self-government as well as the

¹O. Gierke, *Das deutsche Genossenschaftsrecht*, 4 vols. (Berlin, 1866-1913); *idem*, *Rechtsgeschichte der deutschen Genossenschaften* (Berlin, 1868).

²H. W. Riehl, *Die Naturgeschichte des Volkes als Grundlage einer deutschen Social-Politik*, vol. II, *Die Bürgerliche Gesellschaft* (6th edn., Stuttgart, 1866), 224, 254, 263-73.

³*Ibid.*, 8-9, 210, 273.

importance of the *Mittelstand* in civil society.

As was to be expected, conservatives had considerably less faith in civil society left to reform itself and therefore very different solutions to the social question. Typical of this social conservatism were Josef Maria von Radowitz (1797-1853) and Ludwig von Gerlach (1795-1877), both of whom had spent time in England and returned shocked by the social and political consequences of industrialisation. They extolled the virtues of the old corporatist order and bemoaned the Prussian commercial reforms and the rising industrial class.¹ After the watershed Silesian weavers' revolt in 1844, some conservatives like Radowitz, however, had a change of heart, advocating instead the formation of a socially-reforming kingdom to gain the support of the masses (believed by conservatives to be royalist) and thus quell revolutionary discontent and prevent further commercial and political liberalisation. In contrast, Victor Aimé Huber (1800-69) was a much more modern conservative. Having like Engels spent extensive time in England studying the working class in Manchester, he nevertheless came to very different conclusions about the origins of their plight, blaming it on the lack of initiative, discipline and thrift which could only be remedied by moral and religious education.² Huber saw the solution to the social question in Germany in reforms of the customs, tax and commercial code, expansion of poor relief efforts, strengthening the influence of the Lutheran church, defense of the family unit, and above all, in worker associations which were to become the germ for a moral

¹ See H. Beck, 'Conservatives and the Social Question in Nineteenth-Century Prussia', in *Between Reform, Reaction and Resistance*, ed. L. Eugene Jones and J. N. Retallack (Providence and Oxford, 1993), 61-94; *idem*, *Welfare state*, 63-79, and 79-100.

²V.A. Huber, 'Manchester. Das Proletariat', *Janus* 1 (1845), 641-78 and 705-27.

working class identity.¹

It should be mentioned too that in the 1860s social conservatism among Prussia-Germany's Catholic population was bolstered by Pius IX's *Syllabus errorum* of 1864, which was a decided rejection of the cultural, political, and economic doctrines of liberalism. The declaration of papal infallibility of 1870 was a further step in this direction. Catholic clerics, like Bishop Wilhelm von Ketteler of Mainz (1811-77), bemoaned the atomisation, moral degeneration, and politicisation of the workers and sought to increase the influence of the Catholic church at the expense of both the liberal parties and the Social Democrats by redirecting efforts away from party politics toward everyday practical problems and needs.² Kettler and other important figures in the development of Christian socialism in Germany, like Edmund Jörg (1819-1901), complained of the 'liberal economism of the bourgeoisie', under whose rule the *Mittelstand* seemed doomed. Jörg nevertheless believed that through new labour policies the way toward a new 'petite bourgeois cultural period' could be ensured.³

Significantly, a number of Prussian conservatives developed unusually radical solutions to the social question; radical, because they were rather extreme, defying easy identification with landed interests. Carl Rodbertus (1805-75) admired industry and his views were closer to the ideals of Ferdinand Lassalle than any liberals. Relying on Ricardian rent and wage theories, Rodbertus advocated the collective ownership of private property and land and the collectivisation of production to preempt proletarian

¹V. A. Huber, 'Die ökonomische Assoziation' (1849), in *V.A. Hubers ausgewählte Schriften über Sozialreform und Genossenschaftswesen*, ed. K. Munding (Berlin, 1894).

²See W. E. von Ketteler, 'Die Arbeiterfrage und das Christentum' in *Wilhelm Emmanuel von Kettelers Schriften*, ed. J. Mumbauer, vol. III (Kempten and Munich, 1911), 1-144.

³Jörg quoted in Conze, 'Mittelstand', 79; see E. Jörg, 'Aphorismen über die social-politische Bewegung', *Historisch-politische Blätter für das katholische Deutschland* 56 (1865), 52-66.

revolution, which in his mind threatened cultured civilisation.¹ Rodbertus' advocacy of a collectivised authoritarian state would exercise considerable influence on the editor of the *Neue preussische (Kreuz) Zeitung*, Hermann Wagener (1815-89), who became a close friend and advisor of Bismarck's on social matters in the 1860s and 70s. Wagener was much taken by Radowitz and Stein's notion of a social kingdom and especially known for his receptiveness to Lassalle and willingness to apply Bonapartist schemes to secure the loyalty of the workers for the monarchy.² Wagener was also notable as one of the first conservatives to take up the cause of the *Mittelstand*. As will be discussed later, Schmoller, Knapp, Held and Brentano were deeply troubled by this radical strand of conservatism no less than the radical workers' parties in the 1860s, a situation in many ways conditioned by the severity of the social question in East-Elbia.

These various interpretations and prescriptions of the social question did not escape civil servants and government officials, even if in the 1860s the relevant Prussian ministries were still dominated by what Riehl had called 'Cameralist liberals' or *Beamtenliberalen*, the civil servants who, while politically conservative or authoritarian, were nevertheless stalwart economic liberals not much troubled by social questions. Typical in this regard was Heinrich von Itzenplitz (1799-1883), Prussian Minister of Trade from 1862-1873, and others in the ministry like Rudolf Delbrück (1817-1903) and Otto Camphausen, who together with Itzenplitz were able to hold the ambitions of radical conservative social reformers like Hermann Wagener, or more

¹C. Rodbertus-Jagetzow, 'Die Forderungen der Arbeitenden Klassen' (1839), in *Schriften von Dr. Carl Rodbertus-Jagetzow*, ed. A. Wagner, vol. III (Berlin, 1899), 195-223. See also Beck, *Welfare State*, 93-100.

²See especially doc. 94, memorandum to Bismarck, 29 Jan. 1872, *QSDS*, sec 1, vol. 1, 276-80. See also Beck, 'Conservatives', 89-92; *idem*, *Welfare State*, 101-22;

moderate and liberal ones like Theodor Lohmann, in check. Yet the social question was slowly permeating all levels of the supposedly impregnable Prussian state, and it is noteworthy, for example, that Bismarck, who was continuously advised on the social question by Hermann Wagener in the 1860s and 70s, wrote Itzenplitz as early as 1865 advocating reforms of the laws governing trade unions and indicating the prospect of wide-ranging labour legislation.¹ Moreover, a younger generation of ambitious officials was rising which was familiar with socialist and social reform literature and strongly influenced by public concern over the social and labour questions, developing views which differed from both the 'civil service liberalism' of Itzenplitz and Camphausen as well as the authoritarian Bonapartism of Wagener and Bismarck. Among these must be counted (in addition to those already mentioned above or in chapter 2: Robert Bosse, Tonio Bödiker, Hans Berlepsch, Karl R. Jacobi, Theodor Lohmann and Erich Woedtke) Karl Heinrich von Bötticher (1833-1907), who later became Bismarck's *alter ego* in government as key advisor on social insurance legislation in the Imperial Office of Interior (1880) and after 1881, Bismarck's general representative in the *Bundesrat*, and Johannes Miquel (1828-1901), once a communist, later co-founder of the National Liberal Party and Lord Mayor of Frankfurt (1880), who as Prussian Minister of Finance (1890-97) would introduce progressive income taxes. Nearly all of these civil servants and later ministers would be involved either like Miquel in the *Verein für Sozialpolitik*, like Lohmann in Schmöller's *Staatwissenschaftliche Gesellschaft*, or like Berlepsch (who was also a member of the *Verein*) in the *Gesellschaft für soziale Reform*. All also took a more conciliatory line toward social democracy, and some like Lohmann, Berlepsch, Boetticher and Miquel

¹Doc. 37, Bismarck to Itzenplitz, 26 January 1865, *QGDS*, sec. I, vol. I, 101-5, especially 102-3.

would play a role in forcing Bismarck out of office.

Yet another way that the social question, class struggle and changing property relations were being both reflected and interpreted was through historical scholarship, inadvertently reinforcing some of the conclusions of Engels and von Stein. Barthold Niebuhr's (1776-1831) *Römische Geschichte* (2 vols. 1811-12), Theodor Mommsen's (1817-1903) *Römische Geschichte* (1854-55) and later *Römisches Staatsrecht* (2 vols., 1871-76) and numerous other pieces, such as K. W. Nitzsch's (1818-88) *Geschichte der Römischen Republik* (1847) and Bruno Hildebrand's 'Die Soziale Frage der Verteilung des Grundeigentums im Klassischen Altertum' (1869)¹ focused for the first time on the social, economic and legal history of classical antiquity, giving property relations and class struggle a much greater emphasis. What was increasingly emerging from this scholarship was the history of antiquity as a moral tale about changing property relations and good and bad governments, measured by the success or failure of social and legal reforms. The social question thus was telescoped into the past, only to return with the sobering insight that modern German and European society was at an important crossroads in its property relations, and that the current age would be judged on how it resolved the social inequality resulting from the recent urban-industrial transformation. The lesson that divergent economic interests could tear whole societies apart - and that in that struggle the faction with the most strongly developed *Mittelstand* would prevail - was reinforced in the 1860s by the American Civil War, notably by Schmoller himself.² The seriousness with which such historical lessons

¹*JbbfNS* 12 (1869), 1-25 and 139-55, based in part on an earlier work of his on Roman agriculture *De antiquissimae agri romani distributiones fide* (Jena, 1862).

²G. Schmoller, 'Nationalökonomische und sozialpolitische Rückblicke auf Nordamerika', *PrJbb* 17 (1866), 38-75, 153-92, 519-47, and 587-611; on the virtues of the North American *Mittelstand* in contrast to the decadent plantation owners see 605-6.

were received was in some measure due to the prestige that history enjoyed as a consequence of the great strides in critical historiography through Niebuhr and Ranke. But if the scientific legitimacy of history had improved immeasurably as a consequence, legal scholars such as Rudolf Ihering (1818-92), Henry Maine (1822-88) and William Stubbs (1825-1901) had used these critical tools to deconstruct and disenchant human relations, institutions, law and constitutions, revealing that these were highly mutable and merely served social functions and interests. This greatly reinforced the lessons emerging from classical antiquity and empirical scholarship that social reforms were both necessary and possible. This too was to have a major impact on Schmoller and his colleagues.

To summarise briefly, it was remarkable to what extent observers from a wide variety of backgrounds with widely-varying political views were traumatised by the social question both at home and abroad, particularly by the rise of a class-structured society and the threat of revolution. All expressed a vague longing for a communitarian society. Equally remarkable was the extent to which most of these observers believed that some kind of direct action needed to be taken by the state and proposed classlessness and classless societies as a remedy to the social question. It should be noted too that a number of liberals, Christian socialists and moderate conservatives based their hopes for social improvement on practical measures to humanise industry and to strengthen the *Mittelstand*.

3.7 The Rise of Economic Heresy and the Post-Ricardian Flux

If the dizzying range of social ideas and theories of the 1850s and 60s provided little in the way of an intellectual compass with which to navigate the rough seas of

the social question, economics as a discipline was itself in a state of confusion generated by growing scepticism about the certainties of Say, Malthus and Ricardo's classical system. Indeed, economics in the 1860s was suffering from a precipitous loss of scientific credibility and prestige.

That economics would suffer such a crisis in the 1860s was in some ways odd, since the discipline had enjoyed numerous important refinements. Yet these innovations themselves had the insidious effect of breeding, not doctrinal unity, but heresy. Part of the problem was that classical theory had simply not kept pace with changing economic conditions, still shaped as it was by the 'dismal' preoccupations of the early century.¹ Consider the numerous problems related to the Ricardian theory of rent. Here was a theory conditioned by the dominance of unusually-large English estates, a rapidly-growing population, enclosure, rising grain prices, low levels of trade and high transport costs during the time of the Continental blockade. By the 1860s, however, agricultural improvements, cheaper and better transport, the expansion of trade, and rapid industrial development had stabilised rents and grain prices, and had raised real wages, enabling a growing urban population to be more easily and cheaply fed.² In any case, the Ricardian wage-fund doctrine was showing its age, derived as it was largely from English agriculture. As William Thomas Thornton (1813-80) and other critics in the 1860s showed, the wage fund did not necessarily hold in industry, since there was in manufacturing a continuous flow of revenue from the sale of goods from which to pay wages, so that the level of wages actually depended on a flow of

¹E. Rothschild, 'Adam Smith and Conservative Economics', *EHR* XLV (1992), 74-96.

²J. Kuczynski, *A Short History of Labour Conditions in Germany 1800 to the Present Day* (London, 1945), 74-82.

revenues determined by expected demand, and not a stock of capital accumulated from profits.¹ When this view eventually found acceptance with the doyen of classical economists, John Stuart Mill (1806-73), its effect was as if one of the supporting pillars of the classical temple had been knocked over:

The doctrine hitherto taught, by all or most economists (including myself), which denied it to be possible that trade combinations can raise wages, or which limited their operation in that respect to the somewhat earlier attainment of a rise which the competition of the market would have produced without them, - this doctrine is deprived of its scientific foundation, and must be thrown aside.²

It seemed that workers were not, after all, condemned to Ricardo's 'natural' wage. As this episode clearly showed, Mill's dual position as at once the premier classical economist and at the same leading social critic and reformer was not without contradictions and mixed signals within the discipline.

Like the theory of rent, classical labour doctrines appeared alien to many Germans: labour was not an abstract input embodied in the value of products, but instead seen as work capacity purchased from a labourer, whether for a service or to produce a product. Distinctions were also made between the value and price of labour.³ In English wool weaving, for example, labour was embodied in output, and payment was made for volume of cloth output per loom, while in Germany labour was seen as work power (*Arbeitskraft*) and payment to individual loom operators was for volume of activity.⁴ Unlike Britain, illiteracy was virtually eliminated in Germany by the 1850s and industrialisation came much later and concentrated in railways and

¹W. T. Thornton, *On Labour* (London, 1869).

²J. S. Mill, 'Thornton on Labour and It's Claims', *Fortnightly Review* 5 (May 1869), 517.

³See R. Biernacki, *The Fabrication of Labor* (Berkeley, Los Angeles and London, 1995), 268-78.

⁴*Ibid.*, 42-43,

machinery which required many skilled workers, taking advantage of and adapting strong craft and vocational training traditions.¹ This meant that factory work generally required less supervision and coercion, and technical and organisational innovations could be made more swiftly.² It also meant that human and physical capital were seen more as conjoined elements rather than as distinct factors.

The classical notion of economic equilibrium too was being shaken up, not least due to the impact of industrialisation, urbanisation, trade integration, and the increasing importance of demand and supply lags and business cycles. For example, Simonde de Sismondi (1773-1842) had already in the early century pointed to the problem of industrial transition and disequilibria: returning to a new equilibrium entailed painful adjustments for the working population following such shocks, leading also to greater social inequality.³ Similarly, Roscher suggested that a role was played in business cycles by speculation, sticky prices, uncertainty and the consequences of an increasingly international division of labour; this too questioned Say's Law of markets.⁴ Consider also the example of one of the most important innovators of the time, Heinrich von Thünen (1783-1850), whose *Isolirter Staat* was not fully published until the early 1860s.⁵ While his detailed analysis of an abstracted autarchic town economy, based on empirical observations of his estate in Mecklenburg, innovated

¹Lee, 'Labour in German Industrialization', 455-59 and 461-66.

²T. K. McCraw, ed. *Creating Modern Capitalism* (Cambridge MA and London, 1997), 139; cf. 80-83.

³*Nouveaux Principes d'économie politique* (2nd edn., Paris, 1827 [1819]).

⁴W. Roscher, *Ansichten der Volkswirtschaftslehre aus dem geschichtlichen Standpunkt* (Leipzig and Heidelberg: 1861).

⁵H. von Thünen, *Der isolirte Staat*, vol 1 (Hamburg, 1826), part 1, vol. 2 (Hamburg, 1850), part 2, vol. 2 (Hamburg, 1863).

economic geography, the notion of marginal productivity and the use of calculus, a large portion of his work showed an abiding concern for the labour question, and he himself became an advocate of profit-sharing schemes.¹ Indeed Thünen was most proud of his just wage formula, dismissing the inexorability of the Ricardian natural (or subsistence) wage by instead equating capital productivity with labour productivity. That is, von Thünen showed that wages depended on levels of productivity, not the level of profits. As pointed out in chapter 2, both Brentano and Knapp wrote dissertations elaborating or testing various aspects of von Thünen's wage theory in the 1860s, and both were deeply influenced by von Thünen's innovations.²

Numerous other economists of the time made innovative criticisms or qualified the classical system. Henry Charles Carey (1793-1879), whose ideas Held had critiqued in his doctoral dissertation,³ had argued that industry was not subject to Ricardian diminishing returns and that property relations were not governed by markets but were determined by political decisions and institutions. Another was Bruno Hildebrand who, in questioning the Ricardian labour theory of value, was one of the first to propose instead a notion of diminishing marginal utility.⁴ Albert Schäffle and Wilhelm Roscher, too, shed considerable doubt on the validity of the existing definition of income and capital and therefore of the standard theory of

¹Especially II. Theil, I. Abteilung, I. Abschnitt.

²See Brentano, 'Ueber Heinrich von Thünen's naturgemäßen Lohn und Zinsfuß'; Knapp, 'Zur Prüfung der Untersuchung Thünen's'.

³Held, 'Carey's Sozialwissenschaft'.

⁴B. Hildebrand, *Die Nationalökonomie der Gegenwart und Zukunft* (Frankfurt a.M., 1848). Streissler and Milford claim that this notion was later taken up from Hildebrand by Menger via Roscher, 'Theoretical and Methodological Positions', 55.

taxation, which they did from a position of distributive justice,¹ a point that Schmoller himself took up very early in his career and upon which Held later wrote a book.² Additionally, Hermann's schematic treatment of supply and demand factors also went far beyond Ricardo. In fact, he explicitly rejected Ricardo's theory of labour, and his famous text served in many ways to highlight the complexity of supply and demand factors.³ If anything, these many refinements and revisions of Ricardian orthodoxy showed that the economy was much more complex than implied by the classical economists and that a concern for social justice was not incompatible with analytically rigorous economics. Most importantly, the classical system was being challenged not on abstract methodological grounds, but on key points of theoretical detail with direct implications for the issue of distributive justice. From various directions, then, it seemed as if the Ricardian system was coming apart.

If the basic mechanisms of the Ricardian-Malthusian-Sayist classical system were themselves a source of trouble, so was the method of getting to them. Typical of this was the habit of reductive abstraction to get clear-cut results introduced by Ricardo and immortalised by Schumpeter as the 'Ricardian Vice':

In order to get this [clear-cut results] he [Ricardo] cut that general system to pieces, bundled up as large parts of it as possible, and put them in cold storage - so that as many things as possible should be frozen and 'given'. He then piled one simplifying assumption upon another until, having really settled everything by these assumptions, he was left with only a few aggregative variables between which, given these

¹A. Schäffle, 'Mensch und Gut in der Volkswirtschaft oder der ethisch-anthropologische und der chrematistische Standpunkt der Nationalökonomie', *Vierteljahrs-Schrift* (1861); W. Roscher, *System der Volkswirtschaft. Ein Hand- und Lesebuch für Geschäftsmänner und Studierende*, vol. 1, *Grundlagen der Nationalökonomie* (Stuttgart, 1854).

²G. Schmoller, 'Die Lehre vom Einkommen in ihrem Zusammenhang mit den Grundfragen der Steuerlehre', *ZtfGS* 19 (1863), 1-86; A. Held, *Die Einkommensteuer* (Bonn, 1872).

³Streissler and Milford, 'Theoretical and Methodological Positions', 53-54.

assumptions, he set up simple one-way relations so that, in the end, the desired results emerged almost as tautologies.¹

But it would be mistaken to lay the blame solely or even largely at Ricardo's feet. Indeed, it was as much the uncritical repetition of this approach by his academic and journalistic followers in Britain and Ireland, represented by John Ramsay McCulloch (1789-1864), James Mill (1773-1836), Nassau Senior (1790-1864), Henry Fawcett (1833-84) and Walter Bagehot (1826-77), in France by Claude-Frédéric Bastiat, and in Germany by John Prince-Smith and Karl Heinrich Rau, that, in the words of Schmoller, made economics appear to be suffering from anaemia.² Gide and Rist themselves commented that in terms of sheer doctrinaire intolerance, economic liberalism had nowhere else gone as far as in Germany.³ Dogmatism, the lack of innovation and the repeated insistence by numerous also-ran 'Ricardians' and journalists that economics was a complete science, its pedagogic simplification by Jane Marcet's (1769-1858) popular *Conversations on Political Economy* (1816) and Harriet Martineau's (1802-76) *Illustrations of Political Economy* (1832-34), which reduced the dismal science to an updated Poor Richard, and the links between numerous classical economists and the Cobden Club - in the service of what appeared to many Germans as unabashed class interests - was fully undermining the scientific credibility of classical economics, earning it in Germany the derisive nickname *Manchestertum*.⁴

As if the damage being done to the scientific credibility of economics by threadbare theories, reductivism, vulgarisation and the close identification with

¹Schumpeter, *History*, 472-73.

²Schmoller, in *LZ* 14 (1875), cols. 445-47.

³Gide and Rist, *Lehrmeinungen*, 482.

⁴Schmoller, *Grundriß*, vol. I, 93.

manufacturing interests was not bad enough, things got precipitously worse as socialists in Germany put Ricardo to use. Lassalle and Marx and reactionaries such as Rodbertus showed, following from such English predecessors as Thomas Hodgskin (1798-1866), that surplus labour value, natural rent and the wage fund (in the case of Marx and Rodbertus, combined with a good dose of Hegelianism) were as adept at propagating collectivism and/or revolution as the ends of the Cobden Club. These socialistic conclusions drawn from Ricardianism found as little sympathy among Schmoller and his colleagues as did *Manchestertum*, but now there was a double urgency in dispensing with Ricardo.

Yet the problems were even more serious than this. The 'Ricardian Vice' was merely a symptom, in the view of the young historical economists, of a deeper general problem. What perplexed Schmoller and his colleagues the most was the contradiction of, on the one hand, maintaining pretences of being an exact science and simultaneously continuing to insist on what were empirically refutable dogmas and axioms, all the while overlooking both empirical reality and moral philosophy. This was brought home by the irony that as economics self-consciously cut its roots to the tradition of moral science and moral philosophy - by becoming more abstract and supposedly 'value neutral' - economics was actually becoming metaphysical and thereby in danger of knocking the ground from under its own feet.¹ This was increasingly the view not just in Germany but also in Britain and France, and Schmoller made references to articles in the *Journal des Économistes* and the

¹*Idem*, 'Johann Gottlieb Fichte', *JbbfNS* 5 (1865), 2.

Westminster Review explicit in making these points.¹ In Schmoller's view ethics was, following from Aristotle, a science of human action - of both describing and proscribing action. Was economics, no longer a science of human behaviour? Abstracted and neutral human sciences tended to derive their axioms, as he put it, 'not from the real facts and conditions of the inner workings of human consciousness, the outside world and the mechanism of cultural civilisation produced by humans, but instead from higher powers above all earthly life'. Simultaneously morality and ethics were being pushed to the fringes 'reduced only to the most general human conditions, such as love, friendship...'.² By ignoring ethics in economic reasoning, it seemed that the error was being made of simply assuming a mechanistic economy ruled by celestial law in which value, prices, wages, a division of labour and trade were somehow possible without basic agreement on what constituted morally or ethically acceptable action. Though there was hardly any empirical evidence for it, in the classical system individuals were somehow guided by a universal egoism and the natural governing laws of the market. Yet had the founders of comparative and experimental psychology, Moritz Lazarus (1824-1903) and Wilhelm Wundt (1832-1920), not shown that sensory perception and human motivation were extremely complex and required detailed empirical and comparative investigation?³ Indeed, the Benthamite carrots and sticks holding the Ricardian-Millian edifice together appeared crude and outdated. Moreover, had it not been precisely these 'natural laws' - being debunked throughout the 1860s -

¹ *Ibid.*, n. 2: H. Baudrillart, 'Rapports de la morale et de l' économie politique', *JDE* 34 (May 1862), 216; Rondelet, 'Du spiritualisme en économie politique', *JDE* 34 (July 1862), 5; Dameth, 'Le juste et l'utile', *JDE* 34 (July 1862), 110; 'The Moral of Trade', *Westminster Review* 15 (1856).

²*Ibid.*, 3.

³M. Lazarus, *Das Leben der Seele*, 3 vols. (2nd rev. edn., Berlin, 1876-82 [1855-57]); W. Wundt, *Beiträge zur Theorie der Sinneswahrnehmungen* (Leipzig and Heidelberg, 1862).

which had inexorably chained mankind to existing conditions, with little scope for improvement? Had scientific complacency and dogmatism, as Mill himself admitted, not condemned millions to poverty, or in the case of Ireland, to starvation? In the 1860s appeals to economic law seemed not only quaint and theological, but, considering the social question in Germany, politically and socially unacceptable, since it wrongly lifted the mechanics of the economy outside of the provenance of human action, and therefore denied much of a scope for reform.

The struggle against metaphysics and empirical impoverishment was also being waged on another front: against determinism in statistics and history, most prominently represented by the astronomer and statistician Adolphe Quetelet (1796-1874), the historian Henry Thomas Buckle (1821-62), and the economist Adolph Wagner, whose belief in social laws, in the view of Held, Knapp and Schmoller, were reminiscent of a Ptolemaic celestial order and a dysfunctional Ricardianism. Just as in economics, it seemed that the more values were being banished from statistical analysis, theology and metaphysics were sneaking in through the back door.¹ To scientifically-oriented men, as the historical economists plainly saw themselves, these ideas called for a reappraisal of the factual basis and methodology of statistics. Statistical investigation, by Gustav Rümelin and Knapp, did indicate the limits of statistical law.² But this limitation seemed also to confirm and secure the position of a number of empirically verifiable laws relating to urban social inequality. Ernst Engel and Heinrich Schwabe

¹A. Held, 'Adam Smith und Quetelet', *JbbfNS* 9 (1867), 249-79; G. F. Knapp, 'Die neueren Ansichten über Moralstatistik', *JbbfNS* 16 (1871), 237-50. *Idem*, 'A. Quetelet als Theoretiker', *JbbfNS* 18 (1872), 89-124. G. Schmoller, 'Ueber die Resultate der Bevölkerungs- und Moral-Statistik', in *Sammlung Gemeinverständlicher wissenschaftlicher Vorträge*, ed. R. Virchow and Fr. v. Holtzendorff, vol. VI, no. 123 (Berlin, 1871), 65-98.

²G. Rümelin, 'Ueber den Begriff eines sozialen Gesetzes' (1867) in *Reden und Aufsätze* (Freiburg and Tübingen, 1875), 1-31; G. F. Knapp, *Die Sterblichkeit in Sachsen* (Leipzig, 1869), 95-101.

(1789-1875), for example, independently showed that expenditure on food and housing, respectively, was inversely proportional to the level of income.¹ These new 'laws' were potent ammunition in the struggle for social reform. As importantly, Hildebrand showed that statistics held the promise of enabling a new inductive, empirical and realistic social science.²

The backlash against factual poverty, speculation, and metaphysics in classical economics, moral statistics and history taking place in Germany in the 1860s was part of a broader European movement then taking shape to banish speculation and build up from facts a new empirical social science to aid the project of social reform. In Britain this was being given impulse by Richard Jones (1790-1855), William Whewell (1794-1866), J. K. Ingram (1823-1907), J. E. Thorold Rogers (1823-90), by John Stuart Mill's 'wayward disciples' John Elliot Cairnes (1823-75), Frederic Harrison (1831-1923) and T. E. Cliffe Leslie (1827-82), and in France by Auguste Comte (1798-1857) and his students.³ If scientific rigour required such a reform, the desperate need for an accurate factual basis to deal with the social question demanded it. Scientific and social improvement thus went hand in hand. In Germany especially, a credible scientific mantle was necessary in dealing with the social question no less because of the need to avoid being identified with 'liberal economics' or *Manchestertum*, as was discussed, widely perceived in Germany as a party doctrine

¹E. Engel's budget law was first formally stated in F. Le Play's, *Les ouvriers européens* (Paris, 1855); H. Schwabe, 'Das Verhältniß von Miethe und Einkommen in Berlin', *Städtisches Jahrbuch* 2 (1868), 264-67.

²B. Hildebrand, 'Die wissenschaftliche Aufgabe der Statistik', *JbbfNS* 6 (1866), 1-11.

³Ashley, 'The Present Position', 4-10; G.M. Koot, *English Historical Economics, 1870-1926* (Cambridge, 1987); G.C.G. Moore, 'T.E. Cliffe Leslie and the English Methodenstreit', *JHET* 17 (Spring 1995), 57-77; E. Grimmer-Solem and R. Romani, 'In Search of Full Empirical Reality', *Working Papers, Center for History and Economics, King's College, Cambridge* (January 1998).

and pseudo-science defending the interests of the *Bürgertum*. This important context peculiar to the German case helps explain the strong desire to start anew by getting the facts. But the situation of sheer factual heterogeneity itself, whether in social ideas or in economics, too made an important impression on Schmoller and his colleagues. Clearly the broad range of disagreement was a symptom of yet an even deeper problem: the widely differing mode of collecting and interpreting the facts. While the resulting intellectual crisis led to a search both for the values - values themselves gleaned from an intellectual and scientific heritage - and the facts upon which to build a science devoted to the social question, it also sharpened the historical economists pragmatic and empirical instincts. Out of this tension between inherited ideas and values and the pragmatic empiricism of getting the facts would arise a new historical economics.

CHAPTER 4:

EMPIRICAL KNOWLEDGE AND THE REFORM OF SOCIETY, 1864-1872.

Reason, then, goes to work only after it has been supplied with a suitable set of inputs, or premises. If reason is to be applied to discovering and choosing courses of action, then those inputs include, at the least, a set of *shoulds*, or values to be achieved, and a set of *is*'s, or facts about the world in which the action is to be taken.

Herbert Simon¹

Each man is given a scientific heritage plus a continuing barrage of sensory stimulation; and the considerations which guide him in warping his scientific heritage to fit his continuing sensory promptings are, where rational, pragmatic.

Willard Van Orman Quine²

Getting a command of basic economic and social facts was the major problem which arose as a consequence of the urgency of the social question, the rise of various conflicting social ideas, and the demise of the classical economic system. Facts were essential to broadening the focus of economics to include the interests of all classes in society, especially the workers and the *Mittelstand*. Given the historical economists' early training in statistical bureaus, statistics became a familiar tool to begin the task of reform. But empirical historical research and field investigation, too, were part of the fact-finding toolbox. The social question was, after all, no single issue but a wide range of specific, interrelated problems calling for a range of empirical knowledge and a variety of specific solutions. This knowledge had first to be gathered to understand

¹'Alternative Visions of Rationality', in *Rationality in Action*, ed. P. K. Moser (Cambridge, 1990), 191.

²W. V. O. Quine, *From a Logical Point of View* (2nd edn., Cambridge, MA, 1980), 46.

the capacity of policies to achieve the end of social improvement. As importantly, a clearer understanding of the place of ethics in social science was needed; social reform was, after all, motivated primarily by ethical concerns. To begin this process there was no alternative but to go out and observe, and it was in society that the historical economists found their laboratory.

4.1 The Practical Imperative: Empiricism, Statistics and Social Reform

The approach the historical economists would take to the social question was significantly shaped by the education and training they received. For example, following his schooling in 1855, Schmoller had intended to begin a career in the civil service, spending 18 months in his father's *Cameralamt* in Heilbronn gaining practical experience in finance and tax administration.¹ Schmoller's approach to economic matters thus early-on had gained a practical and technical orientation in the tradition of enlightened south German bureaucracy. Following his studies in Tübingen in 1861, Schmoller began work with his brother-in-law Gustav Rümelin in the Württemberg Statistical-Topographical Bureau as a second stage in his training for the civil service, where Schmoller learned statistics and was directly involved in a commercial survey for the *Zollverein*, the findings of which were published in 1862.² Much of 1863 was subsequently spent travelling through Switzerland, eastern France and north Germany, observing factory and housing conditions and attending lectures at the Académie de

¹Schmoller. 'Jugendjahre', 57.

²*Idem*, 'Die systematische Darstellung des Ergebnisses der zu Zollvereinszwecken im Jahre 1861 in Württemberg stattgehaltenen Gewerbeaufnahme', *WJbb* 2 (1862), 161-261.

Genève, something which had been given encouragement by Rümelin.¹

Other teachers and mentors gave encouragement to this kind of work. Reading Schmoller's manuscript on the accumulation of capital in Geneva and learning of his travels,² the economist and statistician Bruno Hildebrand responded:

... to my great joy you have taken the only proper path in your career in that you have followed up theoretical economic studies with statistical ones and now seek to study the world and practical life independently. Through this threefold preparation you will soon gain superiority over most of your German colleagues, and will provide our science, which is already indebted to you for numerous valuable contributions, with even greater output.³

But Hildebrand also added: 'do not miss the opportunity, be it now or later, to devote the largest part of your studies to England; it is the real academy for economics and offers endlessly more than France or Switzerland'. This was likely a reference to British social reform, since in the same year Hildebrand had written that economics was not to concern itself with seeking natural laws but instead with the investigation of change and economic development, from which the 'foundations and the structures of contemporary economic civilisation could be discovered, as well as the tasks whose solution was reserved for future generations', a statement which drew a link between empirical investigation and solving problems.⁴

Engel, too, highly valued both statistical investigation and empirical field work,

¹Schmoller reported of his plans to Roscher, letter 3, Schmoller to Roscher, 3 Nov. 1862, in Biermann, 'Briefwechsel', 5-6, n. 2.

²This was later published in Hildebrand's *Jahrbücher* as 'Statistisches über den Anwachs des Kapitalvermögens in Genf', *JbbfNS* 2 (1864), 160-63.

³GStAB, NI. Schmoller, 151: 92-93, Hildebrand to Schmoller, 3 July 1863.

⁴B. Hildebrand, 'Die Gegenwärtige Aufgabe der Nationalökonomie', *JbbfNS* 1 (1863), 145. Indeed, Schumpeter called him a 'forerunner of the Schmoller school' rather than part of the 'triumvirate [Roscher, Knies and Hildebrand, i.e., "older historical school"] that does not form any unit at all', Schumpeter, *History*, 507, n. 6.

that is, he insisted on augmenting quantitative assessments with direct qualitative observation. Through his extensive contacts made through International Statistical Congresses he provided Schmoller with numerous letters of introduction for a subsequent journey in 1866 to the Rhineland, to Belgium to meet Adolfe Quetelet and Xavier Heuschling (1802-83) and to Paris to visit Maurice Block. Engel also arranged for Schmoller to meet the economists and statisticians Michel Chevalier (1806-79), Louis Wolowski (1810-76), Auguste Perdonnet (1801-67), Joseph Garnier (1813-81, editor of the *Journal des Économistes*) and a number of French industrialists.¹ It was Engel too who later asked the young Lujo Brentano to join him on a field trip to Britain in August 1868 to investigate factory districts, a visit which led to Brentano's intensive study of the Industrial Partnership System and trade unions. Engel encouraged Brentano to stay longer and was keen to point to the value of these direct investigations in making Brentano an expert on such matters.² Engel also encouraged him to return to Berlin to write his study, noting that only in Berlin would he be able to find the constant stimulus for his writings:

Here you have productive associations, the savings and credit unions, partnerships, Hirschian [liberal] and Schweizerian [Lassallean-socialist] trade unions, strikes, heavy industry with its light and shadow sides; in short, the likeness of the life that you observed in England. Here harmony and contrast can be observed more quickly and directly than anywhere else in Germany.³

Engel had little regard for armchair economics. Noting that Held had not yet had an opportunity to undertake field investigation and was instead planning to take up a professorship in Bonn, he wrote: 'he will become a professor just like many others

¹GStAB, Nl. Schmoller, 151: 51-52, Engel to Schmoller, 26 July 1866.

²BAK, Nl. Brentano, 16: 20-23, Engel to Brentano, 30 April 1869.

³*Ibid.*

whose teaching nevertheless remains so fruitless because they know only the names of what they teach not the reality; they speak of worker conditions without ever having come into contact with workers, of banks and credit without knowing how real life shapes these things'.¹

Knapp was also immersed in empirical studies, both as a result of his work with Engel in Berlin in 1865 and then later in Leipzig, where he taught at the university and worked in the Municipal Statistical Bureau. The latter got him directly involved in surveys collecting data for mortality statistics, as a consequence of which he made numerous innovations to mortality measures. He also went on a number of field investigations, as for example - despite Engel's fears - with his close friend Held to inspect factory conditions.² Knapp often complained to Schmoller that the German university, in its current state, did not do enough to foster such original research in economics and social policy; the university was, at least in economics, nothing more than a 'higher class of the Gymnasium'.³

The appeal of this statistical and hands-on sort of research in the intellectual climate of the 1860s was clear: the calls for greater realism were widespread and empiricism was seen as the only way to find an authoritative base for a 'realistic' economics. Empiricism held the promise of non-partisan, objective analysis of society,⁴ and those who did such research enjoyed authority among their teachers, colleagues and with the public. Empirical and statistical tools seemed to provide

¹*Ibid.*

²GStAB, NI. Schmoller, 127: 79-80, Held to Schmoller, 5 May 1874.

³GStAB, NI. Schmoller, 130a: 21-22, Knapp to Schmoller, 19 Feb. 1873.

⁴Porter, *Statistical Thinking*, 27.

insights into the dramatic urban and industrial changes which manifested themselves in the 1860s and 1870s, and held the promise of solutions to problems for which theory had no ready answers. In many ways, statisticians, exposed as they were to the raw material of social inequality, were more acutely aware of Germany's social ills and therefore the severity of the social question than the more abstract 'other professors', as Engel had called them. Indeed, as discussed in chapter 3, statisticians had established persistent social inequality as an empirical finding. They were also quicker to grasp the potential practical solutions to these problems. It is revealing that most leading statisticians in Germany such as Engel, Hildebrand, Knapp, Lexis, Rümelin, Hans von Scheel (1839-1901), and Schwabe, as well as Theodor Hertzka (1845-1924) in Austria, were all active social reformers. Hildebrand had been a liberal activist who was imprisoned and then forced into exile in Switzerland for many years due his political radicalism, and he was an early advocate of social reforms. Engel too was an impassioned liberal social reformer, and both he and Hildebrand were later directly involved in the first meetings in Halle and Eisenach in 1872 which led to the founding of the *Verein für Sozialpolitik*.¹

Engel's influence on Brentano should be noted, particularly, the letters written to Brentano in England in the autumn of 1868, after Brentano had been convinced to stay longer to study the trade unions. Engel wrote for example of the importance of English developments for Germany and therefore of Brentano's writings, especially

¹Wittrock's judgement that Engel 'exercised no influence as a scientist', that his 'socio-political views hardly differed from the wealthy, liberal *Bürgertum*', and that he did not transmit 'social convictions' is grossly inaccurate, Wittrock, *Kathedersozialisten*, 19-20; Ian Hacking wrongly claims that Engel was an organicist conservative reformer, I. Hacking, 'Prussian Numbers 1860-1882', in *Probabilistic Revolution*, vol. 1, ed. Krüger, Daston, and Heidelberger, 377-94.

the effect on German public opinion of the empirical refutation of the *laissez-faire* position of the German ‘Manchesterites’ regarding the role of the state in ‘supervision and the provision of social welfare’, noting a factory inspection system and worker protections were now well developed in Britain since the Regulation Act of 1864 and Workshop Regulation Act of 1867.¹ Engel was also convinced of the value of the British example of trade unions in Germany because of their practical orientation in contrast to the theoretical preoccupations and party-political divisions of their German counterparts.² At the same time Engel praised the efforts of Schulze-Delitzsch, especially in bringing to light worker exploitation and mistreatment and in fostering the German cooperative movement in the spirit of the Rochdale Equitable Pioneers Society. But his own favourite project was the Industrial Partnership System, a profit-sharing scheme first innovated in Britain and put into practice in the Berlin brassworks of Borchert’s Bonus und Dividendengenossenschaft, a scheme by which Engel hoped workers would become future entrepreneurs.³ Engel was also close to liberal politics in England: he noted that Gladstone had mentioned the Borchert partnerships of Berlin in an election speech and was disappointed that Mill, whom he had brought writings via Brentano, did not get elected, as he was sorry to hear of Gladstone’s electoral failure in Lancashire in 1868.⁴

Engel was in regular correspondence with Schmoller in these same years. He had introduced Schmoller in 1866 to Michel Chevalier, a student of Saint-Simon, who

¹BAK, NI. Brentano, 16: 3-5, Engel to Brentano, 6 Oct. 1868.

²BAK, NI. Brentano, 16: 6-8, Engel to Brentano, 8 Nov. 1868.

³*Ibid.* and BAK, NI. Brentano, 16: 17, Engel to Brentano, 4 March 1869.

⁴BAK, NI. Brentano, 16: 3-5, Engel to Brentano 6 Oct. 1868 and 9-12, Engel to Brentano, 27 Dec. 1868.

while a free trader, nevertheless criticised *laissez-faire* and defended the role of the state in public works as the ‘manager of national associations’ and as defender of the general interest.¹ In April 1869 Engel wrote Schmoller that, ‘the free trade school, with its ABC’s is finished, under whom I mean... those whose textbook is made up of the four words *laissez faire, laissez aller*’.² The other liberal statistician with a moral-ethical and political impact on the young historical economists, especially Schmoller, was Gustav Rümelin. He had posited the idea that economic and social processes were fundamentally conditioned by ethical and psychological proclivities. He was also of the opinion that the *Mittelstand* was key to the political and social modernisation of Germany.³

Apart from statisticians, Schmoller and other historical economists had also received important impulses for an empirical and scientific, but also moral approach to social phenomena from their formal study of the natural sciences. Schmoller had studied chemistry, physics, mechanical engineering, and technology in addition to the subjects of *Staatswissenschaft* while at university in Tübingen.⁴ Knapp, whose uncle was Justus von Liebig (1803-73), had himself studied physics and chemistry in addition to economics at the university.⁵ Wilhelm Lexis had a Ph.D. in physics (analytical mechanics) and had been a researcher in Robert Bunsen’s (1811-99)

¹Gide and Rist, *Lehrmeinungen*, 453.

²GStAB, Nl. Schmoller, 151: 40-41, Engel to Schmoller, 3 April 1869.

³G. Rümelin, *Die Aufgabe der Volks- Real- und Gelehrtenschulen* (Heilbronn, 1845), 4.

⁴Schmoller, ‘Jugendjahre’, 59.

⁵W. Braeuer, ‘Georg Friedrich Knapp’, *NDB*, vol. 12, 152.

laboratory.¹ The growing prestige of the natural sciences and the rejection of Hegelian and other speculative philosophies revealed a decidedly sceptical, empirical and pragmatic mood, typical of which was Rudolf Haym's influential critique, *Hegel und seine Zeit* (1857).² Schmoller was well acquainted with the discussion of John Stuart Mill's *Logic* and the reinterpretations of Kantian critical rationalism as tools to aid empirical, experimental sciences against speculative natural philosophy, a debate stimulated in the 1860s and 70s by such important scientists and philosophers as Hermann Helmholtz (1821-94), Ernst Laas (1837-85), F.A. Lange (1827-75), Otto Liebmann (1840-1912), Christoph Sigwart (1830-1904), Wilhelm Wundt and Eduard Zeller (1814-1908). Schmoller later knew Helmholtz personally.³ Mill's logic had only appeared in complete translation into German (i.e., with the sixth book on Moral Sciences) in 1865,⁴ and like many others, Schmoller noticed the inconsistency of Mill's treatment of the moral sciences. Mill, who himself had little if any direct familiarity with physical science, had rejected the application of induction, experiments and other empirical testing, because 'the phenomena of society may not be completely dependent on known causes', instead justifying a 'physical, or concrete deductive method' where the experiences of introspection and intuition (a utilitarian psychology and ethology) were justified as a means of verifying social and economic laws superior

¹S.L. Zabell, 'Wilhelm Lexis', in *NPDE*, vol. 3, 171-72.

²Rudolf Haym (1821-1901) was a colleague of Schmoller's in Halle, founded the *Preussische Jahrbücher*, and was later a founding member of the *Verein*.

³Hansen, 'Methodenstreit', 142-45.

⁴J. S. Mill, *System der deduktiven und induktiven Logik*, 2 vols. (trans. J. Schiel, Leipzig, 1862-65).

to empirical observations and physical experiments.¹ Rejecting these inconsistencies, which he saw as serving not science but Mill's own opinion of what constituted human nature and natural law, Schmoller sought instead to approach economics as natural scientists did by going back to Kant and taking up through Ernst Laas' criticisms of Mill's *Logic* and Eduard Zeller's *The Philosophy of the Greeks* a method very similar to William Whewell's critical induction.² Whewell's approach, which rested on a combination of Scottish common sense philosophy, Hume and Kant, was one of theoretical pluralism, in which 'guesses', 'suppositions', 'hypotheses' and 'deductive prognoses' were linked directly to actual observed phenomena through continued falsifying or verifying experiments, but in which subjective 'points of view' and 'fundamental ideas' also unavoidably served as heuristic principles directing, where appropriate, a line of inquiry.³ Whewell's methodology and his editing of the empirical economist Richard Jones' *Literary Remains* (1859) gave important impulses to an empirical, historical and ethical methodology in Britain, serving as an inspiration to J.K. Ingram and T.E. Cliffe Leslie.⁴ Historians of quantification have noted the common hostility to abstract theory and inappropriate formalisation of economists trained in physics and engineering, as well as their penchant for descriptive and

¹*Idem*, *A System of Logic*, in *Collected Works of John Stuart Mill*, vol. VIII (Toronto & Buffalo, 1974 [1843]), 868-69, 877, 895-96.

²Hansen, 'Methodenstreit', 146-47; Schmoller, 'Lorenz Stein', 264-67; E. Zeller, *Die Philosophie der Griechen*, 3 vols. (2nd rev. edn., Tübingen, 1856-68).

³Hansen, *Methodenstreit*, 147-50; W. Whewell, *Novum Organon Renovatum* (3rd rev. edn., London, 1858).

⁴W. Whewell, ed., *Literary Remains, Consisting of Lectures and Tracts on Political Economy, of the Late Rev. Richard Jones* (London, 1859); Ingram, *History*, 14-45; see also Hansen, 'Methodenstreit', 150. Hansen notes that the positivist Ernst Mach would later rely on Whewell's inductivism, *ibid.*, 147.

statistical approaches.¹ Other commentators have argued that historical research in the social sciences comes closest to the method of natural scientific experimentation.²

Borrowing from Kant and Whewell, Schmoller presented his own position as one which sought to strike the right balance between subjective points of view and causal relationships, in which neither induction nor deduction excluded one another:

...induction and deduction are the two means to establish individual facts, causality and teleology are the two means to bring these individual facts into a broader connection. Through deductive conclusions causal connections can also be proved, but in the main the deductive method finds its application in teleology. An inductive establishment of facts can be important for a teleological viewpoint, although induction is mainly an aid for causal explanations.

In teleology imagination and fantasy are indispensable, in causality reason and judgement are what matter. ...True greatness in science is not possible without a teleological, without a rich imagination. The devious path of causality is narrowly rooting through the dust, only seeing atoms and never a whole... . The devious path of teleology is queer illusions and fantastical mysticism, which by disregarding honest, assiduous research, has the pretention of having explained the world through a few catch-phrases, pictures or categories.³

Schmoller thus made a clear distinction between values and points of view, on the one hand, and statements of fact and causal relationships, on the other. At the same time he recognised a role for both in scientific investigation.

From such a critical, empirical approach economics as a system of teleological principles based on the metaphysics of 'economic men' and 'invisible hands' which somehow served a vague end of social harmony and efficiency was not tenable. Instead economics had to become an empirical science directed by ethics to serve tangible human needs. This enabled the abandonment of dogma: free markets or

¹T. M. Porter, *Trust in Numbers* (Princeton, 1995), 49-72.

²G. Tullock, *The Organization of Inquiry* (Durham, N.C., 1966), 175-78.

³Schmoller, 'Lorenz Stein', 266-67.

unhindered trade were no longer part of a necessary system of teleological principles, but simply policy goals whose effects could be studied empirically and whose desirability was open to political debate. Moreover, it was not particularly useful to know what policies tended to do in general; as practical scientists and reformers, Schmoller and his colleagues were after knowledge about what they did in specific cases. This widened historical economists' perspective to consider the specific case and effect of policies and to evaluate these according to their ability to attain wider socio-political ends. This in turn made historical economists more receptive to alternative explanations and policies.

This impulse to empiricism and practice was without doubt conditioned by the heritage of teaching in the *Staatswissenschaften*, with its Cameralist preoccupations with practical investigation and application in the tradition of enlightened bureaucracy.¹ But it was also motivated by the need to meet the practical challenges of the day: overcoming inequality by securing the *Mittelstand* and broadening it downwards to include the working class. Central to all this, as Knapp sought to emphasise, was the fact that Brentano, Held and especially Schmoller had their hearts 'in the right place'.² They were all troubled by economic inequality and the many obstacles which prevented the workers and artisans from improving their condition. At the same time they were in the 1860s and early 1870s all involved in liberal parties. Social reform and liberalism were at that time far from irreconcilable positions.

Significant impulses to this pragmatic orientation were also given by the

¹See above all Lindenfeld, *Practical Imagination*, 11-45.

²Knapp, *Einführung*, 365.

historical economists' response to Ferdinand Lassalle's *Offenes Antwortschreiben* of 1863 and then the publication of *Das Kapital* by Karl Marx in 1867, which all the historical economists read with interest, especially because socialists were among the first to attempt to reintegrate moral philosophy into economics. Though they sympathised with socialists' descriptions of injustice, they were early-on struck by the lack of empirical grounding of their theories and the impracticability of their political programmes. The need to counter Lassalle and Marx, as noted in chapter 3, had the additional urgency that both prophesied the demise of the *Mittelstand*. A commitment to empiricism, moral philosophy and liberal reformism was clearly visible in the writings of historical economists in the 1860s and early 70s predating the founding of the *Verein*. These writings established the basic intellectual scaffolding for all the subsequent work of the historical economists and therefore require attention in some detail.

4.2 Reintegrating Moral Philosophy into Economics

It was mentioned in the previous chapter that the historical economists, especially Schmoller, were critical of the decline of moral philosophy in economics, and especially of the pretence of economics as a value-neutral discipline. As was discussed above, in the pluralistic inductive-experimental approach of Whewell, with which Schmoller sympathised, 'points of view' and 'fundamental ideas' played an important role. Schmoller's own 'point of view' was developed in an 1865 article on Johann Fichte (1762-1814) which was originally to be part of a larger work on moral philosophy and economics but which was hindered by Schmoller's academic duties in

Halle.¹ In this article Schmoller tried to reinvestigate Fichte's early moral philosophy in order to develop an ethics of social interaction and organisation based on natural, common moral sensibility - not an abstracted, Kantian ethics derived by the isolated, reasoning individual, but instead a moral philosophy derived from interaction and geared toward practice. In Schmoller's opinion, classical economics had ignored the legal order at the basis of the economy which reflected a particular moral order and thus a distribution of income: it simply assumed a subjective and individualised Roman Law concept of absolute property devoid of connections or duties to the whole, irrespective of what was owned. To this was added an abstract notion of freedom which was assumed to be a sufficient basis for a productive economy.² In reality, what was produced as a result was not a social order but various conflicts of interest, and with this, growing involvement of the state in legally protecting and privileging predominant classes; at the same time, non-involvement in securing the welfare of the lower classes became 'a conservative principle of state'. The resulting socio-economic inequality thus became legally enshrined. It was, in Schmoller's opinion, to socialists' credit that they had sought to reintegrate law and economics into moral philosophy.³

The first great effort to again reconcile law and economics with moral philosophy, despite, in Schmoller's opinion, numerous false conclusions (such as socialism and the excessive role given the state), was Fichte's social system.⁴ In this

¹Schmoller, 'Johann Gottlieb Fichte. Eine Studie aus dem Gebiete der Ethik und der Nationalökonomie', *JbbfNS* 5 (1865), 1-61; see also Brinkmann, *Gustav Schmoller*, 57-65.

²Schmoller, 'Fichte', 21.

³*Ibid.*, 22.

⁴*Ibid.*, 22-23. Schmoller wrote that it would be good to substitute 'society' where Fichte wrote 'state', 38.

system, a social contract established the state and the legal order, which were three separate contracts: the 'property contract', the 'protective contract', and the 'unity contract'. The property contract established property rights, which included all aspects of civil and police laws relevant to both the order of property *and* livelihood. A property right was a relationship between persons, a right to a particular sphere of activity. Property was an exclusive legal sphere; the object itself was irrelevant. Only the assurance of such an exclusive sphere bound the individual to the state. At minimum, the state therefore had to provide each citizen with the means to subsist to fulfil this condition, since life was the absolute inalienable property of every person. Only the assurance of such an exclusive sphere bound the individual to the state. Those who did not have such an exclusive sphere could not be obliged to recognise property, and by extension, the state. Property thus assumed obligations to the whole. Basic to this was the idea that property and welfare, in a division of labour, was the product not of individual action, but a complex set of interrelated activities with reciprocal rights and obligations.¹

Fichte's practical ethics had for Schmoller's economics a similar position as did Adam Smith's *Theory of Moral Sentiments* (1759) for his *Wealth of Nations* (1776). As it had been for Smith, the economy was a moral nexus: economic as well as other transactions required fundamental moral agreement. Prices were thus always predicated upon agreement on value. This moral nexus, Schmoller believed, could, through public enlightenment and education, be brought to ever more sophisticated levels corresponding to ever-more complicated divisions of labour. The practical relevance of Fichte's ethics to economics, in Schmoller's view, was that it could give

¹*Ibid.*, 23-25.

an account of economic sociability and order which the assumption of individualism and universal egoism could not do without resorting to such metaphysics as the ‘invisible hand’; what Schmoller was after was the ‘visible hand’. The practical relevance to economic policy of the time was that unlike classical economics, whose political programme was negative or minimalist (elimination of barriers), a practical social ethic provided an account of human sociability and guidance to constructive moral action with direct relevance to social reform: it gave ethical guidance on matters of distribution.

But how exactly did Schmoller’s moral-ethical notions apply? Consider Schmoller’s article ‘The labour question’ of 1864-65,¹ which he later noted could be seen as the ‘programme’ of those who later formed the *Verein für Sozialpolitik*.² It was originally titled ‘The Labour Question from the Standpoint of an Ethical Economics,’³ and was an attempt at a ‘non-partisan’ evaluation of the dispute between Schulze-Delitzsch and Ferdinand Lassalle regarding solutions to the labour question: would this require self-help or state-help?⁴

In opening, Schmoller stated that the ‘economic revolution’ which had transformed life by harnessing individualism and egoism had brought undeniable improvements to many areas of life, while it had also brought with it a number of new

¹G. Schmoller, ‘Die Arbeiterfrage’, *PrJbb* 14, no. 4-5 (1864), 393-424 and 523-47 and 15, no. 1 (1865), 32-63; see also Brinkmann, *Gustav Schmoller*, 66-85 and G. Albrecht, ‘Der junge Schmoller und die Arbeiterfrage’, *SJ* 79 (1959), 513-32.

²Schmoller, ‘Jugendjahre’, 61.

³GStAB, Nl. Schmoller, 81: coversheet of documents including manuscript of ‘Die Arbeiterfrage’ with title ‘Die Arbeiterfrage vom Standpunkt einer ethischen Nationalökonomie’.

⁴In response to Schulze-Delitzsch’s ‘Workers’ Catechism’ in *Sechs Vorträge* (Leipzig, 1863), Lassalle had published *Herr Bastiat-Schulze von Delitzsch, der ökonomische Julian* (Berlin, 1864).

problems. Schmoller differentiated between the transitional ills and those inherent to the new economic order. Many of the ills, Schmoller concluded, were in fact only of a transitional character, a 'developmental fever' as he called it. For example, poverty and misery were more severe in the 1840s and 50s, declining with the rise of large industry. Comparing the 1840s with the 1860s, it was a fact that machine production had greatly expanded output and consumption; wages were rising, and the loss of jobs had been compensated by their creation elsewhere. It was a fact, Schmoller wrote, that double the number of people were employed in cotton spinning in his day than in the 1840s in Württemberg, a point he could make with authority, having been directly involved in the latest commercial census. The many denunciations of the machine were thus little more than 'hollow talk'.¹ It was also not the case that artisans and workshops were disappearing; there was much cooperation between factories and crafts. In fact, industrial machines were helping to create a sound and complex *Mittelstand*, a matter classical economists brushed over by dividing the economy into cotton lords and labourers. Industry employed a vast number of workers as administrators, bookkeepers, draughtsmen, machinists, technicians, chemists and supervisors, and the state employed many officials in railways, telegraphs and posts. Therefore, one could easily put aside Lassalle's assertion that some 96 percent of the population lived in misery.²

The main question of the day was, in Schmoller's view, a question of justice: how to overcome growing inequalities, strengthen the middle and create greater mobility between classes, a question which was not solely economic but also moral

¹Schmoller, 'Arbeiterfrage' I, 394-402.

²*Ibid.*, 403-6.

and cultural.¹ The ‘wages question’ was basic to this. In order to address this, Schmoller wrote, one would have to go beyond ‘superficial abstractions’ such as the ‘iron law of wages’ and mere quantities to the deeper chain of moral-ethical and psychological causes of economic action which Adam Smith had always considered but which had subsequently been ignored. Human values, beliefs and ethics were *a priori* and informed human action shaping law, politics, economics and the labour question.²

In all societies it was necessary to reconcile individual welfare with that of the group, and law was the minimum moral obligation enabling community, protecting the group against individual asociality. When the obligations between the group and the individual were out of balance, social problems arose and counter-forces built up seeking to change existing conditions. In the current age it was socialism and communism which had arisen as a reaction to the social imbalance resulting from the changes in the economy and the difficulty of reconciling group and individual welfare within the existing legal order. While this reaction was extreme and off the mark, it bore the germ which could reinstate social balance. All law was relative; if public opinion on ethical demands changed, changes to the law would result. Just as economic freedom had replaced guild restrictions, if public opinion opposed the social order resulting from free competition, then the laws underpinning that social order would have to be altered. In Schmoller’s mind, if the quantities of supply and demand were such that they were not reconcilable with moral-ethical demands, competition would alter the relationship between value and price. Supply and demand in and of

¹Cf. *idem*, ‘Die Gerechtigkeit in der Volkswirtschaft’, *JbGVV* 5, no. 1 (1881), 18-54.

²*Idem*, ‘Arbeiterfrage’ 1, 407-15.

themselves did not change in favour of the workers but only as a consequence of human action guided by ethical views.¹ A division of labour led to a particular social order which consequently became legally enshrined. History was full of such examples: slavery, caste systems, medieval corporations. In their time it was property which ruled and thus gave laws. But property was in danger of exploiting the law to its own advantage. This, in Schmoller's view, was a valid criticism of the *Bürgertum* by the socialists, and it was to their credit to have made the public aware of the links between the division of labour and legal orders.²

The recognition of the ethical-psychological foundations of economics, in Schmoller's opinion, provided the basis for an evaluation of the relative merits of state help or self help. As economies became ever less dependent on nature, he believed, the ethical and moral components of economic organisation would predominate. Equally, an ever larger segment of the population could take part in growing wealth and culture. The enemies were social egoism and class conflict; reform could spare Germany economic decay and decline, as it could prevent social revolution. The first step in this direction was that public opinion needed to be made more sensitive to the plight of the workers; the state, churches, the press and associations needed to enlighten the public.³

Part II of Schmoller's article dealt with the practical schemes needed to spread property ownership and education among the working classes. The things hindering this were deficits in the moral conditions, manners and customs of the workers: a lack

¹*Ibid.*, 416-20.

²*Ibid.*, 420-21.

³*Ibid.*, 421-24.

of a sense of future, planning, solid family life, sense of cleanliness and self respect. In this area many strides had been made in improving moral sensibility through such schemes as savings banks, friendly and benefit societies, old age pensions and consumption cooperatives modeled on English examples. The spread of voluntary schemes to improve the education of workers were also noted, such as the worker education associations. Other important steps in improving the moral-ethical 'standard of life' were efforts to curb child labour and excessive working hours, corrosive to family bonds, education and morality. Britain, with a particularly bad record, was illustrative; pragmatic direct action in the shape of factory acts were taken despite loud protest from factory owners and prevailing economic thinking that the egoism of the individual would properly regulate this on its own.¹

Other ordinances regulating factory conditions and restricting the collusive and fraudulent behaviour of factory owners were also necessary. It was hypocritical that the law was so tilted against unions, while the state did little to prevent the collusion of factory owners. It was Schmoller's conclusion that trade unions and strikes had a beneficent effect, in the long run, by balancing supply with demand, and, as evidence seemed to suggest, making the need for strikes in the future less necessary. Indeed, Schmoller noted that the trade union leaders were reasonable people who recruited the hardest working and most able workers. Schmoller thus concluded that it was necessary to legalise trade unions in Germany, as it was then occurring in England.² He also noted the heavy burden of indirect taxation on the lowest classes while at the same time large land and factory owners, through their advantageous legal position,

¹*Idem*, 'Arbeiterfrage' II, 524-29.

²*Ibid.*, 529-32.

enjoyed many tax advantages: customs and tariffs, tax exemptions for machinery, interest free loans, and interest guarantees. At the same time friendly societies had only recently received tax advantages. It was clear that in the struggle between capital and labour the law was on the side of the former. To redress this imbalance, Schmoller justified progressive taxation, tax concessions for savings banks, postal savings banks and pension schemes, and improved public education. In addition to compulsory schooling it was necessary for the state to encourage trade schools, schools of further education, technical schools, drafting schools and Sunday schools; education and knowledge were the best means to worker improvement and social mobility, as he noted with reference to such self-made industrialists as August Borsig (1804-54) and George Stephenson (1781-1848). The state, Schmoller's concluded, had to be, despite abuses and problems, the representative of a higher moral-ethical interest, a force for good.¹

Most interestingly, Schmoller noted that empirical observation showed that what was moral was also often economical, just as what was economical was often moral. He emphasised the common interests between workers and factory owners: well-paid, skilled workers were more reliable. He noted the tremendous impact on working-class manners, cleanliness and morality through housing improvements, and he praised British efforts at parish public housing, the London housing improvement associations, building societies, and the efforts of the Yorkshire industrialist Edward Akroyd (1810-87). Schmoller had himself observed Jean Dollfus' (1800-87) *cit  ouvrier* in Mulhouse on his travels through France and noted that Dollfus considered his improvements a purely self-interested scheme. Robert Owen's (1771-1858) New

¹*Ibid.*, 532-36.

Lanark and Price's Patent Candle Company also showed that enlightened self-interest and ethical considerations could be highly profitable. Schmoller held special hope for joint-stock companies, which in his mind embodied a higher, broader notion of self-interest. Indeed, the more responsibility such firms would assume for workers' welfare, the less the state would have to take up the slack. Again, Schmoller's own observations of the Borsig steam engine works in Berlin and of Swiss spinning factories had reinforced this view. On a higher moral plane, Schmoller concluded, duties and self-interest were one and the same.¹ The material economy was complemented by a moral economy and together the two delivered progress. Economists could only answer questions addressed to the future if they were informed by a moral-ethical world view; a moral economy required moral economists.²

In the final section of his article Schmoller sought to reconcile individualism with community. Following Gneist and Gierke, Schmoller argued that it was up to all kinds of self-governed corporate bodies such as associations, cooperatives, trade unions, credit unions, savings banks, insurance schemes, and joint stock companies, by limiting individual egoism and fostering solidarity, to act as intermediaries between the individual and society. Association thus formed a state within the state. Again, it was in Schmoller's opinion a credit to socialists that they had recognised the value of association in the struggle against egoism. That the state was not solely up to this task was borne out by the fiasco of state supported associations in France following the 1848 Revolution. Noting the successes and profits (without an automatic fall in wages) of self-administered English friendly societies, he showed how these gave the private

¹Cf., *idem*, 'Die Gerechtigkeit', 41.

²*Idem*, 'Arbeiterfrage' II, 537-47.

economy needed competition to improve its practices. This was the moral economy at work, an empirical refutation of Ricardo and Lassalle. It was for this reason that the efforts of men like Victor Aimé Huber and especially Schulze-Delitzsch were so valuable.¹ In Germany, *Vorschussvereine*, by providing working capital to craftsmen, were reducing the rule of property over work. Likewise raw material associations and *Magazinvereine* gave artisans the same purchasing power and access to machines as large companies. Again, Lassalle's assertions that such associations were in their death throes was false. English examples gave further encouragement, especially the trade unions. Striking encouraged savings, fostered discipline and solidarity. Working men's associations and colleges and productive associations were also showing success. When workers were given a stake in capital, the inherent conflict between labour and capital became nothing more than a 'false abstraction'. Productive cooperatives would help to achieve the ideal of a large *Mittelstand* through a more equitable distribution of wealth. In Germany, however, similar developments were still hindered by the law. On the other hand, Lassalle's plans for large scale state-directed cooperatives overlooked that the preconditions for the success of cooperatives (thrift, discipline, initiative) could not be guaranteed by the state.²

Schmoller concluded that while Lassalle's theories showed some sophistication, when it came to concrete, practical questions, they broke down. Lassalle's view, that all value could be reduced to labour quantities, never went beyond Ricardo, a theory of value, Schmoller noted, which had been refuted by John Stuart Mill's *Principles*. Lassalle's notion of self-interest was clearly also too narrow, not taking into account

¹*Idem*, 'Arbeiterfrage' III, 32-40.

²*Ibid.*, 41-52.

that self-interest could be broadened to include the welfare of the workers. He ignored the role of and returns to capital in production, and especially the personality and talents of the entrepreneur.¹ According to Schmoller he also ignored the link between capital and credit; while he attacked capital as the source of evil, he was really only seeking to attack the distribution of capital. And his notion of inexorably falling wages and profits defied empirical fact. Most damningly, Schmoller criticised the utopianism of Lassalle's large, monopoly production cooperatives: how would the state manage the risk? were there not diminishing returns to large scale and problems which would arise with the demise of competition? would the advantages to an international division of labour cease? The result would almost surely be, Schmoller concluded, poorly produced, expensive goods, disorder and the wasting of millions. This was symptomatic, he believed, of ignoring human inner motivations and drives. Schulze-Delitzsch, by contrast, was not a philosopher but a practical man who sought to improve the working class by practical means.² Reform was 'prudence of mind' and 'moral action' to correct excessive individualism and bring about the intellectual and economic improvement of the working class, thereby strengthening the *Mittelstand*. Self-help and state help were not mutually exclusive.³

4.3. 'Partisan Economics' versus 'Pure Social Science'

The mode of empirical investigation with the aid of moral philosophy of Schmoller's article on the labour question carried over into much of his subsequent

¹*Ibid.*, 57.

²*Ibid.*, 53-61.

³*Ibid.*, 62-63.

work and could be said to have established his empirical and moral-ethical approach. This is key to understanding the assumptions of the study on handicrafts which established his name and which was to have a major impact on the German social reform movement. It is revealing that it was originally titled ‘Statistical Investigation of the History of Small Trades’, again an empirical and this time especially statistical investigation.¹ This study built upon the commercial surveys undertaken with Rümelin (to whom the work was dedicated), the extensive field investigation Schmoller had done since the early 1860s, as well as his involvement with artisans’ societies in Halle.² In the preface Schmoller wrote that it was essential to him to be able to present the statistics in his study with the authority of knowledge of the real conditions of the artisans, not just the market conditions, but also the psychological and moral conditions of the people being investigated; he wanted to relay his quantitative facts to paint a qualitative picture, a mode of inquiry, as discussed in chapter 2, which would carry over to the *Verein*. Indeed, Schmoller mentioned that he had been on many journeys throughout the *Zollverein*, viewing large factories, artisan workshops as well as the homes of workers.³ For Schmoller it was essential to come to an independent, non-partisan view on issues which were the subject of political debate; it was necessary to separate policy from theory. While he did not share the liberal view of economic society, he did see the need to restrict an all-powerful bureaucracy and to transform the police state into a constitutional one. In short, Schmoller was saying that it was possible for him to be a political liberal without also being an

¹*Idem*, ‘Statistische Untersuchung zur Geschichte der deutschen Kleingewerbe im 19. Jahrhundert’, *Der Arbeiterfreund* 7 (1869), 1-81, 137-86, 265-320.

²*Idem*, *Zur Geschichte der deutschen Kleingewerbe im 19. Jahrhundert* (Halle, 1870), v-vi.

³*Ibid.*, viii.

economic one. There was, after all, a great danger of combining party interests and class interests with the aid of pseudo-scientific arguments. More than any other science, there was the danger that educated advocates and journalists put economics in the service of special interests. It was this educated manipulation of economics as 'science' which clouded public opinion. His study, he claimed, was an exact, non-partisan, impartial study which sought to clarify the connections between social problems. He was well aware this would not necessarily please particular parties or interests.¹

Schmoller set out his conclusions explicitly from the beginning: the Law of 1868 had established commercial freedom for the whole of the North German Confederation, which was the fulfilment of a long-term goal and a necessary step. In the past he had believed that commercial freedom was a cure-all for economic problems, and while closer scrutiny had largely confirmed this, he could not overlook that with the unprecedented economic progress of recent times truly deplorable conditions also emerged. He had thus also come to advocate positive reforms (constructive action) in place of a purely negative programme of *laissez-faire*.² For example, it would be wrong to expect as a consequence of the new commercial code much or rapid improvement in the condition of handicrafts. Their condition, Schmoller said, was closely tied to a number of other factors as or more important than commercial freedoms, such as the technology within particular trades, competition with large industry, the level of education and activity of the artisans themselves, regional agricultural and industrial development, population density and means of transport.³

¹*Ibid.*, ix-xii.

²*Ibid.*, vi-vii.

³*Ibid.*, 1.

Other important factors included credit conditions, the influence of officials, the level of organisation in the sales market, the quality of technical education, the level of encouragement for technical change, as well as class conditions, folk customs and habits.¹

Schmoller avoided monocausal explanations for the crisis in handicrafts; it was a consequence of the general (i.e., structural) changes to economic conditions: the transformation of technology, transport, exceptionally rapid population growth, the geographical shift of centres of production and agriculture, changes in the organisation of production, completely altered class and property conditions, and new economic legislation. And while some modern achievements were to the advantage of all classes, others were clearly to the advantage only of particular classes. Conversely, patterns of consumption had changed, increasing for some articles, declining for others. While the free market brought progress it did not by itself produce a stable social order, with customs and rules which included all. Those who equated the economy with harmony saw only technical progress and turned a blind eye to the miserable conditions which coincided, most notably the increasing income inequality. Thus technical change in the economy had to lead to equal changes in mores, customs and the law. While Schmoller conceded that this would take decades, perhaps centuries to develop, no impulses had yet been given; the current state was not one of social harmony but of chaos and struggle.²

‘Pure science’ in Schmoller’s view, could call into question all the foundations of social life, including property laws, unlike ‘radical economists’ (i.e., liberal

¹*Ibid.*, 213, 315, 316-20, and 660.

²*Ibid.*, 660-62.

economists) who always treated property law as inviolable. The old laws were historical relics, the product of particular contingencies, morals, customs and institutions; laws are not always the same, they underwent change as mores and habits changed, and laws were only legitimate if they provided the best legal order for society.¹

Schmoller felt that it was essential that a large urban *Mittelstand* be preserved, a *Mittelstand* which was in his view being displaced by large factories and manufacturers. But Schmoller conceded that conditions varied greatly within the ranks of these *Mittelstand* artisans. There were the flourishing, hard-working master craftsmen who successfully made the transition to the industrial economy, some even becoming large factory owners. They were liberal and were the supporters of Schulze-Delitzsch's associations. However, Schmoller's findings indicated that their numbers were rather small. For the small master craftsmen, on the other hand, conditions had steadily worsened. These were not merely lazy or phlegmatic, but the average artisans generally. They were the narrow-minded and smug townsmen stuck to old traditions of craftsmanship who did not understand new ways and who stubbornly insisted on old guild rights and corporations. Disgruntled, they were easily taken along by reactionary conservatives, such as Hermann Wagener, who promised to reestablish guilds, a policy which would hurt more than it would help and was only a hollow political ploy. Simultaneously many other impoverished artisans fell victim to the claims of the Social Democrats.²

While it was usually true that value and property corresponded to personal

¹*Ibid.*, 662-63.

²*Ibid.*, 664-70.

merit, it was not always the case: for one, some distribution of income was the outcome of violence or of fortuitous circumstances. The current age showed numerous disparities between merit and economic worth: though owning and running an artisan's business required more diligence and responsibility, these often made less money than factory workers. Small farmers had been favoured by the state. Industry enjoyed similar beneficial treatment in the form of polytechnical schools, protective tariffs, and state credits. The rise in property prices and rents over the last 30 years was not due to work or merit *per se*, but rapid population growth. Such income disparities created a polarised society which could lead to revolution. With regard to the artisans, steps would have to be taken to preserve the *Mittelstand*. The state could encourage the formation of cooperatives. It was the middle parties and a far-sighted liberalism which had to take up these tasks against the reactionary and socialist forces.¹ Again drawing on his experiences in Switzerland, Schmoller noted the value of factory inspection in making abuses known to public opinion. One had, in his view, to differentiate between free and equal (fair) competition - as existed for example in the international trade in iron goods - and unequal competition, such as the relationship between the English lord and his Irish tenants. The state, as a representative of the general welfare, was needed in such cases to intervene. But the solution was not more bureaucratic intervention - Germany, Schmoller felt, suffered from excessive bureaucracy - but instead the law needed to create self-administered bodies of citizens with honorary posts. Schmoller noted, however, that many reasonable schemes such as poor relief, state savings institutions, *Knappschaften*, state housing credits, factory laws and inspection were wrongly dismissed by radical (liberal) economists as

¹*Ibid.*, 670-79.

socialism. Yet property in a modern economy was a product of highly organised effort and therefore conditioned by numerous obligations and responsibilities to society.¹

Laissez-faire did not by itself ensure the best possible distribution of wealth. History was littered with examples of redistributive efforts as part of necessary reforms, such as land reforms. In their time, milder, less bureaucratic methods of reform would have to be implemented. A concerted effort was needed on the part of associations, schools, churches, communities, state governments, officials, and legislators. Factory workers could be helped through improved schooling and technical education, savings and sickness funds, the proper organisation of strikes, housing improvements, wage dispute arbitration, entrepreneurial liability for factory accidents, profit sharing, industrial partnerships, cooperatives and above all, a consequential and specialised factory law with independent executive bodies. Existing commercial legislation was only vague and weak on such matters. New legislation required detailed surveys and extensive investigation. The model of this kind of research was John Malcolm Ludlow (1821-1911) and Lloyd Jones (1811-86) on the factory laws - one needed travelling officials as in England. In Germany, Schmoller noted, one was attacked as a socialist for advocating such schemes.²

In the end there was no contradiction between the state's positive reforms and self-help: it was moot whether a cooperative was formed by a state factory inspector or Schulze-Delitzsch. What mattered was that the workers were educated to organise and save. State help in creating institutions was necessary in places where voluntarism

¹*Ibid.*, 680-88.

²*Ibid.*, 688-95.

was insufficiently developed, such as small towns. In their age, Schmoller argued, social contrasts were ones produced in large measure by educational differences. Prussia had made schooling a national matter through compulsory education. However, the propertied classes had their superior education in universities and polytechnics paid for by the state, and the preparatory schools for university (Gymnasium) primarily benefitted this class, not the artisans. It should be noted that in the same year Schmoller wrote an article with proposals to reform the Prussian provincial trade schools, concluding that these were in desperate need of attention: in Berlin officials seemed concerned only with educating the propertied class and producing more factory owners, not at all with the proper technical education of artisans for an industrial age.¹ In Schmoller's view, there were simply not enough schools of further education for craftsmen, and in many cases such schools were usually not accessible in the small towns and villages where many of them lived. A thorough re-organisation of commercial further education was due, and it was perhaps necessary to introduce compulsory release time in which these further education programmes could be attended. A new examination regimen would have to replace the old journeymen and master exams. Schmoller saw in such education the 'only counterweight' to the neglect of technical and humanistic education of 14-18 year-olds in larger enterprises. Other schemes Schmoller proposed were chambers of commerce for small trades, where workers and artisans could be advised and helped by well-paid and trained officials, technicians and businessmen. These could provide advice and the means for technical improvements, exhibit equipment and machines, teach proper bookkeeping,

¹G. Schmoller, 'Ein Wort über den neuen Organisationsplan für die preußischen Provinzial-Gewerbeschulen', *JbbfNS* 15 (1870), 268-74.

encourage cooperatives, and investigate cottage industry to ease the transition to the factory system where viable. Water and steam power rented from the municipality, state credits, and regulation of abusive middlemen and exploitative masters could also be provided. Through such schemes hundreds and thousands of small operations could be retained for the long term.¹ The preservation of the *Mittelstand* was the best way to prevent a crisis which would harm the interests of the whole of society in the future. It was the duty of every government not to abdicate its responsibility to protect the welfare of the lower classes. The Prussian state had to call upon the propertied classes to take up their moral duties in the spirit of true self-government; it had to educate and protect the weak against the short-sightedness and egoism of property. Such state action, Schmoller concluded, had always been the hallmark of ‘wise, free and just government.’²

A very similar pattern of empiricism and social reform emerged in the work of Brentano, especially his study of trade unionism. Indeed, Brentano identified closely with the views expressed in Schmoller’s *Kleingewerbe*.³ His own interest in workers’ wages must be traced back at least to J.A.R. Helferich’s lectures in Göttingen and to his dissertation on Thünen’s natural wage and interest rates noted in the previous chapters.⁴ Brentano eventually became an expert on the dispute over the wage fund doctrine, and his command of the English literature revealed in his *Arbeitergilden*

¹*Idem*, *Kleingewerbe*, 695-703.

²*Ibid.*, 703-4.

³Letter 6, Brentano to Schmoller, 4 February 1871 in Goetz, *AfK* 28 (1938), 326-28.

⁴See also Sheehan, *Brentano*, 13.

(1871) and in an article on the theory of rising wages should be noted.¹ Brentano's work on wage doctrines, English guilds and trade unions was never merely a scientific preoccupation, directed as it was by a particular moral-ethical position. As Knapp noted, in important respects Brentano was motivated by the highly critical and dismissive depiction of trade unions by Léon Faucher (1803-1854) as coercive, collusive and selfish conspirators, a movement harmful to industry by raising wages, insisting on overtime pay and reducing working hours. Wages, Faucher believed, had to be determined by free competition.²

As in Schmoller's *Kleingewerbe*, Brentano pointed out that his own views on trade unions had initially been shaped in large measure by classical economists, but the more he had investigated this matter empirically, the more he left these 'prejudices' behind. Brentano had accompanied Engel to England in 1868, and his investigation of trade unions over many months there brought him into direct contact with reformers such as Frederic Harrison, John Malcolm Ludlow, Lloyd Jones, Thomas Hughes (1822-1896), Henry Fawcett (1833-84), and with trade union leaders such as Robert Applegarth (1834-1924) and William Allan (1813-74) of the Amalgamated Society of Engineers. The length of his stay allowed extensive research in union archives and parliamentary blue-books.³ Britain, in Brentano's mind, was an ideal economic laboratory to test views on trade unions, since in his opinion the British were driven more than others by egoism and little in the way of legal

¹L. Brentano, 'Die Lehre von den Lohnsteigerungen mit besonderer Rücksicht auf die englischen Wirtschaftslehrer', *JbbfNS* 16 (1871), 251-81.

²L. Faucher, *Etudes sur l'Angleterre*, vol. II (2nd edn., Paris, 1856), 397; Knapp, *Einführung*, 368-70.

³L. Brentano, *Die Arbeitergilden der Gegenwart*, vol. I (Leipzig, 1871), ix-xi, and xvii.

prohibitions existed.¹

To understand Brentano's methodological and moral-ethical position, volume II of the *Arbeitergilden* must be studied, for in many respects these were the 'inductive' outcome of this empirical investigations into the origins of English guilds and trade unions. Brentano argued that his methodology was Comtean-Millian induction, as elaborated by John Stuart Mill in his *August Comte and Positivism* (1866). According to this view, as society progressed social phenomena would be determined less by simple laws of human nature and more by the accumulated influence of past generations; humans were not abstract or general but instead historical beings. History, it seemed, showed a general developmental order. While laws of human nature continued to be a data of social science, the deductive method of the physical sciences would have to be inverted: history would provide the experience (i.e., evidence) for laws and deduction would verify or refute these (i.e., the opposite of verifying deductive laws through specific experience). A historical understanding of society could thus be the means to a positive science of society.² Brentano very much doubted that he would have come to the conclusions of his study had he used deductive means.³

Brentano's moral ethical position was given in the beginning of volume two, where he pointed out that labour could not be viewed like any other commodity useful for the fulfilment of need. Labour was not a commodity but the person in which it was embodied - not a means, but an end in itself. The purchase of the use of labour was

¹*Ibid.*, vii-viii

²L. Brentano, *Die Arbeitergilden der Gegenwart*, vol. II (Leipzig, 1871), 311-13; cf. J.S. Mill, *August Comte and Positivism* (2nd rev. edn., London, 1866), 83-86.

³Brentano, *Arbeitergilden*, vol. II, 314-15.

nothing less than the rule over labour and thereby the rule over the whole person inseparable from that labour, that is, also that person's physical, intellectual, moral and social being.¹ The worker was impoverished because he was constantly in danger of being bankrupt; since he relied on his labour for survival, he had to sell it at the going price - and because of the link between labour and the person - he had to accommodate and endure all kinds of work conditions.² A basic principle of all commodity markets - the freedom to withdraw a commodity if market prices fell to unacceptable levels - thus did not apply in the labour market.³

In most ages, Brentano argued, the special qualities of labour had been recognised, as exemplified by the guilds, craft regulations and poor laws.⁴ As he had discovered in the first volume of *Arbeitergilden*, which first appeared in English as a preliminary essay in a book on the ordinances of early English guilds,⁵ as the old laws governing labour were changed or eliminated in the medieval and modern period, craftsmen and workers, respectively, had always formed coalitions to protect their common interests due to the unique qualities of labour. These coalitions filled in the gaps of the errors of a policy of non-intervention and unregulated labour markets. From out of these early ephemeral coalitions had emerged guilds and trade unions, respectively. Thus trade unions were nothing but contemporised guilds, their

¹*Ibid.*, 6.

²*Ibid.*, 8

³*Ibid.*, 131-32.

⁴*Ibid.*, 19.

⁵L. Brentano, 'On the History and Development of Guilds and the Origin of Trade-Unions', in *English Guilds*, ed. T. Smith (London, 1870), viii-cxcix.

successors in time.¹ In effect, Brentano was positing a general principle of labour combination of the weak as the natural condition and correction of the principle of unfettered competition between the strong.² Trade unions thus complemented an economic order of commercial freedom. Deductive economists had for some reason never come to this conclusion.

Most of volume two of Brentano's *Arbeitergilden* was devoted to refuting various criticisms of trade unions by giving an empirical account of their actual functions and operations: trade unions did not restrict the quantity of work; they did not make unreasonable wage demands; they did not cause a fall in wages or unemployment in other industries; they did not harm the competitiveness of British industry; they were not politically radical; they did not hinder the formation of capital. They did, however, aid the moral-ethical improvement of workers and raise average wages across the economy, even among non-unionised workers.³ Moreover, all signs indicated that as wage disputes and bargaining became increasingly formalised and institutionalised, strikes would become ever less common.⁴

Brentano's study of English trade unions had direct relevance for Germany's 'labour question'. For Brentano, the labour question was simply the social question of the times. A 'social question' arose whenever 'the whole of society or a class of the same enter a position where they are no longer able to meet their previous needs'.⁵

¹*Ibid.*, clxiv-clxv, excii-cxciii and cxcvii-cxcix.

²*Idem*, *Arbeitergilden*, vol. II, 310, 315.

³*Ibid.*, 27-38, 43, 55, 233-37, 240-41.

⁴*Ibid.*, 273-91.

⁵*Ibid.*, 319.

History was full of such social questions, as one was solved another arose, since cultural progress always coincided with the rise of particular groups and the creation of new lower classes, who then struggled to meet their needs. Nevertheless, the solution to the labour question was not the formation of a workers' state, just as in earlier times the social question was not solved by the creation of bourgeois republics. What had to occur was that the existing state had to take into account the special needs of the workers and allow and create fitting institutions. Brentano thus called for the elimination of all legal restrictions on the workers and any state hindrances to free competition. At the same time, he also called for production cooperatives and legislation governing working conditions, trade unions, and labour chambers (*Arbeitskammern*).¹ Like Schmoller, Brentano was committed to preserving and strengthening the *Mittelstand*. It was necessary to ensure wide-spread property ownership. The trade unions, made up as they were largely of well-paid, skilled workers, were the best vehicle to that end. Small property holders needed to have a share in the means of production. These acted as a spur to the working class by providing a link between property and poverty, and through their conservatism, guaranteed the security and stability of existing institutions. Quoting a British source, Brentano wrote that the single aim of having preserved a highly-paid class of workers outweighed all the evils linked to trade unions. Brentano noted the lack of enthusiasm for chartism and socialism within British trade unions, and that a number of English commentators believed that their country was spared revolutionary upheaval by the preservation of well-paid, skilled workers. Therefore it was not sufficient only to emphasise economic matters in questions with economic-political implications; cheap

¹*Ibid.*, 320-28.

consumption was not the same as general well-being.¹

In Brentano's opinion, in the future small and medium-sized firms would dwindle and large ones would predominate - a boon to workers since large firms were better employers and fewer employers could be more easily pressured into assuming the social duties of wealth. After all, this wealth was only made possible through collective effort, entrusted to the entrepreneur by society to be put to the highest possible social use. Entrepreneurs as individuals in whom wealth was concentrated were in a better position to put wealth to good use than if that wealth were distributed evenly. But the social responsibilities of wealth made self-indulgence, excessive greed, speculation and ruthless competition unacceptable because these undermined the basis of wages, working conditions and employment. In Brentano's mind, work needed to be humanised so that workers could have the time and energy to take part in cultural progress. Day-to-day insecurity and risk and excessive working hours had to be eliminated, while ethics and morals, education, diets, housing and clothing had to be continually improved in ways commensurate with an advanced civilisation, a great task which required changes in public opinion and the active involvement of the whole of society.²

The early writings of Schmoller and Brentano reveal that the empiricism and social liberalism of important mentors and teachers was developed further in sophisticated ways. Their work was of an exceptionally moral-ethical, empirical and practical quality. Most importantly, a historical methodology was always subordinate to these imperatives. While many of these research projects testing the practical

¹*Ibid.*, 330-33.

²*Ibid.*, 333-39.

validity of existing economic theories had a historical component, history was, as discussed, not an end in itself. While Brentano made explicit claims to being Comtean-Millian in his methodology, it should again be noted that history was a source of general social theories to be tested by deduction. Schmoller was even less explicit on the place and role of history in his methodology. Indeed, it too was a source of empirical facts. Consequently, grounds for a claim that a 'Historical School' or explicitly historical research programme had been continued or established by Schmoller or Brentano in the 1860s or 1870s are singularly lacking. What is undeniable is that both Schmoller and Brentano believed that inductive empiricism was a guarantee of objectivity, a way to overcome 'partisan economics' and thereby build toward a truly scientific study of economy and society.

The economics of Schmoller and Brentano, as that of Adam Smith, were closely and explicitly linked to a moral philosophy and a view of social progress. Both began their arguments from the point of view of the inherent right of workers to a secure existence, and the means to this end was levelling the legal playing field and various schemes with a redistributive effect. The ever-greater participation of workers in the 'blessings' of industrial civilisation had to be ensured. Both Schmoller and Brentano saw property rights circumscribed in an industrial age by social obligations, and both saw firms as malleable institutions which, as they grew, could be obliged to assume ever greater social responsibilities. Finally, Both Schmoller and Brentano believed that to achieve their reforms, public opinion had to be swayed. As importantly, Schmoller and Brentano's writings showed an abiding concern for preserving and enhancing the *Mittelstand*, though their respective means to that end varied. Indeed, from what has been revealed it is clear that the plight of the

Mittelstand was tied intimately with the fate of the working class, and Schmoller was himself particularly inclined to see the strength of the nation springing from the *Mittelstand*.¹ It was not enough to ensure economic efficiency; this was subordinate to the political end of social justice. That is, the policy end of their reformist economics was egalitarian stakeholderhood by redistributive means, the creation of a 'society of the *Mittelstand*, or *Mittelstandsgesellschaft*.

4.4 Moral Statistics and the Primacy of the Human Will and Institutions

In the same years that the young historical economists first elaborated a new empirical economic science and programme of social reforms they simultaneously became embroiled in a methodological dispute which centred on the interpretation of statistics. There were complicated links between the tools the historical economists took up in their first investigations - statistics, inductive empiricism and historical and institutional inquiry - and their programme of social reform. As will be discussed below, out of this dispute and the reinterpretation of moral statistics which followed would emerge a further justification for historical and institutional inquiry.

It is perhaps difficult to appreciate today the impact of statistics in the 19th century, particularly the discovery of mass regularity and order in human behaviour, originally derived from crime statistics, hence the use of the term 'moral statistics' by its discoverers, the Belgian astronomer Adolphe Quetelet and the French lawyer André-Michel Guerry (1802-1866).² Not only did it appear that societies in aggregation displayed an uncanny regularity in rates of birth, marriage, suicide, murder, and death,

¹Letter 129, Schmoller to Brentano, 2 Nov. 1878, in Goetz, *AfK* 30 (1941), 202-7.

²See Porter, *Statistical Thinking*, 49.

but it seemed that out of the chaos of individual behaviour the very entity of society as an orderly phenomenon was captured in those numbers: something, it seemed, mysteriously held this mass together and was directing it to some end. Reflecting the attitudes of the industrial, liberal age, society was widely held to be something more fundamental than the state and a source of progress. Intervention into 'natural and progressive' social processes - as evidenced by this statistical regularity - was widely opposed. A central issue became whether it was even at all possible, through reforming activity, to affect social improvement. Thus the issue of free will and statistical law flared up in Germany in the 1860s and 70s - in large measure because of the social question and the first elaborations of social reform efforts.¹

Liberals throughout Europe, and especially Germany, linked their economic and political programmes to rather deterministic, progressive visions of society, views in which the positive (pragmatic) intervention of individuals or the state were deemed either ineffectual or outright harmful. Theodor Porter notes that the translation into German of Henry Buckle's *History of Civilisation in England* (1860) coincided with the ascendancy of liberalism in Germany, for which he helped set the tone.² Buckle had taken his 'scientific' view of historical development directly from Quetelet, whose own work had gained a wider social scientific audience in Germany through the publication of his *Pysique Sociale* in 1869 and *Anthropométrie* in 1870. These had reinforced the ambition of deriving from statistical probabilities and mean values

¹*Ibid.*, 180; see also *idem*, 'Lawless Society: Social Science and the Reinterpretation of Statistics in Germany, 1850-1880', in *Probabilistic Revolution*, vol. 1, ed. Krüger, Daston, and Heidelberger, 351-75.

²Porter, *Statistical Thinking*, 167-8; *idem*, 'Lawless Society', 356-57.

something akin to a Newtonian theory of society.¹ While the historical economists, as social scientists and reformers, were indebted to Quetelet's pioneering contributions to a statistical science of society and sympathised with Buckle's hostility to speculation and emphasis on induction, they were at the same time troubled by the natural and statistical determinism which they saw following from both. They were particularly uneasy about the links between determinism and liberalism, an unease which Brentano and Knapp both made explicit in their memoirs.² At the same time, exaggerated claims about Darwin were made which read into evolution progressive tendencies, teleological notions Knapp himself dismissed.³ Adolf Held contrasted Adam Smith's methodological plurality and the multi-faceted, dynamic and open-ended quality of his economics with the one-dimensional and deterministic social views of Malthus, Ricardo, Buckle and Quetelet, particularly the tendency to subsume the individual into misleading averages.⁴ As in the defense of *laissez-faire*, there were in Germany especially dogmatic adherents of the idea of statistical determination and social mechanics, such as Adolph Wagner, an enthusiastic advocate of both Buckle and Quetelet.⁵ Knapp called this view 'vulgar Queteletism' according to which man was

¹A. Quetelet, *Pysique social, ou Essai sur le developpement des facultés de l'homme*, 2 vols. (Bussels, Paris and St. Petersburg, 1869); *idem*, *Anthropométrie ou mesure des différentes facultés de l'homme* (Brussels: 1870).

²Brentano, *Mein Leben*, 75; G.F. Knapp, *Aus der Jugend eines deutschen Gelehrten* (Stuttgart, 1927), 155.

³G. F. Knapp, 'Darwin und die Sozialwissenschaften', *JbbfNS* 18 (1872), 238.

⁴Held, 'Adam Smith und Quetelet,' 249-79. Knapp said that unlike Adam Smith, Quetelet was 'no genius', GStAB, Nl. Schmoller, 130a: 55, Knapp to Schmoller, 8 March 1872.

⁵A. Wagner, *Die Gesetzmässigkeit in der scheinbar willkürlichen menschlichen Handlungen vom Standpunkt der Statistik* (Hamburg, 1864). Wagner was a *laissez-faire* liberal until a sudden conversion to monarchical socialism in the early 1870s.

seen as a victim of circumstance, either a 'falling stone' or a 'chained dog'.¹

But this deterministic line of statistical thinking also had an older critical antipode in Germany. Malthusian population laws based on natural, unalterable human drives and a raw, unyielding struggle for survival had a lasting impact on British economic, statistical and biological thinking by showing population to be a constraint outside of the domain of human influence. A very different but parallel influence on German statistics and economics was exercised by his counterpart, Johann Peter Süßmilch (1707-1767), for whom a divine, moral-ethical or political order always influenced, shaped and changed the attributes of population.² This established a basic theme in German statistics - revealingly, itself a term derived from the German word for state.³ Later German-speaking statisticians, such as Alexander von Oettingen (1827-1905), were impressed by the regularity of Quetelet's mean values as a tool which could unite the multitude of social events. Nevertheless, he also believed that these mean values denied atomism by showing the constancy of ethical action in society based on the social bonds that tied individuals to the group. In place of social physics Oettingen proposed social ethics, even going so far as imputing Germany's success in the Franco-Prussian war to a supposedly deeply-ingrained sense of community and France's atomism. At the same time, he was unnerved by the irreconcilability of free will and statistics and hesitant about positing statistical laws.⁴

Similarly, for Gustav Rümelin moral statistics were remarkable mainly for their

¹Knapp, 'Die neueren Ansichten', 239 and 241.

²*Ibid.*, 'Darwin und die Socialwissenschaften', 243; see also Porter, *Statistical Thinking*, 21-23 and 26.

³G. Seibt, 'Statistik', in *Die Entwicklung*, vol. II, ed. Altmann, *et al.*, (ch. XXXVII), 3.

⁴Porter, *Statistical Thinking*, 178.

uncertainty, reflecting the phenomenon of society as the outcome of the action of highly diverse individuals; aggregates could say little about individual cases.¹ In positing laws from statistics, Rümelin recalled that natural scientists themselves possessed only few true laws and cautioned against jumping from mere statistical regularity (empirical law) to natural laws; laws could only be assumed if measurable effects of physical, organic and psychic forces could be ascertained.²

Generally, the above views restricted the scope of natural laws by emphasising the variability of causal factors determining statistical averages; causal relationships would have to be sought not in aggregate averages but in smaller subgroups. For the historical economists these ideas had obvious appeal given their moral philosophy, economics and their commitment to social reform, which was at rock bottom the triumph of changes in attitudes and legislation over material conditions in the economy. There was also the added appeal of rescuing a scope for national peculiarity and cultural distinctiveness.³ These factors go some way to explaining why by the late 1860s and 1870s most German statisticians, and especially Ernst Engel, were emphasising not regularities but instead what Porter has termed ‘systematic covariation’; they were searching for the causes of variation and change in averages, and observed regularities were viewed not as causal, but only as empirical laws.⁴ This ‘pluralist’ view of society focusing not on the regularity of statistical aggregates but instead on that of series of subgroups, or ‘*Chancesysteme*’ (systems of probability) was

¹*Ibid.*, 185; *idem*, ‘Lawless Society’, 363-64.

²G. Schmoller, ‘Gustav Rümelin’, in *Charakterbilder*, 178; Rümelin, *Reden und Aufsätze*, vol. I, 1ff.

³Porter, *Statistical Thinking*, 180-92.

⁴*Ibid.*, 179-80.

later mathematically tested and confirmed by Wilhelm Lexis, an influential step in the direction of indeterministic statistical causation.¹

Along with Lexis, Knapp was also an innovator of probabilistic thinking. He was a vociferous critic of statistical law, particularly of the social determinism and atomistic individualism he imputed to Quetelet, Buckle and their admirers in Germany. Knapp later made numerous innovations to statistics and applied mathematics, such as the development of new mortality measures using differential equations.² He showed that mortality was not a function which could be fixed according to age but instead a probability determined by particular individual attributes, concluding that it was entirely unjustified to speak of 'laws' of mortality.³ Knapp also denied that there were, independent of society, external forces which were the source of statistical regularity, just as he repudiated the notion that inherent propensities common to all humans could explain social action. Individuals varied from one another and therefore precluded the use of Quetelet's error terms and the discovery of a true value amidst variation.⁴ Nevertheless, statistical regularity was held to be an important tool of a new economics, but only if society was seen as a community of free individuals with similar motivations. Influential to these views were the moral philosopher Franz Vorländer (1806-1867) and one of Knapp's colleagues in Leipzig, the mathematician and philosopher Moritz Drobisch (1802-1896), who had argued that regular effects

¹*Idem*, 'Lawless Society', 366-69; W. Lexis, 'Ueber die Wahrscheinlichkeitsrechnung und deren Anwendung auf die Statistik', *JbbfNS* 13 (1886), 433-50.

²G. F. Knapp, *Theorie des Bevölkerungs-Wechsels* (Braunschweig, 1874).

³Knapp, *Sterblichkeit in Sachsen*, 95-101.

⁴Porter, *Statistical Thinking*, 188-89; G. F. Knapp, 'A. Quetelet', 89-124. The view that natural laws were merely an intellectual product of man and not tied inseparably to physical things was later taken up by Karl Pearson (1857-1936), see Gide and Rist, *Lehrmeinungen*, 430.

were simply the result of equally regular causes, which revealed nothing about the source of those causes. He posited that a similarly motivated will could be a source of the order in moral statistics.¹

In the Spring of 1871 Knapp wrote Schmoller that statisticians were now well aware that moral statistics could not provide any solutions to the dilemma of free will and would have to shift focus: ‘since the earlier goals of moral statistics (external, law-like behaviour, Quetelet and his herald Wagner) have been shown to be untenable in the face of Drobisch and Vorländer’s critiques, one must now seriously ask for what moral statistics is still relevant.’ Knapp gave an answer to this question which is critical to an understanding of the relationship between statistics and the historical method:

Moral statistics show us the factual interwovenness of the individual in the connections of society, of history and of tradition. ...The individual, which, viewed ethically, enjoys personal freedom in as much as he is directed not by external laws but by inner decisions, is, viewed statistically however, very restricted, since he cannot escape from the connections in which he was born, and therefore he is exposed to very similar motives as his fellows. The inner explanation of law-like behaviour forms a new school which can only thrive if the Messrs statisticians learn something besides their wretched numerical artistry.²

This was a view closely shared by Schmoller, Brentano and Held.³ For example, Schmoller was as hostile to determinism as he was to an absolute free will (moral and rational action could not be arbitrary), and he argued that both moral-ethical motivations and physical causes were sources of statistical regularity. They were thus

¹M. W. Drobisch, *Die moralische Statistik und die menschliche Willensfreiheit* (Leipzig, 1867). Knapp hoped that these critiques would help to ‘destroy Manchestertum’, GStAB, NI. Schmoller, 130a: 82-83, Knapp to Schmoller, 26 April 1871.

²GStAB, NI. Schmoller, 130a: 85-86, Knapp to Schmoller, 10 March 1871.

³Letter 9, Brentano to Schmoller, 5 August 1871, in Goetz, *AfK* 28 (1938), 333-36.

also in agreement that social science was a mixture of natural science and human science, since it dealt with moral volition as well as with technological and material conditions.¹ Nevertheless, they believed that economic and social science had the same epistemology as natural sciences.² Schmoller himself explicitly rejected a philological-historical (i.e., *Geisteswissenschaften*) methodology for the *Staatswissenschaften*.³ Moral statistics had shown the similarity of experience in humans, their basically social nature and their interwovenness with history and traditions. What one had to come to terms with, then, was Knapp's 'inner lawlikeness', the moral-ethical, social and historical determination of human action. For Knapp moral statistics thus provided an indispensable empirical tool for a new social science.⁴ Psychology, morality, law, institutions, and the state could, as sources of motivation, be important causal factors within the economy. Thus, to understand economic action one would have to study all those institutions which had emerged over time to constrain and mould individual behaviour into purposive action and social interaction.

4.5 Nation Building and the History of the Reforming State

The conclusion that common morals, ethics and institutions were major sources of social regularity was a view which greatly reinforced the value of historical investigations into the nature and origins of that commonality, especially as the

¹Schmoller, 'Ueber die Resultate', 82, 95-96.

²*Ibid.*, 79-84 ; Held, 'Adam Smith', 269.

³G. Schmoller, Review of Dietrich Schäfer, *Die Hansestädte* (1879), *JbfGVV* 5 (1881), 962-65; F. Hartung, 'Gustav von Schmoller und die preußische Geschichtsschreibung', *SJ* 62, no. 2 (1938), 295-97.

⁴Knapp, 'Die neueren Ansichten', 249-50.

insights gained held the promise of informing the project of social reform to shape new legislation and institutions. Historically-informed arguments quite naturally complemented the project of public (national) enlightenment and social reform. The search for moral commonality to construct new laws and institutions naturally led to historical investigations of those things that formed a common moral sphere and ethically constrained and moulded economic action: customs, norms, conventions, rules, regulations, laws, organisations, corporate bodies and other institutions, and not least, the state. In the view of Schmoller and his colleagues, these institutions had always moulded self-interest to protect society and therefore enabled economic interaction, and in economic analysis, morals and law could be viewed as causal factors. As Ihering, Maine and Stubbs had shown, laws and institutions were highly malleable and served discrete but continually changing social functions. These insights supported the notion that social reform, as a process of piecemeal institutional adaptation, was both possible and necessary. And the path to this end, in a more democratic, urban age, was enlightening and influencing public opinion.¹ History served as a highly effective tool to this end, especially shortly before and after national unification: tradition was being invented, a nation was being built and the public was hungry to discover its new traditions, a situation reflected in the extraordinary popularity of Ranke, Droysen and Treitschke and captured in Schmoller's long review of Droysen's *History of Prussian Politics*:

historiography is currently celebrating a golden age. No other science today counts greater names... none has a more receptive public, not even the natural sciences. ...We know much of German and Roman antiquity, English and French history, little of our own recent past. It almost seems that historians disregard every practical goal, even if it is

¹See T. Nipperdey, *Deutsche Geschichte, 1800-1866* (6th rev. edn., Munich, 1993), 720-21.

the noblest that can be expected of a science - to awaken and uphold in the soul of its own people a proper picture of its past, to hold a mirror to the present through the virtues and vices of its own past, to raise national sentiment, consciousness of the state and sacrificial devotion to the state through living traditions.¹

The publisher Carl Geibel of Duncker & Humblot was a close friend of the historical economists and had a keen personal interest in both historical scholarship and social reform. Geibel had worked together with Ranke on the publication of his popular *World History* and published Ranke's other works. Geibel also repeatedly mentioned to Schmoller his great interest in Schmoller's historical scholarship and displayed deep knowledge of Prussian history in particular.² This personal interest and friendship was critical to Schmoller and his colleagues, since it meant that historical and reformist treatises of the kind they produced would find approval and publication with Geibel, who could afford the risks of publication.

In order to understand the close relationship between Prusso-German history and the moral philosophy and policy prescription of the historical economists, a few words need to be devoted to the historical economists', and especially Schmoller's, complex liberal nationalism. First, the image of the historical economists as stiff, joyless Prussians should be banished; not one of them was a Prussian or north German. By all accounts, Schmoller and his colleagues were more gallic and mediterranean than teutonic in their manners and appearance. Schmoller was described by one American observer as 'of a type more common to Gaul than Germania'.³

¹G. Schmoller, 'Die innere Verwaltung des preußischen Staates unter Friedrich Wilhelm I', *PrJbb* 25 (1870), 957.

²GStAB, NI. Schmoller, 123: 31-32, Geibel to Schmoller, 11 Nov. 1876; *ibid.*, 33, 9 Dec. 1876; *ibid.*, 34-39, 26 Feb. 1877.

³H. R. Seager, 'Economics at Berlin and Vienna', *JPE* 1, no. 2 (1892-93), 249.

Brentano, Held and Schmoller had black hair, Schmoller himself had a tan complexion, and Brentano and Held were Catholic. All were from southwestern Germany.

The appeal of Prussia to Schmoller and his colleagues was not its authoritarianism, even less its junkers or militarism. Instead, Prussia embodied the triumph of ideas and action over material constraints. The history of Prussia was read as that of traditionally impoverished and prone region (sandy soils, no natural resources or borders, small population) much of which had been turned into a wasteland after the death and devastation of the Thirty Years War of 1618-1648, Swedish-Polish War of 1655-60, Swedish invasion of 1674-79, and plague of 1709-10, but which through resourcefulness and discipline (embodied in its kings and bureaucracy) triumphed over adversity through continuous adaptation and bold reforms. Prussian rulers had implemented administrative reforms and the rule of law; they had sought and assimilated waves of foreign immigrants to resettle their lands and had developed a pragmatic policy of religious toleration. Compulsory education was introduced early, and Prussia had gone furthest in reforming and improving German-speaking universities. Municipal and guild privileges had been broken down faster; economic progress and integration had fewer hurdles and went further. In short, Prussia had since the 17th century continuously reinvented itself.¹ It had a tradition of pragmatic flexibility, a 'tradition of being without tradition'.² Wilhelm Dilthey once summarised this noting that 'Prussia's position rests on its intellectual elasticity

¹R. von Thadden, *Fragen an Preußen* (Munich, 1981), 53-65.

²W.J. Siedler, 'Die Tradition der Traditionslosigkeit', in *Preussen: Beiträge zu einer politischen Kultur*, ed. M. Schlenke, in *Preussen: Versuch einer Bilanz*, vol. 2 (Reinbeck bei Hamburg, 1981), 311-21.

not upon natural conditions'.¹

In the mind of Schmoller and his colleagues, Prussia lacked the narrowness, particularism and religious intolerance of the south German states. As noted, Schmoller and his colleagues had grown up in places where the crown had continually struggled with the forces of economic traditionalism (Württemberg and Bavaria). Prussia, had been the earliest and most successful economic and social moderniser in Germany. As Schmoller wrote Brentano, 'what has practically impressed me most in stepping out of the narrow, loathsomely radical Württemberg circles was the Prussian state and its political and economic achievements'.² Prussia represented something bigger and better, the only hope it seemed for a bigger, unitary nation state. With reference to the historical economists it is therefore appropriate to speak of the 'Gramscian hegemony' of the Prussian idea, the voluntary Prussianisation of the historical economists, a Prussianisation which in the case of Schmoller dated back more than ten (probably closer to 20) years before German unification.³ Even Brentano's early anti-Prussianism gave way to an admiration of Bismarck, the Prusso-German state and its institutions.⁴ If the historical economists had constructivist and reformist inclinations and viewed law as something malleable, Prussian history vindicated this view. This history, they believed, justified flexible, timely, in many cases radical reform of institutions and laws to reflect changes in the economy, reforms which ensured a

¹W. Dilthey, 'Die preußischen Jahrbücher', in *Gesammelte Schriften*, vol. XII, Zur preußischen Geschichte (2nd edn., Göttingen, 1960), 128.

²Letter 129, Schmoller to Brentano, 2 Nov. 1878, in Goetz, *AfK* (30) 1941, 202-7.

³Schmoller, 'Jugendjahre', 57.

⁴Brentano, *Mein Leben*, 61-62 and 66; *idem*, *Das Arbeitsverhältnis gemäss dem heutigen Recht* (Leipzig, 1877), 327-28; Sheehan, *Brentano*, 53-54.

thriving, propertied *Mittelstand*. This history, they believed, told progressive Germans where they should seek their traditions and values and what these traditions obliged them to do in the future.

Schmoller devoted a great deal of study to the history of Frederick William I of Prussia, known for wide-ranging administrative and military reforms. These investigations showed him that with the birth of the modern Prussian state, the well-being of the weaker classes began to be considered; the state had evolved into a defender of the general interest and a court of highest moral-ethical appeal.¹ Other investigations seemed to show that the Prussian state had not, as was widely assumed, only been a hindrance to economic development, but that it had done a great deal to facilitate economic improvements, as for example Frederick William I had done for agriculture in East Prussia.² Schmoller revealed that it had been enlightened Prussian kings and their bureaucracy who had eliminated the barriers to internal trade and commerce and the abuses of municipal privileges and special interests in the way of rational economic development.³ The bureaucracy had been an *ecclesia militans*, ‘a party of legal and economic reform within the state itself, which with the ideas of the enlightenment and legal equality, with new cameralist education struggled against a rotten society and its egoistic views’.⁴ Consequently Prussia was able to ward off the mercantilist predation of neighbouring powers and pave the way toward a larger

¹G. Schmoller, ‘Der preußische Beamtenstand unter Wilhelm I.’, *PrJbb* 26 (1870), 148-72, 253-70, 538-55.

²*idem*, ‘Die Verwaltung Ostpreussens unter Friedrich Wilhelm I’, *HZ* 30 (1873), 40-71.

³*Idem*, ‘Studien über die wirtschaftliche Politik Friedrichs des Großen und Preußens überhaupt von 1680-1786’, Part I, *JbfGVV* 8 (1884), 1-61, 345-421, 999-1091; part II, 10 (1886), 1-45, 327-73, 875-727; Part III, 11 (1887), 1-58, 789-883.

⁴*Idem*, ‘Beamtenstand’, 554.

German economic and political unit. Schmoller contrasted this with the lethargy, impracticality and conservatism of the modern Prussian bureaucracy, which was content in defending ‘aristocratic landed interests’ and ‘haut finance’ against ‘uncomfortable novelty’. He hoped that the men of the constitutional state would show the same integrity, duty, energy and competence that the bureaucrats of the bureaucratic state had in their time.¹

While Schmoller’s nation-building history was an important component of his research programme, it nevertheless needs to be differentiated from his empirical-statistical economics *per se*. As shown, in the latter history was mainly one of a number of empirical tools used to arrive at discrete economic policy prescriptions, as in the *Kleingewerbe* and the scores of other tracts which followed. Unlike this scholarship, the message of his history was directed at the general educated public, or in more specialised treatises, at specialist historians. That is, Schmoller could at times be more of an economist, at others more of a historian.² He could also be both simultaneously and considered this his own particular strength.³ The project of social reform and the new historical research projects of Schmoller and his colleagues often complemented one another, but much of this historical research predated the congress in Eisenach of 1872, and it continued quite independent of the *Verein’s* activities thereafter.⁴

¹*Ibid.*, 555.

²Knapp once wrote that Schmoller was a ‘historian by nature’, GStAB, Nl. Schmoller, 130a: 98-99, Knapp to Schmoller, 3 May 1885.

³G. Schmoller, *Umriss und Untersuchungen zur Verfassungs-, Verwaltungs- und Wirtschaftsgeschichte* (Leipzig, 1898), vii.

⁴Meinecke, ‘Drei Generationen’, 262-63.

Many of Schmoller's historical pieces have some moral, normative and political message, that is, they expressed his own 'point of view' and values. The validity of the objective claim of this history varied greatly in these pieces (greater in monographic pieces, lesser in ones written for public affairs journals like the *Preussische Jahrbücher*), but there is little doubt that this was instrumental history, history with an agenda and message. It was a history used in discovering and inventing a German institutional identity. As in the classical scholarship of Niebuhr and Mommsen, spun into this history was a moral tale that changes in the division of labour brought about economic progress but also social inequality, which if unresolved, would result in either decay or in unnatural and disruptive revolutionary change with its resultant class tyranny.

Schmoller's view of government and institutions was not restricted to Prussian history and was perhaps most vividly given in two rectorial addresses to Strasbourg University in 1874-75, in which Schmoller distilled the results of extensive research in city archives. Schmoller recounted how an 'economic revolution' had occurred in Europe in the 13th century which had resulted in the dramatic expansion of trade and the rise of a self-confident, wealthy artisanry, turning Strasbourg into a large and prosperous town.¹ The artisans were given the autonomy to regulate and police market commerce, powers which led to the formation of the guilds. However, despite this wealth and autonomy, the artisans were denied representation in the city council by patricians and aristocrats, who ruthlessly pursued their own narrow interests. Great disparities of wealth emerged and with it class envy, social friction, corruption,

¹G. Schmoller, *Straßburgs Blüte und die volkswirtschaftliche Revolution im XIII. Jahrhundert*, in *QFSK*, vol. VI (Strasbourg, 1875).

rebellions, plunder and violence. This was due, in Schmoller's opinion, to the social discord which accompanied the transition to a new economic age.¹ In 1332 militarised guilds unleashed a revolution in Strasbourg and set up a new government. While they did show some skill as rulers due to their experience in self-government, they also pursued selfish interests, abused their powers and instigated horrendous violence. In 1349, for example, the guilds plundered and murdered 2,000 of Strasbourg's Jews.²

Schmoller saw the root of Strasbourg's problem in the nature of the city government formed by the guilds, which democratised the city council but lacked any sense of law, had no separation of powers or an administrative division of labour. Beginning in 1405, after the city had been more-or-less bankrupted, a series of steps were finally taken by educated patricians to reform the system, leading to the reform of laws, the creation of a control council, an administrative apparatus and a new governing council. Thus, modern offices of professional administration emerged. The reforms introduced 'social balance' where, in the erroneous belief that naked economic interests could form a government, there had previously only been 'social imbalance'.³ The reforms of the municipal constitution in Strasbourg ensured wide representation in the council and the formation of 'a broad and hard-working *Mittelstand*', yet was able to prevent the narrow rule of the guilds as occurred in the neighbouring Swabian Imperial cities. Reforms got rid of the 'Junker-like aristocrat' but kept some patricians in the council. To a growing extent the Strasbourg patrician reformers had been educated in Italy and Paris and so transmitted humanistic education, literacy and

¹*Idem, Straßburg zur Zeit der Zunftkämpfe und die Reform seiner Verfassung und Verwaltung im XV Jahrhundert*, in *QFSK*, vol. XI (Strasbourg, 1875), 1-22.

²*Ibid.*, 24-41.

³*Ibid.*, 42-69.

writing which enabled these administrative reforms.¹

Adolf Held's *Zwei Bücher* was also a historical work which had primarily a social reformist and nation building message. At first glance it may seem odd that a book about the industrial revolution in England would address such questions for Germany, but in the preface Knapp, quoting Held, made it quite clear that he was writing a book about 'the political side of the social question in England' 'as a German - for Germans'.² Held's book is an account of the origins of industrial capitalism and economic liberalism out of the peculiarities of the British land tenure system, the old poor laws and mercantilism. Held showed, relying almost entirely on sources gathered in England between in 1875 and 1880, that while serfdom had already been abolished in the middle ages, large estate owners had through enclosure and commerce bought out yeoman farmers and turned these into tenants and labourers, and as a result, a pattern of concentrated land-ownership had emerged equivalent to patrimonial estates.³ Corn Laws and mercantile privileges then reinforced this extreme concentration of landed wealth. At the same time, settlement, labour and poor laws with their work compulsions - originally passed by strong regents in the general interest and suitable in their day - had degenerated into a system which gravely restricted the personal and commercial freedoms of propertyless classes in the interest of agricultural production and public order. The egoism of the administrative gentry resisted reforms to the legislation governing labour and trades, which remained stuck in the 17th century, undermining the security of workers and eroding the economic

¹*Ibid.*, 70-71.

²A. Held, *Zwei Bücher zur socialen Geschichte Englands*, ed. G.F. Knapp (Leipzig, 1881), vi.

³*Ibid.*, 5-6.

basis for a middle class.¹ Large industry, Held controversially argued, was not so much the product of new technology as the outcome of this degenerated commercial system and its poor laws. The example he gave was Manchester weaving, where in the 18th century impoverished weavers were organised by merchants, who provided them with yarn, sold their output, and paid a wage. Thus the merchants became the technical directors of production and the small artisan capitalist became a labourer subjected to his will. As these merchants concentrated their workers in factories driven by steam, the predominance of large-scale capitalists in industry was reinforced, a situation in which the dependency of the labourer and the special qualities of the wage contract were ignored. Labour became a commodity devoid of legal protection and property became absolute, equally devoid of public duties.² While these merchants still called themselves 'middle class' they were in effect a new ruling class, a mercantilism oligarchy which hindered the creation of a real commercial *Mittelstand*.³

Schmoller's Strasbourg history and Held's social history of England were heavily laden with a variety of messages to contemporary Germans: economic changes demanded timely social and political reforms best initiated by enlightened rulers and implemented by an educated, impartial bureaucracy to prevent class rule and its resultant ills. In Held and Schmoller's mind, the state which most embodied these attributes was Prussia. The more Schmoller immersed himself into Prussia's history, the more he seemed to read into it that the Prussian state was the rational, benevolent regulator of social strife, that it was in the tradition of the Hohenzollern kings to give

¹*Ibid.* 5-41, 407-79, 533-35..

²*Ibid.*, 536-608, 663-66.

³*Ibid.*, 663.

the impulse for bold reforms, and that in the current transition from agriculture to industry, it was again time for such action.¹ The message of this history was unambiguous: the state and its bureaucracy could defend the general interest and be forces of social improvement; institutions in the economy provided greater certainty and order to market relations and injected into these a set of moral-ethical norms. Institutions were thus also the means to create for a modern industrial economy a new moral-ethical order.

¹Schmoller, 'Die sociale Frage', 323-42.

PART III:
POLICY

CHAPTER 5:

THE NEW ECONOMICS IN THE PUBLIC DOMAIN, 1872-1880.

You are surely right that we cannot order everything as human wisdom would deem good, that we must submit much to chance. But what we can snatch from it we will. For this alone we have been given the stamp of intellect. We want to intervene confidently and deliberately into the order of nature so far as we possibly can. Every position that we gain from chance is a victory of human civilisation.

Schmoller responding to Treitschke, 1874.¹

5.1 The 'Eisenach Congress' and the Hegemony of Historical Economics in the *Verein für Sozialpolitik*

The economic, statistical and historical scholarship of Schmoller, Brentano, Held and Knapp did not go unnoticed by the public. The subjects they studied were, after all, of direct public interest and the socio-political conclusions and unorthodox methods of that scholarship, especially Schmoller's work on the artisans and Brentano's on trade unions, did not fail to generate criticism from many directions. Recall that in the autumn of 1871 the German public was still feeling the after-effects of the anti-French and anti-socialist hysteria of the Franco-Prussian War and the Paris Commune which came in its wake. Many leading German liberals helped to keep this sentiment alive because, with national unification, their main goal had been achieved and they thereby entered an era of drift and increasing beleaguerment.² They also had little inclination or ability to respond constructively to the emergent labour movement

¹*Ueber einige Grundfragen*, 79.

²Nipperdey, *Deutsche Geschichte 1866-1918*, vol. II, 323.

and the new socialist parties. With the victory over France, the Paris Commune, and national unification, it was easy to label anyone with unconventional or egalitarian views as 'socialist' or an 'enemy' of the new Reich.

The attraction of a common enemy, a socialist bogeyman and its sympathisers, became greater still with the defeat of Eduard Lasker's (1829-1884) National Liberals over the extension of the military budget and the threat of dissolution of the liberal coalition in 1871. This was heightened when it came to light that Franz Roggenbach, who had been given the important task of reestablishing a German university in the newly-annexed territory of Alsace-Lorraine, showed sympathies for Gustav von Schönberg in his nomination of economists to the new faculty.¹ Schönberg, a friend of Lassalle's and admirer of Rodbertus, had early on developed social monarchical and statist leanings much in line with Hermann Wagener and increasingly began exercising an influence on his close friend, Adolph Wagner. Indeed, in 1870 Wagner had a sudden conversion in his views from *laissez-faire* 'Manchesterdom' to a form of state socialism tinged with anti-semitism.² In his inaugural address in Freiburg, Schönberg himself had called for the creation of a massive imperial labour bureau, overseeing some 160 local and 20 regional offices vested with vast powers to investigate not only factory and working conditions, but also the details of workers' housing, family and moral life, schooling and associational involvement. This had the aim of providing the new imperial state with the facts and recommendations to take initiative in fostering local social reform and the creation of new Imperial organs of social improvement.

¹See Wittrock, *Kathedersozialisten*, 152-53.

²Brentano, *Mein Leben*, 63-65, 71; A. Wagner, *Die Abschaffung des privaten Grundeigentums* (Leipzig, 1870).

This, as he himself admitted, was nothing short of a social unification to complete Germany's political unification.¹ Hans von Scheel and Adolph Wagner also gave speeches in that year supportive of direct state compulsion on behalf of reform.²

The liberal president of the Reichs-Chancellery, Rudolf von Delbrück, under whose authority the new University of Strasbourg was being created, was opposed to Schönberg's nomination and instead proposed economists of an economically-liberal inclination, notably Victor Böhmert.³ But as early as 1862 Schmoller too had come to his attention favourably through his support (against the protectionist Württemberg government) of the Franco-Prussian free trade treaty, which Delbrück had himself negotiated.⁴ This set the stage for a dispute over the suitability of the particular candidates, tied closely to their respective political orientation. Heinrich Bernhard Oppenheim was the first liberal publicist to launch an attack on the 'socialist' views of some of the candidates in an article in the liberal *Nationalzeitung*, labelling the new variant of economics '*Kathedersozialismus*' (socialism of the chair).⁵ Oppenheim's criticisms were directed primarily at Wagner and Schönberg, but he dragged into the polemic all the young deviant academics, including Brentano, whose first volume of *Arbeitergilden* had recently been published and who thereby made an irresistible target. Schmoller, on the other hand, was only indirectly criticised. Brentano, easily agitated

¹G. F. von Schönberg, *Arbeitsämter, eine Aufgabe des deutschen Reiches* (Berlin, 1871), 14ff.

²A. Wagner, *Rede über die sociale Frage* (Berlin, 1872), 157-58; H von Scheel, *Die Theorie der socialen Frage* (Jena, 1871).

³Wittrock, *Kathedersozialisten*, 150-51.

⁴Schmoller, 'Jugendjahre', 60-61; [*idem*], *Der Französische Handelsvertrag und seine Gegner* (Frankfurt, 1862).

⁵See Oppenheim, 'Manchesterschule'.

as he was - and as Marshall himself later noted, ‘a great jabberwock’¹ - could not resist the temptation of responding with an equally polemical rebuttal which was, incidentally, refused publication in the liberal *Nationalzeitung* on the grounds that his views defended the Commune.² It was also refused publication in the *Preussische Jahrbücher* because of the sensitivity of liberal parliamentary factions to such a polemic.³ It was eventually printed by Julius Eckardt (1836-1908), editor of a Hamburg newspaper and in sympathy with the ‘socialists of the chair’. In his article Brentano, for the sake of unity, did not seek to differentiate between such state socialists as Wagner, Schönberg and Scheel, and moderate reformers of a more liberal inclination like Schmoller and himself. Brentano’s article instead spelled out the differences, as he saw them, between the realistic, scientific economics of his generation and the ‘abstract’, speculative, economics built upon the wreckage of classical dogma propounded by Oppenheim and his ‘journalistic’ ilk.⁴ The dispute, it should be emphasised, was not about free trade, but instead about the link between method and policy, particularly between ‘realism’ and social reform. In the preface of volume II of his *Arbeitergilden*, published shortly thereafter, Brentano took the opportunity to clarify the dispute between the ‘realistic school of German economists’ and the ‘free trade school’, which together with the ‘Manchester school’ Brentano

¹Letter 502, Marshall to Keynes, 4 April 1896, in *CAM*, vol. II, 166-67. Marshall tells Keynes of Brentano’s recent visit: ‘He is obviously a great success, & also, between ourselves a great Jabberwock’.

²Letter 13, Brentano to Schmoller, 10 Dec 1871, in Goetz, *AfK* 28 (1938), 340.

³Letter 15, Brentano to Schmoller, 31 Dec. 1871-12 Jan. 1872, in Goetz, *AfK* 28 (1938), 342-45.

⁴L. Brentano, ‘Abstracte und Realistische Volkswirthe’, *Hamburgerischer Correspondent* 9 (11 Jan. 1872), later published in *ZSB* 11 (1872), 383-85.

called the 'abstract school'.¹ He used the term 'abstract school' because he sought to emphasise that he and his colleagues had never been opposed to free trade.

In the meantime, a compromise candidate was worked out between Delbrück and Roggenbach for the Strasbourg post, a moderate between the extremes of *Kathedersozialismus* and *Manchestertum*: Schmoller. Together with Brentano he was, to use Wittrock's words, a 'stalwart of a moderate, purely scientific and indisputably liberal *Kathedersozialismus*.'² The artificial unity created between Brentano and Schmoller, on the one hand, and Schönberg and Wagner, on the other, by the attacks against '*Kathedersozialismus*' also provide a sufficient lull in disagreements - though Wagner's and Schönberg's views were continually criticised by Schmoller, Knapp, Held and Brentano³ - to lead to the thought of creating an alternative organisation to the *Volkswirtschaftlicher Kongress*, an idea Franz Boese, official historian of the *Verein für Sozialpolitik*, claimed was first hatched by Julius Eckardt as an attempt to unite the voice of the beleaguered 'socialists of the chair' and presented to Adolph Wagner in May of 1872. Wagner, who had already considered a similar plan, then discussed this with Brentano, Engel, Schmoller, Schönberg, and Schwabe, among others.⁴ However, forming a congress had already been toyed with as early as March by Knapp and Schmoller, centred on Engel's statistical bureau and including Brentano and Held.⁵ In any case, a preliminary meeting was held in Halle in July of 1872

¹Brentano, *Arbeitergilden*, vol. II, vi.

²Wittrock, *Kathedersozialisten*, 155-56, 160.

³See especially the writings on statistics by Held, Schmoller and Knapp discussed in ch. 4, sec. 4.4 and Letter 15, Brentano to Schmoller, 31 Dec. 1871-12 Jan. 1872, in Goetz *AfK* 28 (1938), 342-45.

⁴Boese, *Geschichte*, 1-2.

⁵GStAB, NI. Schmoller, 130a: 86-87, Knapp to Schmoller, 2 March 1871.

hosted by Schmoller, where, among others, Roscher, Engel, Hildebrand, Wagner, Conrad, Knapp, Brentano, and Eckardt were all in attendance and where it was decided to hold yearly conferences to discuss the social question.¹

If it had ever originally been exclusively Eckardt and Wagner's plan, the initiative behind the new organisation shifted decidedly into Schmoller's hands, who led the discussions in Halle and sought from the beginning with Brentano and Knapp to counterbalance - through conciliation and openness - Wagner's tactlessness and extremism (described by Eckardt as a 'decidedly state-socialistic standpoint tinged with a passionate Bismarck cult').² Against the wish of Wagner who wanted to keep the focus narrow, the circle of opinion at the first conference homogeneous, and who wanted to direct the organisation's activities toward political agitation, Schmoller sought to invite as many people from as wide a variety of backgrounds as possible, among them academics, high officials, parliamentarians, publishers, journalists, and factory owners.³ Wagner and Schönberg, and to some extent also Brentano, were a liability to the cause of broadening the attendance of the first conference, particularly because of Wagner and Schönberg's anti-semitism and links to social conservatives. Brentano too was not above stooping to crude anti-semitic jibes in his dispute with Oppenheim and the National Liberal parliamentarian and journalist Ludwig Bamberger (1823-99), whom he identified with the 'Jewish-Manchesterite school of bourgeois

¹Boese, *Geschichte*, 1-3.

²Eckardt quoted in Wittrock, *Kathedersozialisten*, 170; Gorges, *Sozialforschung*, 54; Knapp latter called Wagner a 'tactless dare-devil', GStAB, Nl. Schmoller, 130a: 29, Knapp to Schmoller, 23 Dec. 1872; Brentano vividly noted Wagner tactlessness and opportunism in his memoirs, *Mein Leben*, 71-72.

³Boese, *Geschichte*, 4; Wittrock, *Kathedersozialisten*, 169-71.

interest representation'.¹ All three were also popularly identified through the polemic with Oppenheim with extremist socialism of the chair. Though for different reasons than his arch-enemy Wagner, Brentano also wanted a much narrower conference, in his case a purely scientific body. This, however, would have alienated the moderate and influential groups which Schmoller and Engel felt were the key to success of the conference.²

Schmoller was committed neither to Wagner's non-partisan politics of agitation nor to Brentano's purely scientific body but instead to a multi-partisan congress uniting the middle parties on behalf of practical social reforms which could claim a scientific foundation.³ In the invitation to the conference which Schmoller wrote, an appeal was made to those with merely an interest in the social question and 'moral ethical pathos', who were neither advocates of pure *laissez-faire* nor opponents of factory laws and trade unions.⁴ However, the project's identification through Schönberg and Wagner with social conservatism, reinforced by the invitation of Hermann Wagener - pushed through by the conservative Moritz von Blankenburg (1815-88) against Schmoller's explicit will - was damaging, especially since there had been no leftist signatories to the invitation. Schmoller and Brentano together with Engel, Hildebrand and Eckardt thus agreed that a stronger presence of National Liberals, Progressive Liberals and even socialists was desirable.⁵ Knapp was asked

¹Letter 29, Brentano to Schmoller, 1 Feb. 1873, in Goetz, *AfK* 29 (1939), 153-56.

²Wittrock, *Kathedersozialisten*, 184, 194-95.

³*Ibid.*, 195.

⁴Published in *Der Arbeiterfreund* 10 (1872), 140-42; Wittrock, *Kathedersozialisten*, 190.

⁵Letter 20, Schmoller to Brentano, 20 Sept. 1872, in Goetz, *AfK* 28 (1938), 350-52; Letter 21, Brentano to Schmoller, 23 Sept. 1872, in *ibid.*, 352-53; see also Wittrock, *Kathedersozialisten*, 203-5.

to put his feelers out to Liebknecht in Leipzig, though to no avail.¹ Eduard Lasker, whom Schmoller deeply admired, was sympathetic to Schmoller's project and agreed to attend, but later had to decline, as did Johannes Miquel. This was a great personal blow to Schmoller. Ludwig Bamberger too was invited by Schmoller but declined because he felt the meeting would foster 'class hatred'.² More success was had with the Progressive Liberal trade union leaders Hirsch and Duncker, whom Schmoller successfully got on board. But Schulze-Delitzsch, despite much pleading by Schmoller, felt that he and his movement had been snubbed since Halle, and in any case the presence of Wagner and Wagener was wholly unacceptable to him.³ In the end, however, neither the right-wing National Liberal Treitschke nor the Conservatives Blankenburg and Wagener ever attended, and Adolph Wagner and Schönberg were completely sidelined at the congress.

The venue of the congress, Eisenach, was not coincidental, since the Social Democratic Workers' Party (SDAP) had been founded there in 1869. Knapp also recalled that the view of the Wartburg in Eisenach evoked a great deal of nationalist imagery.⁴ It was to be a public signal that national concern for the working class was not a monopoly of socialist parties. In the opening address to the congress, Schmoller said that the justification for the organisation of such a meeting by academics, who were normally quite aloof from public affairs, was the hope that agreement could be

¹Wittrock, *Kathedersozialisten*, 204; Wittrock here misrepresents Knapp's links to the SDAP. Knapp only reported that he had received a brochure from Liebknecht, GStAB, Nl. Schmoller, 130a: 49-50, Knapp to Schmoller, 13 May 1872.

²Wittrock, *Kathedersozialisten*, 197-201; G. Schmoller, 'H. Schulze-Delitzsch und E. Lasker', *JbfGVV* 8 (1884), 618.

³*Ibid.*, 206-8.

⁴Knapp, *Einführung*, 372.

achieved on the means of reforming social conditions which still had limited appeal in public opinion. His address was basically a general outline of the findings of his 'Arbeiterfrage' and *Kleingewerbe*: the basic problem was the discord between the propertied and unpropertied classes and the danger - up to that point observed from afar, but nonetheless sufficiently threatening - of social revolution, the prevention of which the popular *laissez-faire* doctrines of the *Volkswirtschaftlicher Kongress* provided few suggestions. With national unification and the formation of a national government, new light had been shed on economic conditions, yet the *Kongress* still denied the reality of a labour question and painted sanguine pictures. Factory laws, factory inspection, corporative organisations and courts of arbitration were all dismissed. Thus, it had come time to proceed independently and organise the insights which had long-since been gathered in various fields in the hope of influencing public opinion and legislation. Those who shared this view, Schmoller argued, nearly all belonged to the parties of the political middle, but their economic views had little impact in these parties. Thus it was necessary to assemble similarly-inclined views irrespective of party affiliation. In such an assembly it was essential not to debate principles but to deal directly with real issues: strikes, trade unions, factory laws, and the housing question. Though the largely academic organisers of the congress began without a programme, Schmoller continued, they nevertheless shared the view that the state was a moral-ethical institution for human improvement, which within its constitutional bounds, could be strengthened to prevent alternating class rule and protect and elevate the lower classes. This was, in his mind, the best legacy of the Prussian state.¹

¹StA, ed., *Verhandlungen 1872*, 1-4.

No one denied, Schmoller continued, that phenomenal economic progress had been achieved in their times, but equally, it was impossible to ignore the rising inequality. Did progress in the division of labour sufficiently foster the moral factors that held society together? While workers were better dressed and fed, did the economic conditions under which they lived ensure their economic and moral-ethical progress? It was this gulf in civilisation, education and ideals which was most dangerous, as the history of ancient civilisations had repeatedly shown. The task was not to level society; the healthiest society was one in which a variety of social classes coexisted as rungs on a ladder. Yet in today's society the ladder seemed to be lengthening upwards and downwards with the middle rungs breaking out. While they dismissed all socialist experiments and recognised all existing economic and political institutions, he said they nonetheless sought improvements through reform so as not to tolerate the worst abuses for the sake of a doctrinaire principle. They thus demanded moderate but consistent factory laws, coalitional and trade union freedoms to co-determine wages, public control of economic freedoms and public inquiry by the state, a factory inspectorate, a supervisory bureau for banking and insurance, and greater concern for the education, housing and working conditions of the labouring classes. In concluding, Schmoller stated that income inequality and class struggle over time destroyed free political institutions and threatened the return of absolutist government.¹ The aim, he said, was to bring about greater equality and therefore greater integration of the working class in the 'organism of society and state' which he believed would lead to 'an ever growing share of the population partaking of the higher goods of culture, *Bildung* and wealth' which was the great 'democratic task'

¹*Ibid.*, 4-6.

of his generation as well as a 'great general goal of world history'.¹

The tenor of Schmoller's address was continued at the congress by Brentano's speech on the reform of factory laws, which was followed by a lively debate.² This was then followed in the second session by a speech by Schmoller on striking and trade unions,³ which was in turn followed the next day by Ernst Engel's speech on housing problems.⁴ In effect, most of the issues that the historical economists had been eagerly researching since 1864 had been presented in these addresses and speeches. This established the hegemony in the new organisation of historical-statistical empiricism, reformist moral philosophy, and social liberalism. Just as in Schmoller's *Kleingewerbe* and in Brentano's *Arbeitergilden*, empiricism was presented as a guarantee of objectivity. The new organisation was conceived as a body to exclusively research the social question to provide multi-partisan, scientifically-derived and above all practical, but at the same time, general information on reform to appeal to the parties of the political middle: the public, legislators and government officials, it was hoped, would then use this 'scientific' information about the social question as the basis for policy decisions, and thereby not be blinded by the fog of 'partisan economics'. The uncanny similarity of this aim with the ambitions set out in the introduction of Schmoller's *Kleingewerbe* should especially be noted.

The debates which followed these speeches were quite animated. However, no resolutions were proposed. Rudolf von Gneist, an influential National Liberal member

¹*Ibid.*, 6.

²*Ibid.*, 8-28.

³*Ibid.*, 78-95.

⁴*Ibid.*, 164-230.

of both the Prussian legislature and Reichstag, active member of the *Volkswirtschaftlicher Kongress* and president of the *Centralverein für das Wohl der Arbeitenden Klassen* responded to Schmoller's speech in Eisenach, arguing that the state had little if any role to play regulating supply and demand, and, referring to the 'eternal truths' of Adam Smith, argued that the state should not expand its activities in the economy. The idea of establishing the economy on ethical principles seemed to Gneist a 'contradiction in terms'.¹ Yet as a further commitment to the broadness of opinion, the desire to appeal to the parties of the middle, and in the interest of influencing public opinion, Schmoller had, following his opening address, relinquished *de facto* leadership of the congress by nominating Rudolf von Gneist to the position of chairman, unanimously accepted by the congress. Franz von Roggenbach and Hildebrand were made representative chairmen, and the publisher Carl Geibel, the newspaper editor Bajonowsky and Adolf Held were made secretaries.²

Excerpts of Schmoller's address and Brentano's report were sent via telegraph to all the major newspapers in Germany. The press reported widely on the speeches and the congress had an unexpectedly strong impact on public opinion and government. For example, the Prussian government gave its support to the views expressed at the congress,³ and the official delegate sent to the conference by the Ministry of Trade, Karl Rudolf Jacobi, wrote a positive report on the conference in the

¹*Ibid.*, 125

²*Ibid.*, 6-7.

³E. Kesten-Conrad, 'Verein für Sozialpolitik', in *HdSt*, vol. VIII (Jena, 1911), 145-46; Knapp, *Einführung*, 373.

semi-official *Provincial-Correspondenz*.¹ At the same time, the congress was eagerly attacked by the liberal press, above all by Oppenheim, as well as by the Social Democrats.² That the liberal papers reacted as they did was a further testament of the knee-jerk anti-socialism and narrowness of German liberalism in these years.

With the impact of the congress felt throughout Germany, Schmoller, Held and Knapp considered themselves vindicated in believing that in order to sway public opinion the 'Eisenach Congress' should remain a congress expounding a clear but broad reformist message and not an association with a specific set of aims and statutes. Held believed, for example, that only through an appeal to a very broad base would the reform ideals of the Congress hold the attention of the public. Reporting on a speech he gave in Barmen, the industrial home town of Engels in December of 1872 on 'the modern state and freedom', he noted 'how very little loved our ideas are, but how everyone is very attentive':

A correspondence tied to this matter with an educated Berlin factory owner shows me that we can slowly but surely win over public opinion - but for this active unity and clarity are necessary, while links with all parties disrupts everything and completely decays our principles... . Your thesis regarding breach of contract has caused an enormous sensation; in Düsseldorf... I got into a terrible dispute with Crefeld gentlemen, and recently again in Barmen. To judge according to this unforeseeable success it may have been better if you had left this thesis out. Nevertheless, over time the propaganda uproar over our ideas causes no harm, we even find equivocal interpretation... . One can always give in to the practitioners with regard to single rules and their execution to hold fast to the main idea all the more energetically.³

Earlier that month Knapp too had written Schmoller of his desire for the 'Eisenach

¹'Berathungen über die socialen Fragen', *Provincial-Correspondenz* 41 (9 Oct. 1872). Jacobi also reported on the Congress and Schmoller's speech on trade unions in the Austro-Prussian conference on the social question of 7-21 Nov 1872, Doc. 118, *QGDS*, sec. 1, vol. 1, 337-77.

²Boese, *Geschichte*, 11-12.

³GStAB, Nl. Schmoller, 127: 88-89, Held to Schmoller, 27 or 29 Dec. 1872.

Congress' to remain a congress: 'Let us not form a social reform association. Can we change Society? And no association with a high-flown, silly name. What we only can change is public opinion'.¹ Schmoller agreed entirely with Knapp, especially since in his opinion a reform association already existed: Gneist's *Centralverein für das Wohl der arbeitenden Klassen*. A congress thus seemed perfectly sufficient.² Clearly, what the historical economists had in mind was something more akin to the International Statistical Congress, with which they were all familiar, a place of broad scientific dissemination rather than a pressure group or political organisation. Indeed, Schmoller sought as much as possible to influence and involve government officials.³ Knapp wrote Schmoller that 'for me the labour question is above all an object of scientific observation. The views to which I come I do not hide, but I do not exploit them in practical [i.e., political] (but only in scientific) disputes'.⁴

Despite the historical economists' reservations about organising an association, Gneist did proceed to hold the first committee meetings, nominate additional board members and draw up plans for a 'social reform association'.⁵ This immediately caused trouble, especially because Gneist nominated quite a number of rather economically-liberal members to the new board (Schulze-Delitzsch and Viktor Böhmert) as well as factory owners. Suspicions were raised because Gneist was also chairman of the *Centralverein* and active in the economically-liberal

¹GStAB, Nl. Schmoller, 130a: 35, Knapp to Schmoller, 6 Dec. 1872.

²GStAB, Nl. Schmoller, 131a: 131-32, Schmoller to Knapp, 8 Dec. 1872.

³*Ibid.*

⁴GStAB, Nl. Schmoller, 130a: 23, Knapp to Schmoller, 10 Feb. 1873.

⁵Boese, *Geschichte*, 12.

Volkswirtschaftlicher Kongress. Suspicions were thus rife that he had ambitions to fuse the new 'Eisenach Congress' with his *Centralverein* and thereby bring them jointly under his wing. A board meeting set for 4 January 1873 in Berlin was to determine the subjects of the next congress and prepare printed reports, write a proclamation for the founding of an association, and to write a draft of the statutes of the new body.¹

Knapp, Held and Brentano were particularly suspicious of Gneist's leadership. As secretary of the board, Held was himself furious over Gneist's direction of the 'Eisenach board' and said it was a mistake to have made him 'president'. Indeed, Held even proposed secession from the congress if the board could not be swayed in their direction.² In a later letter he reiterated the need for the four of them, Held, Schmoller, Knapp and Brentano, to stick together both in the board and in public, 'since we must be the only 4 socialists of the chair between which there are no significant differences of opinion. And if, as I have heard, others consider us a clique, that does not matter.'³ Knapp complained that too many 'Berlin members' (Gneist, Böhmert, Schulze-Delitzsch) were in the board. 'Spread out over all provinces of the Reich as we are, only represented in Berlin by the unsuitable A. Wagner it should hardly be possible for us to come up against Gneist and his fusion [of the] (right wing of the *Kathedersocialisten* and left wing of the Manchester men).'⁴ Knapp especially feared that Böhmert would end up setting the tone in the board.⁵ While Schmoller had

¹*Ibid.*, 13.

²GStAB, NI. Schmoller, 127: 88-89, Held to Schmoller, 27 or 29 Dec. 1872.

³GStAB, NI. Schmoller, 127: 87, Held to Schmoller, 21 Feb. 1873.

⁴GStAB, NI. Schmoller, 130a: 32, Knapp to Schmoller, 18 Dec. 1872.

⁵GStAB, NI. Schmoller, 130a: 29, Knapp to Schmoller, 23 Dec. 1872.

similar concerns, he pleaded for cooperation with Gneist: 'We have taken up a great, not merely theoretical, goal, we seek to get an incredibly heavy and inert stone rolling', and for this task to succeed they had to work with the 'politicians etc. who stand closest to us.' If they stepped out now they would appear 'doctrinaire' and as having prematurely given up.¹

In the end Held, Knapp, Brentano's protestations were sufficient for Gneist to drop most of the controversial nominations, and the Berlin board meeting did end up shifting the Board's priorities in the direction of the group centred on Held, Knapp, Brentano, Geibel and Eckardt (Schmoller could not attend). As Held reported, Knapp was a 'great agitator' on behalf of their position. Even the often out-voted Gneist remained friendly.² The success of the historical economists in setting the agenda is gauged by the subjects which were taken up for the next conference: the organisation of offices of wage arbitration, an inquiry into the effect of factory legislation, and reforms of the laws governing joint-stock-companies.³

At the Berlin board meeting it was also decided to form an association, and in October of 1873 the *Verein für Sozialpolitik* was formally organised, again in Eisenach. By the end of the 1873 congress, however, Gneist had decided (and been convinced) to resign his chairmanship of the board.⁴ As Held reported, he (Held) and the Bonn economist Erwin Nasse were 'predestined' to take the matter over, they both being in Bonn (according to statute, the Verein had its seat in the town of residence

¹GStAB, NI. Schmoller, 131a: 92-93, Schmoller to Knapp, 25 Dec. 1872.

²GStAB, NI. Schmoller, 127: 81-82, Held to Schmoller, 10 June 1873.

³Boese, *Geschichte*, 13.

⁴*Ibid.*, 22.

of the secretary, which Held became).¹ Knapp also was very positively disposed to electing Nasse as chairman, who in his mind was so well suited because of his good knowledge of English matters.² With the full support Knapp, Held and Schmoller, Nasse took over as chairman in Easter of 1874. Held was made secretary.

Following its founding, the *Verein's* members began to focus on commissioning monographs on various issues while the conferences themselves took on a rather secondary role, a move motivated by the recognition of a high degree of official and public ignorance of the dimensions of social problems.³ Petitions were sent to government, one to the Reichstag in 1873 seeking to have the chancellor initiate an inquiry into the suitability and necessity of legal protection for factory workers, and another in 1874 sent to the Ministry of Trade, seeking to have the *Verein's* survey on pension funds and accidents and injury in specific trades published. Both were, however, unsuccessful. Nevertheless, at subsequent conferences of the *Verein*, Schmoller and his colleagues reiterated demands for various reforms, most vociferously in 1877 in calling for reform of the commercial code. Schmoller applied in his presentation a historical perspective of Prussian commercial codes which relativised the laws governing commerce in order to show that the current code was tilted against the workers and the *Mittelstand* and thus allowed for numerous abuses.⁴ Following on from his report, Schmoller laid out his theses which, among other things, called for an improvement in health and safety regulation of factories, factory liability

¹GStAB, Nl. Schmoller, 127: 79-80, Held to Schmoller, 5 May 1874.

²GStAB, Nl. Schmoller, 130a: 13-14, Knapp to Schmoller, 17 June 1874.

³Boese, *Geschichte*, 19; Brentano, *Mein Leben*, 92-93.

⁴G. Schmoller, 'Referat über die Reform der Gewerbeordnung', *Schriften* 14 (1878), 172-93.

for sickness and injury of workers, restrictions on child and female labour, regulation of apprenticeships, improved trades education, regulation of working hours, reform of the chambers of commerce to include a chamber for artisans allowing membership by craftsmen and workers, and the legal protection of striking workers and unions.¹ Thus the main emphasis of the *Verein's* policy toward the labour question was worker protection.² Interestingly, Oppenheim, formerly one of the fiercest critics of the 'socialists of the chair', in a remarkable switch, repeatedly commented how much he and the *Volkswirtschaftlicher Kongress* were in full agreement with the reports and reform proposals of the 1877 conference.³

It is revealing that Schmoller's 1877 theses were in striking agreement with Theodor Lohmann's proposals put forth in a wide-ranging memorandum for the Prussian Ministry of Trade in June 1876 on expanded worker protection and factory inspection, with drafts of amendments to the commercial code, which were, incidentally, opposed by ministers and Bismarck.⁴ Lohmann had been sent to the 1874 conference of the *Verein* (despite the aversion and opposition of Minister of Trade Itzenplitz) as an official delegate by his director, K.R. Jacobi, who had himself attended the Eisenach Congress in 1872.⁵ Lohmann had subsequently become personally acquainted with Schmoller, visiting him in Strasbourg and spending 'a very interesting evening' together in July of 1876 while on travels to investigate factory

¹*Ibid.*, 'Thesen', 194-203.

²*Idem*, *Ueber einige Grundfragen*, 109-10.

³Boese, *Geschichte*, 31.

⁴Doc. 89, June 1876 memorandum, *QGDS*, sec 1, vol. 3, 334-60.

⁵Letter 248, Lohmann to R. Friedrichs, 5. Oct. 1874, in *Mut zur Moral*, ed. Machtan, vol. 1, 404.

inspection and workplace regulation in France and Belgium.¹ Lohmann later became, as noted in chapter 2, an active member of Schmoller's *Staatswissenschaftliche Gesellschaft* in Berlin (along with Bödiker, Bosse, Woedtke and other senior civil servants involved in drafting social legislation), a forum where economists and civil servants informally exchanged ideas.² What this shows is that a considerable degree of interaction developed in the 1870s between Schmoller and the *Verein* and sympathetic members of the Prussian bureaucracy not without consequences for social insurance legislation, as will be discussed later.

5.2 The Market for Social Reform and Historical Economics

The historical economists' effort throughout the 1870s to influence public opinion and government officials was constrained by the market for printed matter. The key figure in the link between scholarship and public opinion for the historical economists was the publisher Carl Geibel.

Schmoller and his colleagues had little understanding of the market for specialised publications. In October of 1872 Geibel, who had prepared a pamphlet with the speeches of the 'Eisenach Congress', wrote with consternation upon discovering that Schmoller would be giving Hildebrand's *Jahrbücher* a copy of his Eisenach speech to publish, making Geibel's pamphlet practically worthless and the activities of the *Verein* bad business, since Brentano too was publishing his report with Hildebrand, and Engel his own report in the journal of the Berlin statistical bureau.³

¹Doc. 287, Lohmann to R. Friedrichs, 30 July 1876, in *ibid.*, 450-52. See also 451, n. 2.

²Bruch, 'Staatswissenschaftliche Gesellschaft', 52-54.

³GStAB, NI. Schmoller, 123: 13-14, Geibel to Schmoller, 22 Oct. 1872.

In the same year, nevertheless, Geibel expressed to Schmoller an idea he had for a new venture which he had already mentioned to Brentano, Knapp and Wagner, and with the upcoming Eisenach congress, the time now seemed opportune. Geibel wanted to establish a new organ devoted to social policy administration at the state and municipal level. Originally he had thought only of a journal devoted to the social question but had decided that this was tied too closely to administrative matters. He wanted a journal which was similar to the *Zeitschrift für die gesamte Staatswissenschaft*, the *Jahrbücher für Nationalökonomie*, the *Arbeiterfreund* and *Concordia*, yet one with a distinctly new approach. He also wrote that he wanted to propose this matter as an orderly plan to the congress to be held in Eisenach. He had already agreed to appoint Held as editor.¹ For his part, Schmoller considered the formation of an organ a ‘*res integra*’ of the new organisation.² Held later wrote that after discussions with Geibel and Gneist they had agreed to form a joint organ called the *Deutsche Monatsschrift für Sociale Politik*, to be edited by Held and Gneist, of which the *Centralverein* would be given 8 printed sheets and the rest would be procured by Held for the Eisenach Congress. As it turned out, however, Gneist was not very enthusiastic about this plan and the *Centralverein*’s board voted instead for Böhmert as editor. This was a clear indication of the rivalry between the more economically-liberal reformers and the ‘socialists of the chair’ in the early years of the *Verein*. In Held’s mind, Gneist only wanted to gain a larger political profile and was not the least bit interested in running the Eisenach Congress and the *Centralverein* in

¹GStAB, NI. Schmoller, 123: 7-10, Geibel to Schmoller, 11 Sept. 1872.

²GStAB, NI. Schmoller, 131a: 92-93, Schmoller to Knapp, 27 Dec. 1872.

the manner that the young socialists of the chair wanted.¹ Later it was revealed that Gneist and Böhmert dropped (or were dropped from) the project and instead began jointly to edit the *Arbeiterfreund*, the organ of the *Centralverein*.²

Geibel's idea for a new organ associated with the new 'Eisenach Congress' was not dropped. Instead of the planned *Deutsche Monatsschrift für sociale Politik* Geibel decided to publish the *Schriften des Vereins für Socialpolitik*. It had been Schmoller's and other 'realistic' economists' wish that what had to set their new organisation apart from the *Volkswirtschaftlicher Kongress* was printed expert opinion circulated before meetings, so that informed decisions could be made regarding particular resolutions to be voted on.³ Geibel, as an active participant from the beginning, quite naturally volunteered to print these evaluations for the 1873 conference of the *Verein*, and these were later integrated into the new volumes of the *Schriften* of which Held, as secretary of the *Verein*, was made editor. But all was not smooth. In the summer of 1874 Geibel wrote Schmoller that he was disappointed to learn that Schmoller wanted to publish his latest report to the *Verein* in the *Zeitschrift für die gesamte Staatswissenschaft*, a situation which would make Geibel reconsider publishing the *Schriften* unless the *Verein* would be prepared to bear the risk: not 250 of the printed proceedings of last year's meeting had been sold, and the expert reports could not cover the cost of printing them. With the duplication of these publications elsewhere, demand collapsed completely.⁴

¹GStAB, Nl. Schmoller, 127: 88-89, Held to Schmoller, 27 or 29 Dec. 1872.

²GStAB, Nl. Schmoller, 127: 83, Held to Schmoller, 25 Mar. 1873.

³Boese, *Geschichte*, 14.

⁴GStAB, Nl. Schmoller, 123: 15-16, Geibel to Schmoller, 22 June 1874.

Though the *Schriften* did eventually get copyright to publish all proceedings and reports of the *Verein*, it never was a lucrative venture and continued to be subsidised out of Geibel's pocket. Geibel's generosity was also manifest in other publications by Schmoller, for example, Geibel indulged Schmoller's wish to receive 200 free copies of an article appearing in Holtzendorff's *Jahrbuch für Gesetzgebung*.¹ Geibel clearly was taxed by such demands and said that he didn't want to give his own printing enterprise more competition by giving away the best pieces appearing in the *Jahrbuch*, leaving only the mediocre bits to be sold; and making separate copies for sale would kill off at birth the new series of the *Jahrbuch* (now with Brentano as co-editor). Generous as he was, however, he did make the copies available on the proviso that only Schmoller's students would get copies and that the title would clearly state that these were not for sale.²

Though rarely lucrative, Geibel's enthusiasm for the projects of the historical economists did not abate. In 1876, when Schmoller and Knapp discussed launching a new monograph which later became the *Staats- und Sozialwissenschaftliche Forschungen* Geibel again stepped in, encouraging them to publish with him since it 'corresponds with my own wishes and inclinations', though there was again, as he himself admitted, little (if any) money to be made.³ It is hard to overestimate the significance of Geibel's deep personal interest in history, economics and social reform in providing the historical economists and the *Verein* with a voice. Without Geibel the historical economists and their particular brand of social reform would have never

¹G. Schmoller, 'Die Epochen der Finanzpolitik', *JbGfV* 4 (1877), 33-114.

²GStAB, NI. Schmoller, 123: 29-30, Geibel to Schmoller, 3 Nov. 1876.

³GStAB, NI. Schmoller, 123: 26-27, Geibel to Schmoller, 22 June 1876.

attained the public profile that they did in the 1870s had they relied solely on the existing publishers, journals and the press. In no small measure Geibel's own personal interest in both social reform and history, as well as close relationship to the historical economists ensured his continued support - and indeed, his subsidisation - of the publications of the *Verein*, Schmoller, Held, Knapp and Brentano.

5.3 Between 'Agitation' and 'Science': the Long Path to a New Economics

As already discussed in chapter 4, the claim of empiricism was one which was used to lend legitimacy to the normative conclusions derived from research. But using the mantle of objectivity to influence public opinion in this manner was fraught with problems. This was itself captured in the ambiguity of the role of the *Verein* as at once scientific and impartial and at the same time attempting to enlighten public opinion and government officials on behalf of social reforms. What this reveals is that the *Verein* was in the 1870s still a proto-professional body.

Though their scholarly activities often sparked controversy, Knapp, Held, and Schmoller nevertheless felt that 'agitation' was neither the most effective nor desirable means to the end of social reform. They sought as much as possible to avoid polemics, which they felt were largely a waste of time and energy, though they did not overlook the utility of the public attention aroused by such disputes.¹ They also preferred to restrict their activities to devising practical reform proposals and disseminating these to a broad, multi-partisan audience. Brentano, on the other hand, invested a huge amount of energy in polemics, and was quickly embroiled in disputes with Ludwig Bamberger over his criticism of the views expressed in the *Arbeitergilden* and with

¹Letter 24, Schmoller to Brentano, 12 Nov. 1872, in Goetz, *AfK* 29 (1939), 148-49.

Alexander Meyer on offices for wage-dispute settlement.¹ Schmoller, Held and especially Knapp counselled against these disputes and felt that Brentano was distracting himself too much in newspapers, something which Knapp felt only made sense if Brentano was considering an active role in politics, which he was not and thus was a tremendous waste of time.² Consider for example the vast number of polemical pamphlets and articles that diverted Brentano following the publication of his *Arbeitergilden*.³ Schmoller himself later noted that Brentano's writing had swung decidedly toward 'practical agitation'.⁴

As the historical economists came to a realisation of the tremendous commitment of time and energy in associations and political parties, a dilemma also emerged of choosing between scholarship and activity in public affairs. Consider Held's own activities before 1876. He wrote Schmoller that he was highly reluctant about taking on further responsibilities in the *Verein* as well as getting any more involved in public life because he was already active in the Rhineland as secretary of the Rhenish-Westphalian Worker Education Associations, the German Association of the Rhine Province and other bodies. On top of all that, he had failed as a National Liberal candidate for the Reichstag. He expressed the view that he was seriously considering giving up all of this activity which was eating away at his time and health; he hardly had any left to devote to his lectures and research. He said he felt like an

¹L. Brentano, *Die "wissenschaftliche" Leistung des Herrn Ludwig Bamberger* (Leipzig, 1873); idem, ed., *Über Einigungsämter* (Leipzig, 1873).

²GStAB, NI. Schmoller, 130a: 27-28, Knapp to Schmoller, 31 Dec. 1872, and 130a: 15-16, Knapp to Schmoller, 7 May 1873.

³H. Neisser and M. Palyi, *Lujo Brentano*, in *Bio-Bibliographische Beiträge zur Geschichte der Rechts- und Staatswissenschaften*, vol. 5. (Berlin, 1924), 15ff.

⁴Letter 129, Schmoller to Brentano, 9 Nov. 1878, in Goetz, *AfK* 30 (1941), 202-207.

‘amphibian’, unclear about what he was going to become - an academic or a public figure.¹ This was the central dilemma facing all of the historical economists. Knapp was perhaps closest to emerging as a ‘scientific reptile’, while Brentano was one with decidedly political preoccupations. Schmoller and Held were the true amphibians, at home both on the dry land of science, but never too far from the swirling seas of public debate and controversy.

As time wore on, the gulf between Wagner and Schönberg, on the one hand, and the historical economists, on the other, widened. The former believed that the *Verein* should establish basic principles and carry out discussions of these. Wagner wanted the *Verein* to carry out ‘unbiased’ studies of the economic viability of Lassalle, Marx and Rodbertus’ ‘scientific socialism’ and socialist theories of value. Moreover, the *Verein*, in his opinion, should engage in political activity and direct propagandising of these principles. This view was expressed in Wagner’s so-called ‘Berlin Theses’ given at the 1877 Berlin conference of the *Verein*.² Held and Schmoller believed, on the other hand, that scientific activity was largely a matter of the individual and must continue to be so, and that the *Verein* could and should only encourage practical reforms which could be implemented, not political principles. The socio-political activity of the *Verein*, they felt, had to be restricted to the pursuit of achievable goals, and that the ideals of reform were only attainable through an appeal to as wide a circle as possible. Held, as secretary of the *Verein*, was a vociferous proponent of this stance in the *Verein* and disputed with Adolph Wagner over the relative scientific merits of

¹GStAB, NI. Schmoller, 127: 79-80, Held to Schmoller, 5 May 1874.

²See StA, ed., ‘Verhandlungen 1877’, *Schriften* 14 (1878).

socialism and social reform and their place in the *Verein*.¹ Held wrote Schmoller that ‘among us socialists of the chair a clear and sharp division has now emerged between "state socialists" and "social politicians"’.² Knapp and Brentano agreed with Held’s view, though they wanted the *Verein* to become a narrower scientific body. Knapp particularly believed that the *Verein* needed to focus on ‘factually solid speeches and reports.’³ When Hermann Wagener was sent on behalf of Bismarck to the conference of the *Verein* in 1874, he was given a very frosty reception and viewed with deep suspicion by the historical economists.⁴ Schmoller, Held, Brentano and Knapp wanted to distance themselves as much as possible from such representatives of the conservative reaction with whom Adolph Wagner sympathised.⁵

The balance that the historical economists struck as ‘amphibians’ was a delicate one. Schmoller’s view of his relationship to public affairs was epitomised after taking over as editor of the *Jahrbuch*: his role was that of moral observer, not participating directly in politics but instead indirectly exerting a moral influence:

science can and should not be without party or colour, but it must stand above the petty quarrels and disputes of the parties of the day to deal with the great political questions of the times. ... Like the chorus in an ancient tragedy it should not act but instead accompany the actors’ actions and views separated from the stage and measure these according to the highest ideals of the times.⁶

¹A. Held, *Sozialismus, Sozialdemokratie und Sozialpolitik* (Leipzig, 1878); see Erwin Nasse’s tribute to Held, ‘Adolf Held’, *Schriften* 19 (1880), i-xv.

²GStAB, Nl. Schmoller, 127: 54-55, Held to Schmoller, 21 Dec. 1877.

³GStAB, Nl. Schmoller, 130a: 11-12, Knapp to Schmoller, 12 July 1874.

⁴Letter 61, Brentano to Schmoller, 16 Oct. 1874, in Goetz, *AfK* 29 (1939), 335-337; Brentano, *Mein Leben*, 94-95; cf. Doc. 157, Reichstag speech of Bismarck, 17 Sept. 1878, *QGDS*, sec. 1, vol. 1, 536-37.

⁵GStAB, Nl. Schmoller, 127: 72-73, Held to Schmoller, 27 Oct. 1874.

⁶Schmoller, ‘Ueber Zweck und Ziele’, 9.

Schmoller thus believed that while science was driven by normative impulses, it had to remain detached from the political fray. This proved to be an accurate description of the historical economists' own relationship to the German public and the events which later unfolded in spite, or perhaps because, of their guidance from the sidelines.

Another area of disagreement regarding the nature of their 'science' was the historical economists' - and especially Schmoller, Held and Knapp's - hostility to what was perceived as premature deductive theorising. When Schmoller disputed the validity of premature deductions, he noted that natural sciences, which had made such tremendous progress over the last 100 years, had done so by ridding themselves of dogma.¹ Schmoller made clear that he restricted himself more to description 'not because I do not seek law-likeness or laws', but because

I believe that our whole science is, to speak with Comte, still stuck in the metaphysical age in which a pair of abstract thoughts, ideals and superficial judgements are placed at the pinnacle to be deduced from at will, which fits political parties. We will only arrive at a positive age in our science through the same respect for facts, the same selfless work of collection as has been done in the natural sciences for one or two generations. That is why I place so much more value on good description than new laws.²

A very similar view had been expressed by Brentano some five years earlier in criticising the works of Schäffle.³ But Brentano, too, noted that though most of the 'laws' of economics were wrong, the search for 'laws' was nevertheless the scientific task of economics. In any case, he pointed out that he was much more willing to begin

¹Letter 125, Schmoller to Brentano, 13 June 1878, in Goetz, *AfK* 30 (1941), 193-96.

²Letter 129, Schmoller to Brentano, 2 Nov. 1878, in Goetz, *AfK* 30 1941, 202-7; cf. Schmoller, 'Ueber Zweck und Ziele', 4.

³Letter 29, Brentano to Schmoller, 1 Feb. 1873, in Goetz, *AfK* 29 (1939), 153-56.

the task of theoretical reconstruction than Schmoller.¹

The commitment to exact description as an indispensable preliminary foundation for theoretical construction explains Schmoller's hostility to the first attempts to develop new systems and textbooks in the latter 1870s and early 1880s, notably Wagner's revision of Rau's *Lehrbuch* in the form of his *Allgemeine oder theoretische Volkswirtschaftslehre* (1876) and especially Schönberg's *Handbuch der politischen Ökonomie* (1882). Schönberg and especially Wagner, it should be emphasised, were advocates of deductive theory built upon Rodbertus' and Schäffle's collectivism to found a new 'social economics' (*Sozialökonomie*). Schmoller rejected this, believing that German economics was in a state of flux - the effect of exact historiography and the natural sciences on method, a transformation aided by developments in exact research, legal and other philosophy, psychology, and ethics - with the result that economics would increasingly become a social science. In reviewing Schönberg's *Handbuch*, Schmoller wrote that when he first heard about the plan for it, he thought it premature by 10-20 years; only after further specialised studies would a theoretical reconstruction be successful. In Schmoller's view Schönberg's collection was no successful theoretical reconstruction but instead 'the old Rauian economics with improved detail'.² As will be revealed later, this criticism was very similar to the one Schmoller had given Carl Menger's text, the *Grundsätze der Volkswirtschaftslehre* (1871), some ten years earlier and which helped spark the dispute which became known as the *Methodenstreit*.

¹Letter 128, Brentano to Schmoller, 27 Oct. 1878, in Goetz, *AfK* 30 (1941), 198-202.

²G. Schmoller, Review of G. Schönberg's *Handbüch der politischen Oekonomie*, *JbfGVV* 6 (1882), 1381.

5.4 The 'Patrons of Socialism'

Much as they tried to appear 'superpartisan', 'impartial' and 'scientific', the historical economists were still widely perceived either as heretics soft on socialism or as part of a group which had the secret support of Bismarck. Earlier it was revealed that anti-socialist hysteria was for various reasons a symptom of the times and that the historical economists had to endure continued accusations of pandering to socialists. This posed many difficulties for the German liberal movement. Schönberg had as early as 1872 pointed to the principal dilemma of liberalism, whose solution was a matter central to its political survival: if it continued to 'one-sidedly hold fast to the abstract doctrines of *Manchestertum* and the "German free trade school" it would give up the right to become the ruling party of the future.'¹ While this criticism was not made by someone with a particularly liberal inclination, it pointed precisely to the root of the problem: the narrow, eroded base of support for liberalism due to its close association with class interests and hostility to the labour movement. A very similar view had been expressed by the unimpeachable political liberal Bruno Hildebrand in a review of Schmoller's *Kleingebewerbe*, who noted that 'by simply holding fast to the principles of the creators of liberal economics, this subject [economics] gets enmeshed in an endless and mostly unsuccessful struggle with socialism and prevents all progress.'² Through their empiricism, the historical economists had attempted to disentangle economic science from the struggle against socialism and at the same time constructively engage the German liberal movement with the concerns of the working

¹G. von Schönberg in the *Hamburgerischer Correspondent* 133 and 134 (7 and 8 June 1872), quoted in Wittrock, *Kathedersozialisten*, 155.

class. It was this, Hildebrand had noted in his review, which would prepare the way for ‘great reforms’ and help to build an ‘economic party of the middle, to develop a far-sighted, high-minded liberalism’.¹

In 1873 Eduard Lasker had spectacularly and publicly uncovered corruption by government officials in the *Gründerzeit* speculative boom, particularly the involvement of privy councillor Hermann Wagener in swindling railway concessions, subsequently forcing his resignation. Banking trouble in New York and London and rapid asset deflation then led to a crash of the Berlin bourse. As this then widened into recession and greater labour unrest, Schmoller and his colleagues began to sense that the various reforms to legislation governing factories and trade unions called for at the first general conferences of the *Verein* were now more urgent than ever. In a speech titled ‘the Social question and the Prussian State’ Schmoller criticised the ‘*Gründer*’ whose speculation and quick enrichment through dubious means had weakened the economic base upon which the whole of society depended and harmed the public sense of justice which sustained the existing property order.² He was aware that it had been in such downturns in the past that the working classes had become increasingly radical, as between 1845 and 1852 when the older labour movement had organised. And now the Social Democrats were doing the same. Schmoller saw social democracy not as the enemy but as a symptom of the tremendous social changes that had taken place in Germany; it was a reaction to injustice. He then outlined the sources of social struggles and revolutions of the past and concluded that the time was now ripe for bold reforms by the Prussian state to prevent such a recurrence.

¹*Ibid.*, 406-407.

²Schmoller, ‘Die sociale Frage’, 333-34, 337-38.

Such views were anathema to many other German liberals, for whom the mere mention of the word 'socialism' evoked hostility. Engel wrote to Schmoller of the reaction of other liberals to Schmoller's speech:

You must have, most honoured friend, already been following on your own the fate of your first-rate lectures on the social question here [Berlin]. This lecture was printed in complete form in the *Socialdemokrat*, and printed with few, in no way mocking and awkward, comments. In contrast, the *Spener'sche Zeitung* attacked you viciously in two articles. If Dr. Braun¹ himself did not write this attack, then it could be from Bamberger's hand, who in an encounter a few weeks back let loose with very similar trite remarks against me regarding your lectures. He identifies you completely with Hasenclever,² and he regards the references to the desired kingdom and the Prussian bureaucracy as only the sugar to make the social democratic poison more potable.³

Held also liked Schmoller's speech, but expressed certain reservations about it, particularly that it would isolate their group even more:

Your recent speech in Berlin printed in the *Preussische Jahrbücher* is very nice - but I do feel that you went too far in one of your phrases, at least misunderstandings could be awakened, particularly there where you call "social democracy" the left wing. From one point of view that is true, but not from every, and through such comments we can lose the one or the other friend, of which we don't have many.⁴

Of those offended by Schmoller's speech in the liberal establishment, it was Heinrich von Treitschke, then co-editor of the *Preussische Jahrbücher*, who took up his pen in response.⁵ After all, Schmoller's account of Prussian history was only one

¹Karl Braun (1822-93), liberal politician and writer, member of the *Volkswirtschaftlicher Kongress* and Cobden Club.

²Wilhelm Hasenclever (1837-99), leader of the ADAV (Lassallean Social Democrats) 1871-75, and member of the Reichstag 1874-88.

³GStAB, NI. Schmoller, 151: 27-28, Engel to Schmoller, 1 June 1874.

⁴GStAB, NI. Schmoller, 127: 79-80, Held to Schmoller, 5 May 1874.

⁵On the Schmoller-Treitschke controversy see A. W. Small, 'Some Contributions to the History of Sociology', sec. XVI, *AJS* 30 (1924-25), 49-86.

interpretation and an infringement on Treitschke's academic home turf. Treitschke's liberalism was very much a bourgeois, hierarchical, class-ordered vision of civil society.¹ He believed that existing property relations were sacred, not as Schmoller had proposed, as often also the product of violence and injustice. Human beings were by nature unequal and therefore subjected to domination by elites:

The civil society (*bürgerliche Gesellschaft*) of a mature people is always aristocratic, even under a democratic constitution. To put a very hated but very true word dryly - class rule, or more correctly class order, is produced naturally by nature of society, as the contrast between rulers and the ruled is from the nature of the state.²

The aristocratic structure of society given by marriage and property sets firm barriers to all social reform plans, just as the nature of the state sets borders to the ideas of political freedom that cannot be crossed.³

Treitschke dismissed any role that social conditions played in determining the opportunities, and hence fate, of people, just as he dismissed the scientific and moral justification of far-ranging social reforms, naive arguments the 'socialists of the chair' had made as a consequence of their youthful unfamiliarity with real conditions. Schmoller and the members of the *Verein* were thus 'patrons of socialism'.⁴

These criticisms were an attack of the very core of the scientific principles of social reform. In September of 1874, Held wrote Knapp that if Schmoller did not respond to Treitschke's attack it would mean the demise of *Kathedersozialismus*; it was now time to rally together.⁵ In Held's mind it would have to be made clear to the

¹H. von Treitschke, 'Der Socialismus und seine Gönner', *PrJbb* 34 (1874), 100.

²*Ibid.*, 83.

³*Ibid.*, 100.

⁴*Ibid.*, 67-69, 85-86 and 104; cf. Schmoller, 'Die sociale Frage', 324-25.

⁵GStAB, Nl. Schmoller, 127: 74, Held to Knapp, 25 Oct. 1874.

public that

we appeal to people's decency not to their hunger for profit, we do that in writing which Lasker does in the Reichstag contra Wagener and contra the punishment of breach of contract. We represent at the same time a science which studies facts instead of old clichés. That is what we are, that is what I am.¹

Any response, Held believed, would have to make the point that in the congresses of the *Verein*, individual questions were discussed in a purely rational and factual manner and that one could not speak of a triumph of 'Kathedersozialist principles'. The *Verein* was expressly created, he pointed out, as a body for the discussion of social questions; they had never intended it to be the bearer of some 'infallible teachings'. And no specific class interests were represented. He and his colleagues, Held wrote, needed to appeal to the liberal centre: '...it is good if we lose the sympathies of the social conservatives, the Christian socials, the radicals etc. as quickly as possible. We must win a portion of National Liberalism and the government!'²

Schmoller did respond, and this response to Treitschke was particularly remarkable for pointing to the key dilemmas of German liberalism at that time - its narrowness and conservatism:

Your statement in the [*preussische*] *Jahrbücher* is taken up by the masses very differently than you intended. They see nothing therein except that the world, as it is, is the best of worlds, that all those who seek to better it are fools, that the coarseness and brutality of the working estate is exclusively their own fault, that it is less important to reform our customs, our business practices, our law than eventually taking the club into ones hand and beating anyone over the head who does not find his lot right and reasonable. Even thoroughly conservative-clerical publicists, like Herr von Ungern-Sternberg³, remark shaking their heads, that this is the main effect of your attack

¹GStAB, NI. Schmoller, 127: 71, Held to Schmoller, 7 Nov. 1874.

²GStAB, NI. Schmoller, 127: 72-73, Held to Schmoller, 27 (?) Oct. 1874.

³Johann von Ungern-Sternberg (1817-95), Badenese writer and statesman.

on us; while individual leaders of the liberal cause, precisely because of the strong emphasis of the legitimacy of every existing power, of every existing order of property, take opportunity openly to declare that you have thereby broken the last bridge you had with liberalism.¹

Schmoller responded that he and his group had continually been wrongly identified with socialism, noting that all those advocating change of some kind had been similarly accused in the past, even Adam Smith.² Schmoller wrote that Treitschke knew full well that ‘we are no more socialists than Blanqui, Sismondi, John Stuart Mill, Thünen, than Hildebrand and Lorenz Stein, than the whole of younger economics in England (Cliffe Leslie, J.M. Ludlow, Beesly, Crompton, Harrison), or the Belgian economics of Emile de Laveleye.’³ He was especially keen to counter the charge that they were ‘young idealistic people who had never seen anything of the world, who without knowing it had wobbled into the socialist camp...’⁴ He reminded Treitschke that in addition to a formal education they had devoted years to the study of real conditions in German industrial districts, and many had also directly observed those in Switzerland, Belgium, England and France.⁵ Schmoller’s rebuttal was thus focused squarely on elaborating his group’s critical scholarship and contrasting this with those who relied solely on dogmatics, detailing what empirical investigation had refuted, and in the process reiterating and summarising the moral philosophy, historical

¹Schmoller, *Ueber einige Grundfragen*, 10-11.

²Schmoller quoted Adam Smith’s demands for improvements in the conditions of workers engaged in stupefying, monotonous work, *Ibid.*, 34; cf. *Wealth of Nations* (Glasgow edn., Oxford, 1976 [1776]), book V, ch. I, art. II, par. 50, 781-82.

³Schmoller, *Ueber einige Grundfragen*, 14-15. Adolphe Blanqui (1798-1854), French economist; Edward Beesly (1831-1915), positivist historian; Henry Crompton (1836-1904), positivist and trade union advocate; Émil de Laveleye (1822-92), economist and historian.

⁴*Ibid.*, 12.

⁵*Ibid.*, 13.

interpretations and reform programme which were analysed in detail in the previous chapter. Schmoller gave in his rebuttal a clear and succinct definition of what he considered social reform: it was the ‘re-establishment of friendly relations between social classes by eliminating or reducing injustice through greater approximation to the principle of redistributive justice, by the creation of social legislation which fosters progress and guarantees the moral-ethical and material improvement of the lower and middle classes’.¹

Despite Schmoller’s rebuttal to Treitschke, the gulf between the working class and German liberalism later widened. Brentano argued in 1877, one year before the passage of the draconian ‘socialist law’, that the persistence of a socialist party openly ‘hostile to the Reich’ was the consequence of the malevolence of liberal parties to the legitimate concerns of the working class.² In that same year he wrote a criticism of the utter failure of the liberal parties to develop a political base within the working class.³ Similarly, Schmoller believed the separation of social democracy from the liberal party to which it once belonged, as well as ‘the emergence of the *Verein für Sozialpolitik* out of the lap of Liberalism’ was symptomatic of the inability of National and the Progressive Liberals to provide the workers and *Kleinbürger* with a palatable political programme.⁴ The divisions within German liberalism, as played out within this microcosm of the Schmoller-Treitschke debate, revealed that this centred crucially on differing visions of the general good as defined by the interests of a broader civil

¹*Ibid.*, 117-18.

²Brentano, *Das Arbeitsverhältnis*, 327-28.

³*Idem*, ‘Die Liberale Partei und die Arbeiter’, *PrJbb* 40 (1877), 112-23.

⁴Schmoller, ‘Ueber Zweck und Ziele’, 12.

society which included the workers and the *Mittelstand*, on the one hand, and a much narrower vision defined by the *Bürgertum*, on the other. But by the latter 1870s liberals, divided as they were, hardly had a firm claim any more to representing the centre ground and especially the *Mittelstand*, a voter the Centre Party had been carefully tending since 1870 and to which German conservatives such as Hermann Wagener had made increasingly successful overtures. A common theme unified these opponents of liberalism in their solicitations of the *Mittelstand*: a distinction between the *Bourgeoisie* and their liberal apologists, on the one hand, and the beleaguered *Mittelstand* on the other. Ironically, this was a very distinction some German liberals, such as the historical economists themselves, had insisted on making and which proved to have wide-ranging repercussions for the role of liberals in German national politics.

5.5 The Socialist Law, the Dispute over Trade and the Nadir of the *Verein*

Beginning in 1878 a series of events unfolded which had a dramatic impact on the *Verein*, eventually threatening its dissolution. These events also shifted the political constellation of the Empire and the position in it of the liberal parties. As discussed, many German liberals were singularly unwilling to broaden their movement to include the interests of the working class. Nor did they seem capable of expanding their vision of civil society to that of a *Mittelstandsgesellschaft*. With the deepening of the recession and growing labour unrest it seemed that liberal parties and the labour movement were increasingly estranged. And fear of revolution - a fear which Schmoller himself had helped to spread through his articles and speeches - increasingly displaced hopes for reconciliation and reform. In 1878 there were a series of assassination attempts against the Kaiser, the first on 11 May 1878, an event which

was used as a pretext to propose draconian legislation against the Social Democrats, which in 1877 had become the fourth largest party in the Reichstag. This bill failed by a vote of 251 to 57. On 2 June a renewed attempt was made on the Kaiser's life, further fanning the flames of anti-socialism. Bismarck used this as an opportunity for dissolving the Reichstag and calling new elections. In the new Reichstag, Bismarck introduced a revised anti-socialist bill and promised to initiate a programme of social legislation. On 18 October 1878 the revised socialist law was passed. Brentano, Schmoller, Held and Knapp all opposed this repressive legislation. Schmoller wrote to Brentano in a letter of 25 October of the discouraging news from Berlin and of 'the miserable cowardice and stupid reactionary sentiments'. Reporting of academics supportive of a *coup d'état*, he complained, 'and these people call themselves liberal!'¹ However, because of the agreement between the *Verein* and *Volkswirtschaftlicher Kongress* in 1876 (according to which conferences were to alternate each year) the *Verein* did not meet in 1878, and the board specifically chose to avoid the issue of this legislation because of its potential to seed divisiveness.² Schmoller himself did not believe that ministers and parties were ready in Prussia for the social reforms Bismarck had hinted at, and in any case he did not expect them 'for one or two generations'.³ What was certain was that under the socialist law an improvement of the legal rights of striking workers (long demanded by the *Verein*) had little if no prospect.

The reconfiguration of the Reichstag had divided the liberal parties, and with

¹Letter 127, Schmoller to Brentano, 25 Oct. 1878, in Goetz, *Afk* 30 (1941), 197-98.

²Boese, *Geschichte*, 32.

³Letter 125, Schmoller to Brentano, 13 June 1878, in Goetz, *Afk* 30 (1941), 193-96.

the support of the conservatives, the Catholic Centre and right-wing National Liberals (who had agreed to the socialist law), Bismarck was subsequently able also to propose protective tariffs, a tobacco monopoly and railway nationalisation to consolidate Reich finances, as well as still somewhat vague proposals for social legislation. The free-trading chairman of the *Verein*, Erwin Nasse, believed that his organisation could not afford to passively watch these events unfold and insisted on a special meeting of the *Verein* in Frankfurt in April of 1879 to discuss the tariffs issue. He hoped that protective tariffs would be rejected by the *Verein*, which he saw as exploitation of the workers by the propertied classes.¹ Schmoller, however, believed that the *Verein* had to cease being 'a socio-political agitative association' and had instead to become a 'scientific society such as colleague Knapp proposes'. Schmoller even questioned the future viability of the *Verein*.² Though with some reluctance, Schmoller did eventually agree to the meeting. There he gave a speech denying that free trade or protectionism were matters of principle, but instead a matter of balancing the need for cheap consumption with that of securing technical and organisational improvements for future production.³ Schmoller argued that in view of there being no prospect for new trade treaties to secure world markets for industry in the current economic crisis, and also considering that, apart from England, all other European states had already or were planning to raise tariffs, and most importantly, in view of the fact that the passage of factory laws and their successive amendment had no prospect in a condition of free trade competition, he could support moderate tariffs on the grounds that they

¹Boese, *Geschichte*, 33-35.

²*Ibid.*, 35.

³G. Schmoller, 'Korreferat über die Zolltarifvorlage', *Schriften* 16 (1879), 21-22.

provided needed additional revenues for the imperial government.¹ At the Frankfurt meeting the *Verein* narrowly voted in favour of tariffs, and it became clear that it was so thoroughly divided that its continued viability as a body came into question. Complicating matters, Nasse had been rudely interrupted in the debate and considered resigning his position as chairman.²

The Frankfurt meeting produced a split between the historical economists, with Schmoller and Knapp increasingly willing to support Bismarck on tariffs, railways and the tobacco monopoly in return for what they hoped to be bold social legislation,³ while Held and Brentano, free traders through and through, remained more suspicious of Bismarck and increasingly disenchanted with the German political constellation.⁴ Indeed, Held wrote Brentano 'I was, as you know, quite conservative but the current conservative tendency disgusts me because it is only transitory, a result of anger over the crash and a longing for protective tariffs for which our congress is willing to betray all its old ideals'.⁵

Shortly after the Frankfurt meeting Held wrote Schmoller that in his view events in the Reichstag were very uncomfortable and grave. While he could in principle understand the many reasons to tend toward protective tariffs, free trade was a matter for him of a reasonable social policy. In any case, he argued, those favouring

¹*Ibid.*, 27-28.

²Concern over the price of bread did not figure in the debate because the tariffs were still very low, see Boese *Geschichte*, 38.

³Schmoller gave the fiscal expansion of the state historical justification on these grounds: 'Die Epochen der preußischen Finanzpolitik', *JbfGVV* 4 (1877), 33-114.

⁴GStAB, Nl. Schmoller, 130a: 157-158, Knapp to Schmoller, 14 June 1882; Schmoller, 'Ueber Zweck und Ziele', 12-13, and 15; Brentano, *Mein Leben*, 112.

⁵BAK, Nl. Brentano, 27: 30, Held to Brentano, 17 July 1878.

protective tariffs could not be happy with the manner in which the protectionist movement presented itself in connection with special interests; had it not been the case that protective tariffs were purchased at much too high a price?¹ Later that same year Nasse, who had gathered experience as a Free Conservative in the Prussian Chamber of Deputies and knew Bismarck's tactics, wrote Schmoller that the more highly he thought of the role of the state in protecting and strengthening the weak, the more he would like to fight against a movement in Germany which would lead to the exploitation of the general public by those commercial elements which ruthlessly and destructively pursued their own interests. With every year he had spent in public life he had come to the conviction that for the great majority exercising influence on the legislation and direction of the state, only their own special interests were important. And while such motivations were once hidden, they now came openly to the light of day. Worse, the ruthless openness of these interests was rewarded and encouraged by the leadership itself. Nasse concluded prophetically that 'Prince Bismarck believes that he can rule better with coalitions of interest groups than with political parties. Therefore he promotes these in order to dissolve the others. I fear that the economic and moral effects of this policy will not be good'.² One longer-term effect of this dispute over tariffs in the *Verein* was that it unjustifiably branded it as a protectionist and conservative body for some three decades thereafter.³

Through the fiasco in Frankfurt the less political, more-scientific path of the *Verein* long advocated by Held and Knapp was clearly vindicated. So was the idea of

¹GStAB, NI. Schmoller, 127: 42-43, Held to Schmoller, 25 June 1879.

²GStAB, NI. Schmoller, 175: 198-199, Nasse to Schmoller, 19 Dec. 1879.

³Lindenlaub, 'Richtungskämpfe', 153

dropping resolutions and votes on resolutions from the proceedings and focusing more squarely on publication. As Held pointed out shortly before his death, ‘today an honest scholarly economist cannot agitate’. Indeed, in light of the great differences of opinion, he had advocated dissolution of the *Verein* entirely.¹ When Held suddenly died in a boating accident in Switzerland in August of 1880, it seemed that with him so too did the *Verein*. He had been the key figure in its business as its tireless secretary and assistant to Nasse and as editor of the *Schriften*. Geibel wrote Schmoller in early September 1880 that ‘the gap that his death has torn will not be filled in because he was in his way unique among us; I fear, like Nasse who wrote me yesterday, his death will be the death of the *Verein*’.²

Despite this nadir, the *Verein* did survive. Nasse stayed on as chairman and Held was replaced as secretary by Geibel. Beginning in 1881, the same year a royal message inaugurated Bismarck’s plans for social insurance legislation, the *Verein* ceased to vote on resolutions and began to study less controversial subjects, such as agriculture, just as Knapp had himself proposed. The vindication of this more scientific path came with the merger of the *Kongress* with the *Verein* and the dissolution of the *Kongress* in 1885. Ironically, the combination of these formerly hostile bodies came at a time when German economists were most divided over Bismarck’s trade and social policy. These factors meant that the *Verein*’s public influence in the 1880s, as Schmoller later noted, would turn out to be considerably smaller than it had been in the 1870s.³

¹GStAB, NI. Schmoller, 127: 44-45, Held to Schmoller, 13 Feb. 1879.

²GStAB, NI. Schmoller, 123: 48-49, Geibel to Schmoller, 3 Sept. 1880.

³G. Schmoller, ‘Der Verein für Sozialpolitik und die Soziale Reform’ (1901), in *Zwanzig Jahre*, ed. L. Schmoller, 47.

5.6 The Search for a Unified Voice and the Rebirth of the *Jahrbuch*

Around the same time that the tariffs debate had divided and weakened the *Verein*, scholarly journals were gaining an ever more visible profile. Adolph Wagner had begun to publish extensively in the *Zeitschrift für die gesamte Staatswissenschaft* since Schönberg's appointment to Tübingen in 1873, a journal edited by Schäffle who was very sympathetic to both Schönberg and Wagner and monarchical socialism. Both Schäffle and Wagner too increasingly had Bismarck's ear on social legislation, and in Wagner, Bismarck had an uncritical admirer.¹ This was a clear challenge to 'moderate socialism of the chair', as Schmoller wrote to Brentano in March of 1878: 'the manner in which Wagner and Schäffle melt together and praise each other in the Tübinger *Zeitschrift* forces us to be doubly on guard and to compete with them'.² To attain the greater profile Schmoller and his colleagues sought for their brand of moderate social reform a journal of their own was called for. Schmoller thought of an 'Economic and Social Policy Review' which would gain a 'commanding influence over public opinion'. Held, who was already editing the *Schriften des Vereins für Sozialpolitik*, was seen as the best prospective editor.³

Geibel, encouraged by Held and Schmoller, and spurred on by his own dissatisfaction with Holtzendorff and Brentano's editing of the *Jahrbuch*, thus began searching for alternatives. The most promising of these seemed to be the *Jahrbücher für Nationalökonomie und Statistik*, but this had already been sold to Gustav Fischer

¹See for example, Wagner's worshipful election speech in Elberfeld of 12 Aug. 1881, *Elberfelder Zeitung* 188 and 189 (14-15 Aug. 1881). Lindenlaub disputes that Wagner's influence was any greater than Schmoller's, 'Richtungskämpfe', 143.

²Letter 120, Schmoller to Brentano, 15 Feb. 1878, in Goetz, *AfK* 30 (1941), 187-88.

³Letter 118, Schmoller to Brentano, 3 Feb. 1878, in *ibid.*, 186.

following Hildebrand's death in 1878.¹ Geibel made repeated offers to Fischer to buy the *Jahrbücher* and then to fuse it with the *Jahrbuch* to create one great journal under the combined editorship of Held and Conrad, the latter having been groomed by Hildebrand to succeed him as editor. All of these efforts were without success.² Also, before his death Hildebrand had stipulated that the editorship of the journal remain linked with the Jena statistical bureau and Halle University, and Held had little inclination to take over so many simultaneous responsibilities.³

With the unsuccessful attempts to get a hold of another scholarly journal, Geibel and Schmoller turned their attention to revamping the *Jahrbuch*. Brentano, as he himself admitted, was not much inclined to editing a journal, and Holtzendorff and his juristic acolytes seemed to Geibel a forest of dead wood.⁴ Indeed, Brentano himself hoped that Schmoller would take over the *Jahrbuch* and combine it with Schmoller's monograph, the *Staats- und Sozialwissenschaftliche Forschungen*.⁵ While he had himself considered it, Schmoller wrote that both he and Geibel wanted the *Jahrbuch* to become more focused on 'practical questions of the day', i.e. economic and social policy.⁶ Some time in the spring of 1880, Geibel had agreed with Schmoller that they together would introduce the necessary changes in the *Jahrbuch*

¹Lindenlaub, 'Richtungskämpfe', 191.

²Letter 120, Schmoller to Brentano, 28 March 1878, in Goetz, *AfK* 30 (1941), 187-88; Letter 121, Brentano to Schmoller, 11 April 1878, in *ibid.*, 188-89; GStAB, Nl. Schmoller, 127: 92, Held to Schmoller, 13 April 1880.

³GStAB, Nl. Schmoller, 127: 49-51, Held to Schmoller, 21 April 1878.

⁴Brentano, *Mein Leben*, 106; GStAB, Nl. Schmoller, 123: 55-56, Geibel to Schmoller, 30 Oct. 1880.

⁵GStAB, Nl. Schmoller, 114: 190-95, Brentano to Schmoller, 9 June 1880.

⁶BAK, Nl. Brentano, 250: (not numbered) Schmoller to Brentano, 17 July 1880.

to breath new life into this enterprise and finally fill the gap of a journal devoted largely to the economic and administrative aspects of social reform - as Geibel had envisioned as early as 1872 - and simultaneously provide the authoritative organ of the 'moderate socialists of the chair' that Schmoller called for. With the sudden death of Held in 1880 and a state of torpor in the *Verein*, Schmoller and Geibel's energies were directed to preparations for the new 1881 volume of the *Jahrbuch*, which had thus gained greater urgency, as revealed by their frenetic correspondences in the autumn of 1880. Geibel even proposed to rename the Journal *Jahrbuch für Volkswirtschaft*, though the old name remained.¹

In the editorial preface accompanying the first volume under his editorship, Schmoller wrote that he wanted to bring about a connection between his scholarly monograph, the *Forschungen*, and the *Jahrbuch*. Both, he wrote, aspired to the search for truth while at the same time serving as 'a guiding light to practical affairs'.² He reiterated his view of the need to keep positive science and views of the world distinct, but at the same time to allow the latter to give practical application to the former. Schmoller pointed to the continued tension between contemplation and action, between the impartial search for truth, on the one hand, and teleology and metaphysics, on the other in both natural and human sciences. In Schmoller's view, the social scientist could not set himself apart or sever all links with the strivings of human society. This was especially not possible in the social sciences, where scientists were always part of the problems they were studying. Exact, positive scientific investigation revealed only a minute area of a broader canvas. This positive knowledge, in order to provide

¹GStAB, NI. Schmoller, 123: 53-54, Geibel to Schmoller, 10 Oct. 1880.

²Schmoller, 'Ueber Zweck und Ziele', 2.

practical solutions to the problems of the day, had to be combined with ideals and points of view so that the judgements could be formed necessary to take action.¹

The preface also made explicit Schmoller's support for the government's social policy initiatives, a position which enjoyed Geibel's sympathy: 'I am very pleased that you support - let us say principally - Bismarckian social policy, without making judgements about every individual case'.² Indeed, Schmoller, who was like Brentano increasingly frustrated by the narrowness of German liberalism, wrote in the preface that liberalism as a political movement had attained the goals of national unification, constitutional rule, self-administration and personal and commercial freedoms but was now being superseded. While he disagreed with Bismarck's preferences for indirect taxes and was unsympathetic to 'his manner of treating people, parties and social classes', he nevertheless supported the new grain tariffs, tobacco taxes, proposals for a tobacco monopoly, and railway nationalisation as measures to strengthen weak imperial finances, and he was hopeful that the government would pass more rigorous factory laws and introduce bold initiatives for worker insurance.³

Despite this general support for Bismarck's economic and social policy, the *Jahrbuch* did not cease being a critical mouthpiece for moderate (i.e., not state socialistic) social reforms. For example, when it seemed likely that the factory inspectorate would come under attack from the government because of Bismarck's own anger over their meddling in paper mills in Pomerania, Brentano wrote Schmoller that the *Jahrbuch* had a duty to oppose this attack, since Schmoller supported

¹*Ibid.*, 2-8.

²*Ibid.*

³Schmoller, 'Ueber Zweck und Ziele', 10, 12-13 and 15; see also Lindenlaub, 'Richtungskämpfe', 144-45.

Bismarck's economic policy and bore partial responsibility for it: through such an attack against factory inspection 'everything that you have been advocating will be delayed for decades'.¹ Since Schmoller had, as he wrote, 'influence' and 'people now listen to what you publish', Brentano suggested that Schmoller have one of his 'young people' write an article on the importance of the factory inspectorate for the journal.² Schmoller agreed, and had Alphons Thun (1854-86) write such an article which appeared in the first number of the 1881 volume immediately following his own editorial preface and article on social justice.³ In the same volume there followed an article by Schmoller on friendly and benefit societies (*Hilfskassen*) and on the liability law and accident insurance for workers, where he made novel suggestions for local health insurance bodies which anticipated (and as will be revealed in the next chapter, likely influenced) worker insurance legislation.⁴ Indeed, Schmoller sought in the new volume of the journal to set a bold but pragmatic agenda for wide-ranging reform of existing institutions according to the principle of distributive justice, an agenda which was directed as much to civil servants as to the public:

Above all we demand, beside a just exchange in goods, just economic institutions, which means that we demand that the complex of rules, customs and laws which govern in various ways groups of people working and living together remain in their results in harmony with ideals of justice based on moral-ethical and religious views which govern today or which have come to establish themselves. We recognise no such institutions as standing above all history, as having always existed, as necessarily remaining for all future. We test each according to its results, and with each one ask: how did it arise, which

¹GStAB, Nl. Schmoller, 114: 196-97, Brentano to Schmoller, 30 Oct. 1880.

²*Ibid.*

³A. Thun, 'Die Fabrikinspektoren in Deutschland', *JbfGVV* 5 (1881), 55-77.

⁴G. Schmoller, 'Aeltere und neuere Literatur über Hilfskassenwesen', *JbfGVV* 5 (1881), 271-93; *idem*, 'Haftpflicht und Unfallversicherung', *JbfGVV* 5 (1881), 294-318.

conception of justice did it generate, which necessity applies to it today?¹

Under Schmoller's direction of the *Jahrbuch*, editorial improvements, increase in the quality of contributions, and growth in content resulted (in the transition from Brentano and Holtzendorff to Schmoller the journal doubled in size). However, this was itself no guarantee of commercial success. By the winter of 1884-85, Schmoller, who put his heart and soul into the new enterprise, was overworked, quite ill, and seriously considering giving up the editorship, a situation not helped by the fact that Schmoller had been subjected to a bitter personal attack by Carl Menger.² On top of all this, the *Jahrbuch* was not making any money. Knapp was surprised at the limited commercial success of the *Jahrbuch*, which was in his opinion much better than the 'dull subaltern Tübinger and Jenaer Zeitschrift' (i.e., Schäffle's and Conrad's respective journals). He explained this by the fact that the *Jahrbuch* was too big, and therefore too expensive and suggested a reduction to two-thirds its size.³ From Geibel's point of view, Knapp reported, it was, despite commercial failings, an outstanding journal which had the added bonus that it 'keeps the writings of the socialists of the chair together'.⁴ In the end, Schmoller continued to edit and contribute to his journal until his death in 1917.

¹*Idem*, 'Die Gerechtigkeit', 49.

²C. Menger, *Die Irrthümer des Historismus in der deutschen Nationalökonomie* (Vienna, 1884).

³GStAB, Nl. Schmoller, 130a: 98-99, Knapp to Schmoller, 3 May 1885.

⁴GStAB, Nl. Schmoller, 130a: 103-104, Knapp to Schmoller, 19 Jan. 1885.

CHAPTER 6:

HISTORICAL ECONOMICS AND POLICY, 1880-1894.

This movement was the origin of the whole system of economic administration. It has revolutionized the way of doing business all over the world. The time was ripe for it. It had to come, though all we saw at the moment was the need to save ourselves from wasteful conditions. ...The day of combination is here to stay. Individualism has gone, never to return.

John D. Rockefeller, Sen. on the origins of the Standard Oil Trust.¹

The idea that economic life has ever been a process mainly dependent on individual action, - an idea based upon the impression that it is concerned merely with methods of satisfying individual needs - is mistaken with regard to all stages of economic civilisation, and in some respects it is more mistaken the further we go back.

Schmoller, 1884²

6.1 Corporate Egoism and Policy

Despite the divisions and setbacks of the late 1870s and early 1880s, there was no prospect of retreat into the ivory tower; the common interest and its expression through policy was the *raison d'être* of historical economics. With the increasing shift in the *Verein* to the 'science of reform' and with the additional mouthpiece of the *Jahrbuch* in Schmoller's hands, the audience historical economists sought increasingly shifted from public opinion to other academics, parliamentarians, civil servants, and the Prussian and imperial governments.

¹R. Chernow, *Titan: The Life of John D. Rockefeller, Sr.* (New York, 1998), 148.

²G. Schmoller, *The Mercantile System and its Historical Significance* (trans. W.J. Ashley, New York and London, 1896), 3-4; Taken from *idem*, 'Studien über die wirtschaftliche Politik Friedrichs des Großen und Preußens überhaupt von 1680-1786', *JbfGVV* 8 (1884), 15-61.

Schmoller believed that an economic system was not merely the sum of individual action and individual self-interest but also the action of coordinated individuals and groups bound together by a solidarity of interests; enterprises, trade unions and states all provided different domains of economic prosperity and security. Noting the example of the medieval town economy, he wrote that 'this economic prosperity could rest upon no other "mass-psychological cause complex" than corporate selfishness.'¹ The point of Schmoller's study of Prussian economic policy in the 17th and 18th centuries, from which he drew this conclusion, was not to glorify or advocate mercantilist policies (which he explicitly criticised and rejected)² but instead to illustrate how ever larger communities of mutual self-interest were created from family, village and town, to the economy of a unitary state. It had been mercantilist competition and warfare which had given birth to modern capitalistic enterprise, integrated economies, and unitary states. And it was no small irony to Schmoller that the English - in his mind the most ruthless mercantilists, reaching the height of commercial supremacy through piracy, naval warfare, and protectionism - would subsequently come to espouse a doctrine that only the egoism of individuals was permissible, not that of states and nations, an inverted mercantilism with a utopian vision of a stateless competition of individuals in which all nations' interests were in harmony.³ While Schmoller was much in sympathy with the civilisation of national competition in the 19th century,⁴ he nevertheless believed that by focusing solely on

¹*Idem., Mercatile System*, 12.

²*Ibid.*, 79.

³*Ibid.*, 80.

⁴*Ibid.*, 79.

the producing and trading individual as a source of prosperity, other social bodies and the role of economic policy had been ignored:

in spite of the fact that it is the individual and the family that labour, produce, trade and consume, it is the larger social bodies which, by their common attitude and action, intellectual as well as practical, create all of those economic arrangements of society, in relation both to those within and those without, upon which depend the economic policy of every age in general and its commercial policy in particular. We saw that the feeling and recognition of economic solidarity, in regard alike to those within and those without, necessarily created at the same time a corporate egoism. From this egoism the commercial policy of every age receives its impulse.¹

It is hardly coincidental that when Schmoller wrote this, Germany and other European countries were witnessing the rise of massive, concentrated industrial enterprises. At the same time municipal and state governments were providing extensive and growing public services, and most states became involved in protecting and reforming agriculture, as well as regulating industrial relations. Deliberate human calculation, planning and organisation, it appeared, were taming the economic beast into a more predictable and productive creature, one which could more directly serve human design; the significance of groups, cooperative arrangements, enterprise and combination to production, of corporate egoism and government to policy was not on the wane, but on the rise. This chapter will explore the involvement of Schmoller and his colleagues in this shift in economic and social policy in Germany in the 1880s and early 1890s.

6.2 Social Insurance and Factory Legislation

As noted in the previous chapter, in 1881 the initiative for social reform had

¹*Ibid.*, 77.

been seized by Bismarck in the form of a programme of worker insurance, an ambition which, despite some reservations, enjoyed Schmoller's support. The more sceptical Brentano later recalled that this legislation 'took the wind out of the sails of the labour policy of the *Verein*', with the *Verein* falling 'mute' on the labour question.¹ Schmoller would concur: Bismarck's initiatives meant that the *Verein* lost the mission it had been given in the first years of its activity.² Indeed, he would even come to view Bismarck's resignation as 'necessary and healthy' in light of his negative impact on the social reform movement.³ What was, then, the relationship of the historical economists to Bismarck's legislation?

With the economic downturn after 1873, both Schmoller and Brentano had concluded that something needed to be done to provide workers with more effective insurance against sickness, injury, disability, old-age, and unemployment. At the same time, and as was discussed in chapter 4, both Schmoller and Brentano were aware of the limits of bureaucratic organisation and planning as a consequence of the empirical observations they had undertaken to test the claims made by socialists: there were limits to the advantages and viability of a centrally directed division of labour given by human motivation and other constraints. What mattered was finding the optimal organisational size to achieve the specific tasks desired.

Brentano had himself found that trade unions alone, in the face of large-scale cyclical unemployment, could not provide the needed cover. In light of these problems, he had in 1877 and 1879 criticised the creation of state registered benefit

¹Brentano, *Mein Leben*, 122.

²'Eröffnungsrede 1890', in Boese, *Geschichte*, 250.

³G. Schmoller, Review of Constantin Rößler, *Ausgewählte Aufsätze*, *JbfGVV* 26 (1902), 1308; also quoted in Lindenlaub, 'Richtungskämpfe', 144.

funds (*eingeschriebene Hilfskassen*) and local, compulsory benefit funds (*örtliche Zwangskassen*), arguing that these were in effect outdated and not functioning, especially since they provided insurance only to those employed and were a hindrance to trade union development.¹ He called instead for the creation of voluntary, nationally-amalgamated insurance benefit funds (*allgemeine Gewerbekassen*) supported by wage contributions which would provide old-age, disability, health, life and unemployment insurance for specific occupations.

Schmoller agreed with Brentano that any proper scheme for worker insurance had to be nationally-coordinated and at the same time decentralised, supported by worker contributions drawn from wages to encourage independent stakeholdership, and be organised according to the model of the cooperative society, with a large scope for self-administration by the workers themselves. He disagreed with Brentano mainly in wanting compulsory membership in such schemes to be gradually introduced. Unlike Brentano, Schmoller also had reservations about unemployment insurance and felt that Brentano had not considered the role of *Knappschaften* (the miners' benefit funds linked directly to employers) in his proposals.²

Schmoller had concluded, after international comparisons of liability law and worker compensation conducted by the *Verein*, that in at least half the cases of industrial injury, proof of negligence was not possible and thus damages could not be claimed, making general, compulsory, insurance-based compensation a desirable

¹L. Brentano, 'Erwerbsordnung und Unterstützungswesen', *JbfGVV* 1 (1877), 471-501; *idem*, *Die Arbeiterversicherung gemäß der heutigen Wirtschaftsordnung* (Leipzig, 1879); see also Sheehan, *Brentano*, 75-79. The article was miscited by Sheehan as 'Gewerbeordnung und Unterstützungswesen'.

²BAK, Nl. Brentano, 250: Schmoller to Brentano, 29 Dec. 1878. Cf. GStAB, Nl. Schmoller, 114: 164-67, Brentano to Schmoller, 31 Dec. 1878.

supplement to legal liability.¹ He supported the continuation of existing sickness insurance funds and their integration into a reform which he felt should establish local occupational sickness insurance funds as self-administered bodies run by workers and supported by worker contributions. These would act as the sickness component of accident and disability insurance.² Accident insurance itself, Schmoller believed, should be run through independent occupational insurance cooperatives supported by employer premiums and run by the employers. Schmoller saw the state not as an interventionist regulator but as initiator of worker and occupational self-administration. Like trade unions, Schmoller saw corporative insurance bodies as mediating between individuals and the state and as a way to educate the workers, encouraging through the experience of self-administration the integration of the working class into *bürgerlich* society. In effect, what had to be encouraged for the schemes to work was corporate egoism, or mutual self-interest, fostered, he believed, by decentralisation and self-administration.³ This anticipated the core components of the substantially revised Health and Accident Insurance Laws passed in 1883 and 1884.

Despite the uncanny similarities of these proposals with later legislation, there is no evidence that Bismarck ever directly consulted any of the historical economists regarding his insurance schemes in the 1880s, despite Bismarck's own claim, made jokingly to Schmoller in 1874, that he was himself a *Kathedersocialist* who only

¹Schmoller, 'Haftpflicht', 302. This article was written in Dec. 1880. Many of Schmoller's conclusions about accident liability were based upon a study for the *Verein* completed by Adolf Held shortly before he died: 'Die Haftpflichtfrage', *Schriften* 19 (1880).

²Schmoller, 'Haftpflicht', 312-15.

³*Ibid.*

lacked the time to get involved.¹ This does not mean that the historical economists had no impact on the impulses for this legislation or on the final shape it took. Ministers and senior civil servants, such as Hermann Wagener, continually reported to Bismarck on ideas generated in the *Verein*, notably regarding workplace regulation,² and many other officials in the Interior and Trade Ministries who were to play key roles in drafting and executing Bismarck's legislation, such as K.R. Jacobi, Robert von Bosse, Tonio Bödicker, K.H. Bötticher and Erich von Woedtke, had attended *Verein* conferences and/or like Theodor Lohmann, were personally acquainted with Schmoller and other historical economists. Moreover, Schmoller himself was made a member of the Prussian *Staatsrat* (Council of State) in 1883 and was therefore well-informed about social policy and began having some influence over it as an advisor. Further contact with senior officials was encouraged by the *Staatswissenschaftliche Gesellschaft*. Numerous younger civil servants had been introduced to the labour question and its solution (as defined by the historical economists) through the rise of lecturing on the social question and social policy in universities in the late 1860s and 1870s. The *Verein* had throughout the 1870s focused national attention on various practical solutions to the labour question, which included commercial and insurance reforms. Awareness of the social question, as defined by the historical economists and other *bürgerlich* reformers and popularised in the *Verein*, was wide-spread among the public, parliamentarians, the bureaucracy and government

¹G. Schmoller, 'Die beiden kaiserlichen Erlasse vom 4. Februar 1890 im Lichte der deutschen Wirtschaftspolitik von 1866-1890', *JbfGVV* 14 (1890), 698. Also noted in *idem*, 'Vier Briefe über Bismarcks sozialpolitische und volkswirtschaftliche Stellung und Bedeutung', in *Charakterbilder*, 41.

²Doc. 74, Wagener to Bismarck, 12 Jan. 1875, *QGDS*, sec. 1, vol. 2, 250-52.

ministers by the early 1880s.¹

Worker insurance was itself hardly a novel idea in the 1880s: the precedent for compulsory worker insurance schemes had already been set in Prussia in the 1840s and 1850s, and friendly societies, benefit funds and the *Knappschaft* went back well before this. Civil servants, like Lohmann, had pointed to the problem of unstable compulsory benefit funds (*Zwangskassen*), and proposed various reforms of insurance to remedy this as far back as 1872,² and the *Verein* had itself studied old age and disability insurance in 1874.³ The burdens the existing system imposed on local authorities and the limited occupations covered by it had made reforms of worker insurance a demand of most political parties, including the Social Democrats, and in 1876 largely ineffectual legislation had been passed.⁴

While some kind of reform of worker insurance was in the air when Bismarck took up his legislation, it nevertheless needs emphasising that it was not worker insurance but instead worker protection, enhanced industrial liability and factory inspection that was the main thrust of the *Verein's* reform efforts since its inception, and historical economists as well as Lohmann had throughout the 1870s repeatedly proposed and petitioned for it.⁵ In July 1878 amendments to the commercial code were passed by the Reichstag making a factory inspectorate obligatory throughout Germany for specific industries, increasing its investigative and regulatory powers. The

¹See also vom Bruch, *Wissenschaft*, 336.

²Doc. 99, *QGDS*, sec. 1 vol. 1, 287-95.

³F. Kalle, *et al.*, 'Ueber Alters- und Invalidenkassen für Arbeiter', *Schriften* 5 (1874).

⁴Ritter, *Social Welfare*, 29-30, 41.

⁵Schmoller, 'Reform der Gewerbeordnung' [1878], 172-93, 197-203; Doc. 89, Lohmann's memorandum of June 1876, *QGDS*, sec 1, vol. 3, 334-60.

employment of children under 12 years of age was prohibited and restrictions were imposed on employing workers under 16 and women. Nevertheless, this legislation was short of actually providing effective factory health and safety regulations, since the inspectorate's role remained advisory.¹

Pressure therefore mounted to reform the inadequate Damages Liability Law, which had put the burden of proof for accident liability on the workers and had led to much expensive litigation but few actual damage awards. Bismarck was himself wholly hostile to the drafts of these revisions of this law, which by shifting the burden of proof, he saw undermining the authority of the employer.² Industrialists were equally hostile to such changes, particularly those in industries with higher than average accident rates.³ By February 1879 Karl von Stumm, Louis Baare (1821-1897) and other large industrialists in the *Centralverband deutscher Industrieller* (CVDI), fearing rising factory liabilities and the prospect of worsening industrial relations, had repeatedly petitioned Bismarck to create obligatory disability and pension funds modeled on the *Knappschaften* (tied directly to specific employers), a scheme which would have also increased the leverage of employers over striking workers.⁴ Around the same time Stumm and others had made their petitions, opposition to factory regulation and inspection was mounting, and Baare himself suggested the creation of no-fault insurance to cover all cases of work-related injury

¹D. Milles, 'Industrial Hygiene: A State Obligation?', in *The State and Social Change in Germany, 1880-1980*, ed. W. R. Lee and E. Rosenhaft (New York, Oxford and Munich, 1990), 166.

²W. Vogel, *Bismarcks Arbeiterversicherung* (Braunschweig, 1951), 31-34.

³See H-P. Ullmann, 'Industrielle Interessen und die Entstehung der deutschen Sozialversicherung', *HZ* 229 (1979), 574-610.

⁴Machtan, ed., *Mut zur Moral*, 513 n. 4, 516 n. 5.

liability to a highly-receptive Bismarck.¹

Bismarck was himself an owner of lumber and paper mills and well aware of the importance of industrial growth to state revenues, and concern over factory liabilities figured prominently in the move to reform insurance, as did Bismarck's own personal aversion to factory inspection, suspicion of private insurance companies and his desire to replace private law liability with public law reforms.² It is therefore a long-standing fiction that the Prussian state was an autonomous entity somehow shielded from public opinion or industrial interests.³ Another factor not to be underestimated was, as in the case of tariffs, Bismarck's desire to raise meagre imperial revenues, combined as the first insurance bills were with the proposal for a tobacco monopoly.⁴ As it turns out, then, growing concern over industrial liabilities, brought by proposed changes to the Damages Liability Law of 1871 and the prospect of enhanced factory inspection, seem to have been the primary motivating forces for the Accident Insurance Bill of 1881.⁵

Theodor Lohmann, then Bismarck's main legislative advisor, had very different ideas, however. Responding to Stumm's earlier proposals which he considered 'nonsense', he sought instead an expansion of the 1871 Damages Liability Law making firms liable for all industrial accidents. He sought to create

¹Ullmann, 'Industrielle Interessen', 574-610; M. Breger, *Die Haltung der industriellen Unternehmer zur staatlichen Sozialpolitik in den Jahren 1878-1891* (Frankfurt am Main, 1982).

²See especially Vogel, *Bismarcks Arbeiterversicherung*, 136-141; Ritter, *Social Welfare*, 60-65.

³See G. Steinmetz, 'The Myth of an Autonomous State', in *Society, Culture, and the State in Germany, 1870-1930*, ed. G. Eley (Ann Arbor, 1996), 257-318; *idem*, *Regulating the Social*, 77-102.

⁴Ritter, *Social Welfare*, 49-53.

⁵See especially E. P. Hennock, Review Article: 'Social Policy Under the Empire - Myths and Evidence', *GH* 16, no. 1 (1998), 59-60, 69; *QGDS*, sec. 1, vol. 1, xxxv; further see L. Machtan, ed., *Bismarcks Sozialstaat* (Frankfurt and New York, 1994).

Berufsgenossenschaften (occupational cooperative societies) which, as insuring agents, would put pressure on firms to prevent accidents and injury.¹ These cooperatives would be allowed to take a percentage of their premiums from workers' wages, and the workers themselves would be involved in running the scheme. Tellingly, Lohmann wrote that his proposals would adhere to the voluntarist principles set out in Brentano's *Die Arbeiterversicherung gemäß der heutigen Wirtschaftsordnung* (1879).²

Some three years later Lohmann would write Lorenz von Stein:

I have dropped my earlier general aversion to compulsory insurance after having convinced myself through the study of Brentano's piece "Arbeiterversicherung" that Brentano's necessary and desired goal to make insurance contributions generally a component of the workers' wage cannot be achieved in any other way'.³

As will be seen, many of Lohmann's suggestions were pushed through against Bismarck's wishes and became the principles for later legislation.

The expansion of industrial liability was, however, effectively resisted by Bismarck and industrialists, as was any improvement of still only rudimentary factory inspection and workplace regulation - indeed, it seemed as if Bismarck was intent on eliminating factory inspection altogether.⁴ Industrialists, eager to publicly insure their private risks and further enticed by the prospect of protective tariffs, then gave their support to Bismarck's Accident Insurance Bill. It is revealing that Bismarck's plans for insurance legislation became widely known through newspaper reports of the CVDI's Düsseldorf conference in September 1880, where Louis Baare had revealed

¹Letter 347, Lohmann to Wyneken, 27 July 1879, in Machtan, ed., *Mut zur Moral*, 516-19.

²*Ibid.*, 518.

³Letter 601, Lohmann to Lorenz von Stein, 26 June 1882, in *ibid.*, 603.

⁴GStAB, Nl. Schmoller, 114: 190-95, Brentano to Schmoller, 9 June 1880.

to the assembly a meeting he had had with Bismarck on future worker insurance schemes.¹ In late October of 1880 Brentano wrote Schmoller wondering if the ‘protectionist industrialists’ would succeed in throwing off their accident liability to the municipalities.² When the rudiments of the first Accident Insurance Bill came to light in January of 1881, Brentano was hardly left speechless by the ‘new’ project, writing Schmoller that ‘after all of that earth-shattering clamour by the semi-official [press³] one would have expected something earth-shattering.’⁴ Brentano, probably relieved that many of Stumm’s paternalist proposals had been abandoned in the bill, wrote Schmoller that he could agree that the proposed accident insurance scheme would work toward a functioning form of cover, and in light of its benefits to workers, could support compulsory insurance. However, he added:

On the other hand, this law is much less a law in the interests of the workers than a law in the interests of the employers. The workers, if not yet to a satisfactory degree, were provided for by the liability law. The employers’ burdens from the liability law will be lightened by the new project. ...One should have to call this law insurance of workers against juridical accidents. That a new era of social legislation is initiated by this project is in any case humbug. Even now, as in Adam Smith’s time, the employers are the main consultants in every legislation for the working class.⁵

In a 30 January 1881 amendment to his article on liability laws and accident insurance, Schmoller concurred with Brentano, noting that while he supported the proposals, the

¹For example *Norddeutsche Allgemeine Zeitung* 444 (23 Sept. 1880).

²GStAB, NI. Schmoller, 114: 196-197, Brentano to Schmoller, 30 Oct. 1880.

³Likely a reference to ‘Fürsorge für die Arbeiter’ *Provincial-Correspondenz* 479 (13 Oct. 1880).

⁴GStAB, NI. Schmoller, 114: 198-200, Brentano to Schmoller, 22 Jan. 1881.

⁵*Ibid.*

bill did not deviate much from the earlier proposals of the industrialist Louis Baare.¹

While it is true that Bismarck marketed his social insurance legislation as a campaign against socialism, this was merely a useful device, since fear of socialist revolution was especially pronounced among those interests and parties from which he could draw legislative support: industrialists like Stumm, Baare and other members of the CVDI, as well as the Catholic-Conservative majority in the Reichstag, which had also passed the repressive Socialist Law. And as it became clear that Bismarck had the qualified support of the Social Democrats for his legislation, to the horror of both the liberal opposition and the parties and interests which supported the government, Bismarck had little choice but to distance himself as much as possible from Bebel and his party.² Bebel wryly said in response that, since Bismarck had claimed that the insurance bill was part of the Socialist Law and motivated by the struggle against socialism, he and his party too could provide their support in this struggle.³ As Schmoller later remarked, ‘the economic crisis and social democracy became the tongs aiding the birth of the long-since matured child of a reformatory economic policy of a grand and national type’.⁴

Initially Bismarck’s programme envisioned bureaucratic, highly-centralised, state-funded insurance schemes with which both Schönberg and Adolph Wagner sympathised.⁵ However, Bismarck was throughout highly reliant on Theodor Lohmann

¹Schmoller, ‘Haftpflicht’, 317.

²See especially A. Bebel, *Aus meinem Leben*, vol. III (Stuttgart, 1914), 175-76.

³*Ibid.*

⁴Schmoller, ‘Die beiden kaiserlichen Erlasse’, 697.

⁵Doc. 189, election speech of Adolph Wagner, 12 Aug 1881, *Elberfelder Zeitung*, 188-189 (14-15 Aug. 1881), *QGDS*, sec. 1, vol. 1, 619-36.

in devising workable schemes and drafting the legislation. Much disagreement existed between Bismarck, his ministers, senior civil servants, and advisors on the desirability, mechanics and scope of various reforms, and civil servants like Lohmann had both ulterior motives and a major impact on the shape of the legislation, which frequently went against Bismarck's own wishes and was drafted without his knowledge.¹

Health insurance is a case in point. It was created as a local component of accident insurance and was shaped according to Lohmann's, not Bismarck's, preferences. Lohmann rejected the formation of a large bureaucratic imperial insurance body and ensured that the legislation would instead allow choice between already existing schemes (i.e., local, municipal, factory, or occupational sickness funds) and only create new ones as the need arose. Lohmann also ensured that the scheme would be decentralised, have worker representation, be self-administered on the model of the *Genossenschaft* (cooperative society), and partially supported by worker contributions.² Compulsory coverage was expanded to nearly all workers making less than roughly 7 marks a day and provided free treatment, medications and sickness payments, with premiums paid according to wage levels and the type of sickness fund to which the worker belonged (i.e., compulsory or registered).³ This had uncanny similarity with Brentano and Schmoller's own suggestions for reform of worker insurance discussed earlier. Schmoller had criticised the formation of a 'single massive bureaucratic state institution' to manage accident insurance, proposing instead

¹See F. Tennstedt, 'Sozialreform als Mission', in *Von der Arbeiterbewegung zum modernen Sozialstaat*, ed. J. Kocka, H-J. Puhle and K. Tennfelde (Munich, 1994), 538-59; cf. O. von Bismarck, *Gedanken und Erinnerungen* (single vol. edn., Stuttgart and Berlin, 1898-1919), 608.

²See H. Rothfels, *Theodor Lohmann und die Kampffahre der staatlichen Sozialpolitik* (Berlin, 1927), 38-69, 89.

³See A. Gladen, *Geschichte der Sozialpolitik in Deutschland* (Wiesbaden, 1974), 59-63.

the formation of a variety of decentralised insurance funds administered at the local level and run jointly by workers and employers, with scope for choice between schemes.¹

As it turns out, Bismarck paid very little attention to Lohmann's plans for health insurance, which he saw merely as a stop-gap measure to cover injury requiring less than 13 weeks convalescence as part of general accident insurance, and when he caught wind of its details, believed that far too many concessions had been made in it to voluntarism, viewing health insurance as Lohmann's '*untergeschobenes Kind*' (suppositious child).² It was nevertheless proposed as part of the second draft of Accident Insurance and easily passed the Reichstag in June 1883. Lohmann's conviction that employers should bear full liability for accident and injuries (which Bismarck stubbornly rejected) and his opposition to Bismarck's plan for compulsory occupational cooperatives eventually led to a break between the two in the same year.

Accident insurance and old age and disability pensions enjoyed Bismarck's special attention, but this legislation faced more difficult passage, and in the end fell far short of Bismarck's plans: he failed to secure the needed financing through the creation of a tobacco monopoly from the Reichstag, due in part to the fact that it and the Accident Insurance Bill enjoyed the Social Democrat's general support, to the horror of Ludwig Bamberger and other *bürgerlich* members of the Reichstag, who saw it as a creeping form of socialism.³ Indeed, Bebel had himself proposed compulsory accident insurance in 1879. When it was finally passed in July 1884, after the defeat

¹Schmoller, 'Haftpflicht', 317-18, see also 313-15.

²Letter 397, Lohmann to Wyneken, 22 June 1882, in Machtan, ed., *Mut zur Moral*, 598-601. See also 599, n. 2; Letter 398, Lohmann to Lorenz von Stein, 26 June 1882, *ibid.*, 601-3.

³Bebel, *Mein Leben*, vol. III, 174-75.

of two previous bills, it had lost much of its initial attraction to Bismarck because the proposal to run it through a powerful imperial insurance board was scrapped, and in place it was organised (again as Schmoller and Lohmann had earlier proposed) into occupational cooperatives (i.e., public law corporations similar to the local sickness funds) administered by employers (who alone paid its premiums) and only supervised by an Imperial Insurance Office, which acted as insurer of last resort.¹ Accident insurance provided coverage for injury (beyond the 13 weeks provided by sickness insurance), paying for convalescent costs, sickness payments, a pension of 2/3 of the workers' wage, and in case of death, payments and pensions to family members. Importantly, workers retained the right to sue for additional damages.²

Old age and disability insurance was delayed until June 1889 and had been vigorously opposed by Lohmann because of its reliance on state controls and finance.³ Yet lack of state finances and refusal of the occupational cooperatives to provide pensions other than for accidents meant that Bismarck's scheme for state-provided pensions had largely to be funded by pay-as-you-go contributions from workers themselves. In the hands of Erich von Woedtke, who drafted it, this law became little more than a subsidised self-help scheme (compulsory for all workers over the age of 16 making less than 2,000 marks a year) managed by a cartel of 31 regional self-administered insurance institutes, supervised by a board of elected representatives of the workers and employers.⁴

¹Ritter, *Social Welfare*, 54-57.

²See Gladen, *Geschichte der Sozialpolitik*, 63-66.

³See Rothfels, *Lohmann*, 65-69.

⁴Gladen, *Geschichte der Sozialpolitik*, 67-70; Ritter, *Social Welfare*, 55.

In the end, then, worker insurance was shaped into something quite unlike what Bismarck had originally envisaged, and it fell short of either 'Bonapartism' or 'state socialism'. Indeed, some have interpreted it not as an expansion, but as a withdrawal of the state from social responsibilities.¹ Ritter claims that the Reichstag's impact on the shape of social insurance was considerable, probably greater than the House of Commons on British welfare legislation before 1914.² And the schemes were, like the Elberfeld system of poor relief, surprisingly *bürgerlich* - remarkable neither for the degree of growth of state and bureaucratic involvement, the reduction of individual choice and initiative, the generousness of the contributions paid, nor for the comprehensiveness of cover (unemployment insurance and widow and orphans' pensions were conspicuously absent from the legislation, and health insurance coverage did not extend to dependents or to the unemployed).

This is not to deny that the legislation was an important achievement, a remarkably flexible compromise in which a large measure of self-administration prevailed and which gained the support of all major German parties (including the Social Democrats, who had first rejected the schemes, not because of too much, but too little state involvement), not to mention the more liberal western European parliaments which would come to copy it.³ Moreover, the insurance laws actually aided the Social Democrats, which thrived within the self-administered sickness funds,

¹Milles, 'Industrial Hygiene', 162.

²Ritter, *Social Welfare*, 70-71.

³*Ibid.*, 73; See especially E. P. Hennock, *British Social Reform and German Precedents* (Oxford, 1987) and P. A. Köhler, and H. F. Zacher, eds., *The Evolution of Social Insurance 1881-1981* (London and New York, 1982).

which in a number of cases became socialist strongholds.¹ Trade unionism was also not harmed by these laws, not declining as some had prophesied.²

Schmoller, while admitting that some of the advantages of voluntary association were sacrificed by this system, and that it was an 'unwieldy, somewhat bureaucratic machine', nevertheless saw it as the culmination of the slow historical development of the rational insurance principle and solidarity over the older poor laws, the limitations of friendly and benefit societies, and the speculative abuses of private insurance companies.³ He would later write Lohmann of the great fortune it had been for their homeland that Lohmann had been in a number of influential positions to decisively influence the shape of this legislation.⁴

Despite this, improved industrial liability, worker protection and factory inspection - the key demands of the *Verein* - were stubbornly blocked by Bismarck until his resignation in 1890. Though the insurance legislation took on a form Bismarck never intended, it turned out to be a highly effective way to prevent changes to the 1871 Liability Law, enhanced factory inspection and stricter health and safety regulations.⁵ In any case, the consequences are indisputable: by 1890 Germany was well behind the rest of Western Europe, even Austria, on factory inspection and health and safety regulations, and no legislation for unemployment insurance was ever passed

¹See here Ritter, *Social Welfare*, 76-78.

²*Ibid.*, 81.

³Schmoller, 'Vier Briefe', 56-61.

⁴Schmoller to Lohmann, 21 Dec. 1901, quoted in Machtan, ed., *Mut zur Moral*, 15-16.

⁵L. Machtan, 'Risikoversicherung statt Gesundheitsschutz für Arbeiter', *Leviathan* 13 (1985), 420-41.

before 1914.¹

Schmoller, who had repeatedly warned of socialist revolution and who was eager to project on to the Prussian state an historical, social reforming mission, became an unwitting victim of his own propaganda.² In his speeches Bismarck himself used arguments to promote his bills first generated by Schmoller, such as the claim made in his speech on the tobacco monopoly that the Stein-Hardenberg reforms too had been dismissed as socialism but turned out to be effective reform from above to prevent revolution.³ And like Schmoller, Bismarck enjoyed raising the spectre of socialist revolution, in his case to rally support for his bills. While Schmoller could still eulogise the achievement of Bismarck's legislation in 1890, particularly the importance of Bismarck's energy and drive in pushing it through against formidable opposition, he could not fail to add that Bismarck had become 'a retarding element in the speed of social reform'.⁴ Some nine years later he noted that by identifying with the interests of factory owners,

Bismarck completely forgot... that business interests have fought against every progress that later revealed itself to be non-injurious, indeed healthful, as ruinous. ...He overlooked completely the weight of competition when he said to me personally in a discussion in 1890: all these desired improvements, like Sunday rest etc., would come about on their own through the initiative of the parties concerned. He had, without proper study of these things, no real understanding of the manner in which long working hours, unhealthy places of work, female and child labour affect a constant physical and mental degeneration of

¹Ritter, *Social Welfare*, 64-65, 98-99; Steinmetz, *Regulating the Social*, 135-38; Wehler, *Gesellschaftsgeschichte*, vol. III, 1086.

²See especially Schmoller, 'Die sociale Frage', 330-31, 339, 340, and *idem*, *Ueber einige Grundfragen*, 123-24.

³Knapp noted this to Schmoller, GStAB, NI. Schmoller, 130a: 157-58, Knapp to Schmoller, 14 June 1882; cf. previous footnote.

⁴Schmoller, 'Die beiden kaiserlichen Erlasse', 698.

the working estate, and how only through general legal restrictions, through inspection and proper intervention of the state administration, with improved technical and sanitary conditions of work, with the regulation of working hours, with the restriction of female and child labour is the improvement of the working estate and a constant increase of wages possible.¹

Brentano later recalled that he greeted Bismarck's resignation with mixed feelings, especially since Bismarck had successfully navigated the ship of state, but on the other hand, he added, 'we were aware that the strongest opponent of the social policy to which we aspired had gone'.²

Despite setbacks before 1890, worker protection legislation was not brought entirely to a halt. And it even played a role in Bismarck's resignation, since such legislation had the support of the young Emperor William. There is also evidence that Lohmann was involved in pushing for Bismarck's dismissal by actively aiding and supporting William's plans for this protective legislation.³ Indeed, William asked Lohmann's friend and colleague in the Ministry of Trade, Hans von Berlepsch, who happened also to be a friend of Schmoller's and an active member of the *Verein*, to work out a new social policy programme which concentrated on worker protection. The first signs of a 'new course' in social policy were given in an imperial message of November 1888 to the Reichstag. In January 1890 at a meeting of the Crown Council, William elaborated these ideas in greater detail, calling for a reduction of working hours, restrictions on child and female work, workers' committees within companies, factory inspections and conciliation boards, a programme for building schools, savings banks, churches and hospitals, as well as an international conference

¹*Idem*, 'Vier Briefe', 54-55.

²Brentano, *Mein Leben*, 156.

³Tennstedt 'Sozialreform als Mission', 539, n. 7; see also Rothfels, *Theodor Lohmann*, 102ff.

for worker protection.¹ Bismarck's continued opposition to this became a major source of conflict with the new emperor, especially after William took initiative to spell out his ambitions in two imperial decrees of February 1890, which Schmoller himself welcomed as ushering in a 'a new epoch of German social policy'.² After continued friction over this and constitutional issues, Bismarck handed in his resignation in March 1890.

Bismarck's successor, Georg Leo von Caprivi (1831-1899), while hand picked for the job by Bismarck, turned out to be a supporter of the new legislative programme, no doubt also greatly aided by the fact that Johannes Miquel, an active member of the *Verein's* board, became Prussian Minister of Finance, von Boetticher became vice president of the Prussian Ministry of State, and Hans von Berlepsch became Prussian Minister of Trade. Berlepsch himself would chair the first International Conference for Worker Protection held in Berlin in March 1890, which, though not leading to much international cooperation, gave impulse to the reforms of the commercial code passed in June 1891. The new provisions prohibited Sunday work, the factory employment of children under 13 years, and regulated the working hours of youths under 16 years to ten hours and women to eleven hours per day. Moreover, the *Bundesrat* was given powers to regulate the working hours of those employed under especially difficult factory conditions.³

It is one of the great ironies of the history of social reform in Germany that the schemes Schmoller welcomed as a great step forward would initially turn out to be a

¹Born, *Staat und Sozialpolitik*, 10-20; see also H-J. von Berlepsch, "*Neuer Kurs*" im Kaiserreich? (Bonn, 1987).

²Schmoller, 'Die beiden kaiserlichen Erlasse', 699.

³See Born, *Staat und Sozialpolitik*, 84-99.

step backward in other important areas of reform. But in 1881 no one, not even Bismarck, could have foreseen the eventual shape the insurance laws would take, and few social reformers could have predicted the toll it would have on the pace of worker protection and factory inspection. Despite this initial setback, there should remain little doubt that the historical economists had an enormous, albeit indirect, influence on the development of worker insurance in the 1880s and worker protection laws in the early 1890s. By fighting against public and official ignorance and indifference, by making innovative suggestions on the reform of worker insurance and influencing key officials involved in drafting and amending the legislation, by continually demanding through *Verein* investigations, conferences, petitions and journal articles a reform of sickness funds, a combination of self-help and state help, an expansion of industrial liability for accidents, factory inspection and workplace regulations they reached an audience which extended to the very top of government.

6.3 The Crisis in German Agriculture and the Rise of Agrarian *Mittelstandspolitik*

Social reform had always encompassed more than the urban labour question. All the historical economists and especially Schmoller and Knapp were keenly aware that there was an equally pressing agricultural labourers' question (*Landarbeiterfrage*), a painful legacy of *Gutsherrschaft*, the large patrimonial estates, until 1807 with hereditary village subjects, a system of tenure typical to northern Germany and especially East-Elbian Prussia. In the minds of non-Prussian, western Germans like Schmoller, Brentano, Held and Knapp, the social wounds of *Gutsherrschaft* were deep and lasting, in some ways not unlike those of slavery in the American South, to which

Schmoller had himself drawn implicit parallels in the 1860s.¹ The large estates had hindered the formation of a healthy agrarian *Mittelstand* and a thriving rural economy. Former East-Elbian village subjects had become proletarianised, dependent agricultural labourers, many of whom had and were emigrating or migrating to urban centres like Berlin, greatly contributing to the severity of the social problems historical economists themselves had observed there.² Now, with the worldwide fall in grain prices and a growing shortage of rural labour, Prussian estate-owners were increasingly turning to cheaper Polish and Russian seasonal workers. Just as the severity of the East-Elbian urban social question had aroused the historical economists *mittelstand* social sensitivities, these rural legacies and developments were equally unacceptable and threatening. The historical economists therefore saw agriculture and particularly the *Bauernfrage* (peasants' question) as a major social-political issue, one which, as Knapp wrote Schmoller in 1883, put wind back into the sails of the *Verein*.³

Gutsherrschaft, as a politico-economic system had, however, a complex legacy. Knapp, one of its severest critics, in a landmark study, *The Peasant Emancipation and the Origin of the Agricultural Labourers in the Older Parts of Prussia* (1887) concluded that *Gutswirtschaft* (the manorial economy) had, like the plantation slave economy, emerged in the early modern period, and like the plantations, was a form of capitalism; the Junkers, as owner-operators, had been aggressive entrepreneurial farmers who had slowly amassed peasant land and increased the labour services of their hereditary village subjects, who became a source of cheap

¹Schmoller, 'Nationalökonomische und socialpolitische Rückblicke' [1866], 605-11.

²See *idem*, 'Ländliche Arbeiterfrage', 178, 180, 222-30.

³GStAB, NI. Schmoller, 130a: 139-40, Knapp to Schmoller, 5 April 1883.

labour.¹ At the same time, Junkers had through their state and military service greatly contributed to the consolidation of the Prussian state and the integration of its economy. They had helped the crown eliminate municipal autonomy, guild restrictions and other barriers to trade and commerce. It had been on the East-Elbian estates that agriculture had been most-rapidly commercialised and modernised. And again it had been the Junkers, as large grain exporters, who had pushed for the liberalisation of trade and commerce and the formation of the *Zollverein*.² It appeared, most paradoxically, that political and economic progress had been, if not the result, certainly enabled by *Gutsherrschaft* and *Gutswirtschaft*.

In the previous chapter it was discussed that both Brentano and Held had opposed, and Schmoller and Knapp had supported, protective tariffs in 1879. Schmoller had approached tariffs not as a matter of principle, but as a policy tool to be evaluated by weighing costs against benefits, the cost of more expensive consumption for what he believed was a better prospect for factory legislation, technical and organisational improvements to secure future production, and additional sources of imperial revenue.³ But increasingly other concerns were entering his calculus. In an extensive 1882 article in the *Jahrbuch*, Schmoller made clear that the

¹G. F. Knapp, *Die Bauern-Befreiung und der Ursprung der Landarbeiter in den älteren Theilen Preussens*, vol. 1. (Leipzig, 1887), 37-48; *idem*, 'Die Erbuntertänigkeit und die kapitalistische Wirtschaft' [1891], in *Einführung*, 92-93, 96-98, and 105-6. Cf. W. W. Hagen, 'Subject Farmers in Brandenburg-Prussia and Poland, in *Serfdom and Slavery*, ed. M. L. Bush (London and New York, 1996), 297-301; E. Melton, 'Population Structure, the Market Economy, and the Transformation of Gutsherrschaft in East Central Europe, 1650-1800', *GH* 16, no. 3 (1998), 297-327.

²Schmoller, *The Mercantile System*, 23-27; *idem*, 'Der Kampf des preußischen Königtums um die Erhaltung des Bauernstandes', *JbfGVV* 12 (1888), 649-50. See also *idem*, 'Die Epochen der Getreidehandelsverfassung und -politik', *JbfGVV* 20 (1896), 695-744; *idem*, *Das preußische Handels- und Zollgesetz vom 26. Mai 1818* (Berlin, 1898); cf. H-U. Wehler, *Deutsche Gesellschaftsgeschichte*, vol. I (Munich, 1989), 83-90; Borchert, *Perspectives*, 3-4;

³Schmoller, 'Korreferat über die Zolltarifvorlage', 21-22 and 27-28; *idem*, 'Theorie und Praxis der deutschen Steuerreform', *JbfGVV* 5 (1881), 859-925.

fall in agricultural prices which had caused such hardship and had revealed deeply-rooted problems in German farming was driven not by demand but by a huge expansion of arable land in production, most notably in North America. Improvements in transport, mechanical innovations in farming, as well as speculation and overcropping were playing their part in this shift as well.¹

Far from being transitional, Schmoller argued, this 'revolutionisation' of the world agricultural market was only beginning. German farmers were facing a prolonged period of difficulty, and the question of whether imports to Germany would increase was largely irrelevant; cheaper agricultural products were a fact, and there were clear advantages to cheaper, improved food, especially for workers and industrial exporters. Consequently, agricultural policy could not be driven by the desire only to raise prices to inhibit imports. The challenge German agriculture faced was making a transition which reduced the burden of debt, cut land speculation and brought needed technical improvements. And while making that transition, Schmoller argued, it was necessary to reduce the risks to farming in order to avoid mass bankruptcy and the resulting loss of investments which threatened the degeneration of farming into latifundia and petty leaseholds.² A glance at English conditions did not portend well, revealing a steep decline in production on its estates, the bankruptcy of some 1,400 tenant farmers in 1879 alone, and dire rural poverty. Thousands of acres of land were idle, everywhere farms were abandoned and the rural economy in decline.³

Schmoller noted that the problems attending German farming, especially in

¹*Idem*, 'Die amerikanische Konkurrenz und die Lage der mitteleuropäischen, besonders der deutschen Landwirtschaft', *JbfGVV* 6 (1882), 257-62.

²*Ibid.*, 263-67.

³*Ibid.*, 270-71.

East-Elbia, were to some extent the consequences of the reforms of the early century, which had only achieved part of their goals. Massive estates were created at the cost of peasant holdings; through high indemnities, parcelling and rising mortgage debt, many farmers eventually lost their land and became day labourers. Rationalisation and consolidation reduced costs and raised efficiency, but as demand for food rose, so did rents and land values, unleashing a wave of land speculation; between 1835 and 1864 on average every Prussian estate had twice changed hands. A huge burden of unproductive debt was amassed.¹ The fall in grain prices resulted in loan defaults and a transfer of land to credit institutions, who as new owners, were parcelling the land off into leaseholds with farmers as mere tenants. This held the danger of introducing latifundia conditions as they existed in Ireland and Italy.²

Schmoller was well-aware that German agriculture was now at a critical juncture which would decide its future. Schemes for debt relief and the reform of agricultural credit had to be devised, and all other available means applied to achieve technical progress: technical education, business-like farming, the diffusion of modern equipment and machines, land improvements, and changes to tenure (less grain and more intensive, market-oriented farming and animal husbandry) had to be encouraged. More had to be done by travelling agricultural advisors and agricultural schools. It would, Schmoller believed, take time to transform the German peasant into a businesslike, 'American farmer'. State and self-help schemes were complimentary to achieving these ends, especially since improved canals and railways were essential. Had the same not been done in England in the form of credits for drainage with the

¹*Ibid.*, 272-77.

²*Ibid.*, 278.

repeal of the Corn Laws?¹

In light of having to make such a massive transition in German farming, burdened as it was by debt, and with American and Russian overproduction unresponsive to demand, driven as it was by exceptional factors which gave rise to huge price fluctuations, the moderate grain tariffs passed in 1879 were in Schmoller's mind justified, since they helped to balance out these fluctuations and reduce risk. Under these conditions the tariff had little effect raising prices. At the same time, no increase in tariffs was warranted. If there was to be any increase in the future, Schmoller wrote, it would have to be temporary and agreed in consultation with the other central European states who shared a common interest vis-à-vis Russia and America.²

The interest in some kind of customs union hinted to by Schmoller grew with the renewed economic downturn beginning in 1883. The free-trading Brentano himself came around to agreeing that the severity of agricultural competition from abroad warranted protection, and very interestingly, because of the threat of this competition to a substantial portion of the population, and Prussian agriculture in particular, writing to Schmoller in September of 1884:

American and Australian competition threaten the existence of our agriculture as far as it is based upon grain growing, which it is in all of Northeast-Germany. Similarly our animal husbandry is threatened through the importation of fresh meat... We cannot sacrifice the interests in question because these are the interests of a portion of our

¹*Ibid.*, 280-82.

²*Ibid.*, 282-83; see also *idem*, 'Der italienisch-deutsche (vom 2. Mai 1883) und spanisch-deutsche (vom 12. Juli 1883) Handelsvertrag im Vergleich mit den deutschen Handelsverträgen der sechziger Jahre', *JbfGVV* 7 (1883), 1373-82.

people too large and too important for the development of our state.¹

Brentano was aware that industry, which was now heavily reliant upon exports, would suffer from protection and become less competitive, especially, as he wrote, since the ‘main rivals in English industry’ enjoyed the advantages of unhindered agricultural imports. The solution was, he believed, to compensate industry by creating a large and exclusive export market for industry through a customs union with Austria-Hungary, Rumania, Serbia, Bosnia and Hercegovina.² In October 1884 he presented these ideas to the *staatswissenschaftliche Gesellschaft*.³ Schmoller worked with Brentano to popularise a customs union by exploring contacts in the Foreign Office, through discussions with sympathetic Austro-Hungarians, and by attempting to get the issue on to the agenda of the *Verein*, all without much success and, it appears, opposition from Bismarck.⁴ It is worth noting that Brentano, formerly a staunch free trader, himself did not later oppose the increase in grain tariffs in 1885 in the hope that they would encourage a customs union.⁵

Following the passage of a new tariff law in February 1885, which raised grain duties from their 1879 levels of 1 mark per 100 kilos of wheat and rye, to 3 marks, and from 50 pfennigs to 1 mark for buckwheat and barley, Schmoller reiterated his views on tariffs, particularly that they could only serve as a temporary means to the

¹GStAB, Nl. Schmoller, 114: 230-31, Brentano to Schmoller, 30 Sept. 1884. This aspect of the letter was never discussed by Sheehan, *Brentano*, 109, and it was mistakenly cited ‘30 November’.

²*Ibid.*

³Later published as L. Brentano, ‘Ueber eine zukünftige Handelspolitik des deutschen Reiches’, *JbfGVV* 9 (1885), 1-29; Brentano, *Mein Leben*, 123.

⁴BAK, Nl. Brentano, 57: 12-13, Schmoller to Brentano, 30 May 1885; GStAB, Nl. Schmoller, 114: 232-33, Brentano to Schmoller, 20 June 1885, and 239-240, Brentano to Schmoller, 24 Dec. 1885. Cf. Brentano, *Mein Leben*, 123-24 and Sheehan, *Brentano*, 110.

⁵Brentano, *Mein Leben*, 171.

end of reform.¹ He argued that it was necessary not to assume what tariffs were doing or make claims about what they were thought to do in general, but to investigate their specific effect. Statistics showed that bread prices tended not to fall in tandem with those of grain due to special trading, milling and baking interests; at the same time the 1879 tariffs had themselves not been very effective in holding prices because of continued international overproduction and fall in transport costs. Since Germany still employed half of its labour force in agriculture, a move to more extensive farming would mean rapidly shedding much of this rural labour, a move to cities, and downward pressures on industrial wages. A transition to intensive agriculture was possible for some farms, which would slow this flight from the land, reduce national dependence on imports, and prevent further falls in the value of land.²

Schmoller, however, conceded the strength of the arguments against tariffs, since the beneficiaries of years of rising rents, land prices and speculation could not be spared a natural correction, as this itself helped reduce rents and land prices and therefore costs. Tariffs imposed substantial burdens not only on the workers but also industry, threatening Germany's industrial development. Any tariffs, therefore, had to be moderate and temporary only, with the aim of stabilising price oscillations to reduce risks; they were only a means to the end of a transition to intensive farming.³ The problem with German agriculture, he reiterated, was not primarily foreign competition but making a transition from traditional peasant agriculture to modern technological, entrepreneurial farming. Such a transition was aided, he believed, if the

¹G. Schmoller, 'Analekten und Randglossen zur Debatte über die Erhöhung der Getreidezölle', *JbfGVV* 9 (1885), 559-82.

²*Ibid.*, 565-68.

³*Ibid.*, 568-76.

crisis in agriculture did not worsen and lead to mass bankruptcy.¹

Schmoller also noted the political implications of the tariffs. The growing dependence on agricultural imports had an important bearing on national security. Moreover, due to the size of the workforce in agriculture, it was not merely a minority of farmers that benefitted from the tariffs, otherwise the Centre Party, with its base of support among peasant farmers in the west and south, would not have supported them. These, it turned out, sold a portion of their grain harvest. But Schmoller conceded that there was no such thing as policy which benefitted all equally; even if the larger Prussian landowners enjoyed greater benefit from the tariffs, it was not to be forgotten, Schmoller wrote, that these same people and their ancestors had carried a heavy burden for all of Germany in the past, and it was they who had helped shape the Prussian state and its institutions. In his mind it was necessary to recognise a common interest in preserving agriculture and in facilitating the needed improvements.² A moderate tariff under these conditions and in light of the fact that similar tariffs had only just been agreed in France and Austria, was justified, but again only as a temporary measure. Schmoller closed by writing that it would have been better to take the tariffs issue out of the hands of the Reichstag, governed as it was by 'naked interests', and give discretionary powers to raise and lower tariffs to the Bundesrat.³

Apart from attempts to advance technical improvements and intensification, reduce debt and forge a customs union, throughout the mid 1880s and early 1890s land reform and internal colonisation increasingly took centre stage. Knapp and

¹*Ibid.*, 576.

²*Ibid.*, 578-80.

³*Ibid.*, 580-81.

Schmoller's views on this matter were significantly shaped by studies for the *Verein* undertaken by the Polish-German historical economist August von Miaskowski. Miaskowski had published an influential two-volume study for the *Verein* on laws of inheritance and their influence on the distribution of property in 1882 and 1884.¹ After extensive empirical investigation, Miaskowski concluded that both the large estates of East-Elbia as well as the tiny farms of south and southwestern Germany were no longer economically viable. What had to be fostered were medium-sized family farms, which apart from being more efficient and profitable, were also a socially desirable form of tenure, since they were a spur to the local rural economy and prevented flight from the land, a swelling of urban proletarian ranks, and thus also the radicalisation of agricultural workers. Consequently, it was essential to reform laws of inheritance to prevent the parcelling of family farms as was common in the south and southwest of Germany. In East-Elbia, on the other hand, the large estates would have to be subdivided into viable medium-sized farms.² Securing an economic future for agriculture through intensification and land reform to overcome the legacy of *Gutswirtschaft* through agrarian *Mittelstandspolitik* appeared to be complementary aims. This, it was believed, would slow the migration of agricultural labourers to cities and prevent the 'Polonisation' of Prussia's eastern marches.

Land reform and internal colonisation were also increasingly becoming a government matter. In 1886 the Prussian government initiated a mass deportation of foreign workers. A Royal Prussian Colonisation Commission was established in the

¹A. von Miaskowski, 'Das Erbrecht und die Grundeigentumsverteilung im Deutschen Reiche' I, *Schriften* 20 (1882) and II, *Schriften* 25 (1884).

²Boese, *Geschichte*, 45-47; Gorges, *Sozialforschung*, 160.

same year and given 100 million marks to purchase some 100,000 hectares of estate lands in mainly Polish-speaking Poznan and West Prussia, the main aim of which was to purchase lands from the Polish gentry and resettle them with German peasants.¹

The historical investigations of both Schmoller and Knapp of Prussian agricultural policy supported land reform efforts, but ones quite different from the *Polenpolitik* of the Poznan Commission. The tumultuous history of Prussian agriculture had shown Schmoller and Knapp that there was nothing natural or inevitable about the pattern of land tenure which arose in East-Elbian Prussia; this was the result of policy and law, and there were many precedents for land reforms. It was no coincidence that proceedings of the *Verein* in 1886 devoted to internal colonisation were predicated upon studies of Prussian immigration policy, internal migration and colonisation in 17th and 18th centuries. Schmoller revealed that Prussian kings had, after the devastations of the 17th century, actively sought through land, cash and tax incentives a huge number of immigrants from all over Europe (some 400,000), half of which were rural settlers. The crown created peasant lands, improved peasant leaseholds on demesne lands, and fostered peasant holdings on unused and waste lands, without which, in Schmoller's view, the number of medium and small-holding peasants in Prussian East-Elbia would have been much smaller and the manorial estates much larger.² History showed that the structure of landholding had been, and could be, effectively shaped by policy.

In a report given at the *Verein's* Frankfurt congress in 1886, Schmoller argued

¹W. W. Hagen, *Germans, Poles and Jews* (Chicago and London, 1980), 134-36.

²G. Schmoller, 'Die preussische Kolonisation des 17. und 18. Jahrhunderts', *Schriften* 32 (1886), 1-43.

that the predominance of large estates in Prussia's East was economically and socially unhealthy; more medium-sized landholdings had to be fostered. History showed that the distribution of land had a major impact on social structures, commercial and market conditions, as well as local and state political constitutions. In countries dominated by large estates it was not only the peasant farmer that was missing, but the whole of the *Mittelstand* and with it a healthy industrial life; industry could not thrive where there was only latifundia, as local markets were stunted or did not exist. Model conditions could be observed in Westphalia, Saxony, Hanover and Holstein, where estates larger than 75 hectares (300 Morgen) represented only some 27% of the landholdings, compared to more than 50% in East-Elbian Prussia.¹

Schmoller advocated the transfer of some 1 - 1.5 million hectares of land to medium and small farmers, not just in Polish-speaking Prussia, but in the whole of East-Elbia. The object was to turn day labourers, dependent estate employees and migrant labourers into independent land and home owners and create viable, stable communities with a middle strata. It was naive to believe, Schmoller argued, that free markets alone would create such conditions; they concentrated landownership, and with falling returns, created petty leaseholds and large pasturage. At the same time Schmoller rejected large-scale land nationalisation projects, since they required a massive administrative apparatus and would kill the motor of diligence, thrift and self-administration. Property, in his mind was a moral and social good which entailed duties and obligations.²

¹*Idem*, 'Korreferat über inner Kolonisation mit Rücksicht auf die Erhaltung und Vermehrung des mittleren und kleineren ländlichen Grundbesitzes', *Schriften* 33 (1886), 90-92.

²*Ibid.*, 92-97.

Schmoller believed that if the Prussian state were to provide finance for this new land reform project, it would be a good investment; experience in America and England as well as in industry showed that medium-sized production units had a future, as there were limits to the viability of large farms. At the same time, Schmoller noted that it was essential that the Prussian nobility, which in his mind formed the skeleton of the Prussian state, be preserved, retaining 35-40% of its lands. Such a reform, he believed, was auspicious since it had the interest of the Agricultural Ministry, and he believed that the *Verein* could bring about the necessary shift in public opinion.¹

What Schmoller proposed was something quite different, and at ten times the scale, as what the Colonisation Commission was doing in Polish-speaking Poznan and West Prussia; it was a major land reform directed primarily at German-speaking East-Elbia, at German Prussian estates. Indeed, the Poznan colonisation project was of remarkably little interest to Schmoller, except for the experienced officials which would be gained through it for a Prussian land reform, a reform, he wrote, which would right the abuses and violence of peasant enclosure and expropriation of the 16th-18th centuries and bring about what various other reforms like Stein-Hardenberg had tried to achieve, but fell short doing: 'definitively securing a Prussian peasantry and a property-owning class of day labourers'.²

Schmoller's advocacy of land reform was greatly supported by Knapp's study of Prussian peasant emancipation. It was Knapp's contention that the Stein-Hardenberg reforms, while bold, could not by decree transform a pattern of agriculture so

¹*Ibid.*, 97-100.

²*Ibid.*, 100-101.

fundamentally embedded in Prussian society, an economic structure which sustained the political order. Consequently, many peasants were forced to pay heavy indemnities and give up their landholdings, reinforcing the position of landlords and adding to the number of landless labourers. *Gutsherrschaft* had merely been turned into an unequal market relationship; *Gutswirtschaft* had survived reforms.¹ The challenge of land reform and peasant colonisation in East-Elbia was to correct these legacies and help overcome the social wounds of the manorial economy. It would bridge the differences between east and west German agriculture:

Our east will gradually be westernised, which is in any case necessary. The tremendous chasm which yawns between east and west to the present day will be bridged somewhat and we will attain a greater social uniformity for our fatherland. The estate owner with his political significance will not be lost by us; he is reconcilable with the growth in the peasantry who prove themselves as modern farmers and with labourers who are no longer outcasts.²

But clearly land reform was also a means to counter the danger of ‘Polonisation’; internal colonisation was simultaneously a social reform measure and a defensive policy to preserve ‘Germandom’ in the Prussian east. The latter of these aims took on a highly tendentious and nationalistic form in Max Weber’s 1892 *Verein* study³ and report on the agricultural labourers of East-Elbia at the *Verein* conference in 1893.⁴ Interestingly, this aroused considerable criticism within the *Verein* itself of Weber’s value-laden views (the agrarian labour question was not an issue of worker welfare but mainly one of national struggle and *raison d’etat* - a view which drew

¹See Knapp, *Bauernbefreiung*, vol. 1, 137-217; *idem*, ‘Die Landarbeiter bei der Stein-Hardenbergischen Gesetzgebung’ [1891], in *Einführung*, 110-13.

²Knapp, ‘Landarbeiter und innere Kolonisation’ [1893], in *Einführung*, 142.

³M. Weber, ‘Die verhältnisse der Landarbeiter im ostelbischen Deutschland’, *Schriften* 55 (1892).

⁴StA, ‘Verhandlungen 1893’, *Schriften* 58 (1893), 62-83.

Adolph Wagner's support), the dubious methods he used (he only surveyed the employers, never the workers themselves), and the unwarranted conclusions he drew (workers' welfare in the east was dependent upon the 'intensity of Germandom') - quite a start for a scholar who would later become the loudest advocate of value-freedom and methodological reflection.¹

While tendentious, nationalistic arguments frequently entered discussions over agriculture, enmeshed as this often was with questions of national identity, it is notable that Schmoller and Knapp avoided such language and opposed radical solutions. For example, while Schmoller sought to prevent unproductive indebtedness, he specifically rejected the restriction and government regulation of agricultural credits proposed by A.E. Schäffle, as well as the credit and land price regulations proposed by Gustav Ruhland (1860-1914).² On the other hand, he supported the development of community credit institutions like the cooperative banks founded by F. W. Raiffeisen (1818-1888) and state and provincial agricultural lending banks.³ Schmoller opposed the further (five-fold) rise in grain tariffs in 1887, and himself supported Caprivi's trade treaties, recognising the danger of trade war; he especially welcomed the treaties with Austria-Hungary, Italy, and Switzerland, which he thought would help bring to fruition a central European customs union.⁴ Later Schmoller and Knapp strongly opposed the proposals of Hans von Kanitz (1841-1913) to regulate the grain trade by

¹See *ibid.*, 87-133, especially 87-94, 106-14.

²G. Schmoller, 'Die Vorschläge zur Beseitigung des ländlichen Hypothekarkredits', *JbfGVV* 11 (1887), 571-85.

³*Ibid.*, 585.

⁴G. Schmoller, 'Einige Worte zum Antrag Kanitz', *JbfGVV* 19 (1895), 611; *idem*, 'Neuere Litteratur über unsere handelspolitische Zukunft', *JbfGVV* 15 (1891), 281-82. See also *idem*, 'Der Deutsche Reichskanzler (Die Innere Lage des Reiches)' [1911], in *Zwanzig Jahre*, ed. L. Schmoller, 83.

creating an imperial grain import monopoly to benefit grain producers.¹

Schmoller, Knapp and especially Miaskowski, who had been a member of the Prussian Agricultural Council or *Landwirtschaftsrat*, anticipated and appear to have influenced the drafting and passage of the Prussian Hereditary Leaseholds (*Rentengüter*) Acts of 1890-91, which in uncanny similarity to Schmoller's land reform proposals, sought to create viable medium-sized farming settlements out of parcelled Prussian estates in East-Elbia, purchased through a large state fund. Interestingly, this project, unlike that of the Colonisation Commission in Poznan, allowed the participation of Polish peasants.² It is notable, however, that this scheme never attained the ambitious settlement figures Schmoller had proposed in 1886, by 1919 having resettled only some 259,000 hectares.³

Had the move to *Mittelstand* land reforms been restricted to Germany and had it been a transient phenomena, it would be easier to impute to peculiarly German causes or interests. Yet Britain too, as Schmoller himself had noted, suffered from unprofitable large estates and declining grain production, problems which were tied directly to extremely concentrated land-ownership, the absence of landowning farmers, and the unproductive, unskilled and landless rural labour, a living legacy of the coercion and poverty wrought by the Poor Laws.⁴ It is interesting that one of the first to investigate the history of agricultural labour in England and to come to some of these conclusions was one of Schmoller's students, Wilhelm Hasbach, who wrote an

¹Schmoller, 'Einige Worte', 619-29. GStAB, Nl. Schmoller, 130a: 325-24, Knapp to Schmoller, 5 May 1895.

²Hagen, *Germans, Poles and Jews*, 171.

³Nipperdey, *Deutsche Geschichte, 1866-1918*, vol. 1, 210.

⁴A. Offer, *The First World War* (Oxford, 1989), 104-10.

influential study of the English agricultural labourer and the socio-economic legacy of the English system of tenure for the *Verein* in 1894, aided by a travel stipend secured by Knapp and Schmoller from Adolf Held's widow, who saw this as a way to continue her husband's work.¹ It is hardly coincidental that Hasbach would support allotment and smallholding reforms already underway in England, in striking accord with the reforms advanced by Schmoller, Knapp and Miaskowski for East-Elbia.²

As it turned out, nearly all European countries (except the Netherlands) and the United States introduced land reforms in this era shifting agriculture from unprofitable extensive, to smaller, intensive family-run farms. And nearly all governments too began to support farm research and education to support this new pattern of farming. The urban middle classes throughout continental Europe, where agriculture still employed as much or more than half the working population, were likewise troubled by the prospect of yet another wave of urbanisation, particularly at a time of depressed producer prices and labour unrest. Many were concerned too about the strategic implications of ever greater dependence on imported food.³ Protectionism was thus hardly unique to Germany: most European countries (except The Netherlands and Britain) imposed agricultural tariffs in the 1870s and 1880s (Austria-Hungary, Italy, and Russia before Germany). As Koning argues, this European-wide shift in policy was for the most part a reaction to a macroeconomic shift in the supply of agricultural commodities and the resultant fall in prices as a consequence of the international

¹W. Hasbach, 'Die englischen Landarbeiter in den letzten hundert Jahren und die Einhegung', *Schriften* 59 (1894), v; GStAB, Nl. Schmoller, 130a: 146-47, Knapp to Schmoller, 5 Nov. 1882 and 121-22, Knapp to Mrs. Held, 18 March 1884.

²W. Hasbach, *A History of the English Agricultural Labourer* (trans. R. Kenyon, London, 1920 [1908]), 354-64

³See N. Koning, *The Failure of Agricultural Capitalism* (London and New York, 1994), 32-38, 104.

extensification and integration of agriculture.¹

These wide-spread, long-term changes in agricultural policy were not, could not have been, primarily the consequence of the influence of East-Elbian landed interests, a neo-mercantilism initiated by, and mainly in the interests of, a politically-predominant caste of Junkers and 'feudalised' landowning bourgeoisie.² The East-Elbian Junkers' influence was on the wane, and it is notable that they were neither the initiators, nor the only beneficiaries of tariff protection.³ And as discussed, it is most doubtful whether Junker political interests were served by the intensification of tenure and the land reforms with which tariff protection was closely linked in Germany. Urban middle-class reformers like Brentano, Knapp and Schmoller were committed to 'westernising' East-Elbia through land reforms. At the same time they were aware of the precariousness of German agriculture in general, and that of East-Elbia specifically. This posed, in their mind, a threat to a large segment of the population and to the development of the Prusso-German state - whether through the loss of an essential government, administrative and military cadre or 'Polonisation' - and therefore warranted protective measures.

It is beyond serious dispute that the technical innovation and intensification of agriculture the historical economists advocated contributed to impressive

¹*Ibid.*, 22-30, 71-83, 99.

²*Ibid.*, 171-76; contrast A. Gerschenkron, *Bread and Democracy in Germany* (Berkeley and Los Angeles, 1943), H. Rosenberg, *Probleme der deutschen Sozialgeschichte* (Frankfurt am Main, 1969), 7-49, H-J. Puhle, *Agrarische Interessenspolitik und preussischer Konservatismus im wilhelminischen Kaiserreich (1893-1914)* (Hanover, 1967); K. D. Barkin, *The Controversy Over German Industrialization 1890-1902* (Chicago, 1970), 32-43.

³J. C. Hunt, 'Peasants, Grain Tariffs and Meat Quotas', *CEH* 7 (1974), 311-31; Borchert, *Perspectives*, 10; Koning, *The Failure of Agricultural Capitalism*, 99-101.

productivity gains in German farming before 1914,¹ which some have argued were directly encouraged by tariff protection.² These were productivity gains which enhanced Germany's capacity to feed itself (for good or ill) and would spell the difference between starvation and survival with the naval blockade of the First World War.³ The case of Schmoller and the other historical economists shows that in facing the economic challenges posed to German agriculture, with their equally complicated political and social implications, more subtle arguments and motivations entered into the picture than is normally realised or accepted. And agriculture, like nearly every other policy issue they tackled, was tied to a broader programme of social reforms.

6.4 Large Enterprise, Industrial Relations and the 'New' *Mittelstand*

Chapter 4 (sections 4.2-4.3) revealed Schmoller and Brentano's conviction that the rights of property-ownership in a complex division of labour implied responsibilities and obligations to society, and as was revealed, the special significance of enterprises as instruments of social reform was already repeatedly expressed in Schmoller's writings in the 1860s and 1870s. Schmoller was convinced that within appropriate legal and regulatory structures, enterprise could play a central role in social reform, and his scholarly preoccupations were gravitating throughout the latter 1880s toward a systematic study of the division of labour and the role in it of the entrepreneur and firm. This culminated in a long article on the division of labour and

¹Perkins, 'The Agricultural Revolution', 71-118; J. L. van Zanden, 'The First Green Revolution', *EHR* XLIV, 2 (1991), 215-39.

²S. B. Webb, 'Agricultural Protection in Wilhelminian Germany', *JEH* XLII, No.2 (1982), 309-26; Koning, *The Failure of Agricultural Capitalism*, 101-102.

³Offer, *The First World War*, 45-53, 331-33.

the formation of social classes in 1889, in which he came to the conclusion that the division of labour generated social classes and that the mode of enterprise reflected this stratification, but that the organisation of work was itself highly flexible and adaptive.¹ Indeed, Schmoller believed that enterprise could be shaped to reflect political democratisation and legal equality. He gave these views more systematic and detailed expression in a series of articles which began to be published in the *Jahrbuch* in 1890 on the historical development of enterprise.²

Schmoller was aware that economists had not come to grips with the full implications of the division of labour for production, particularly with the role of the enterprise. The enterprise was a self-contained legal and social entity which provided the very backbone and skeleton of the modern economy. Yet how and where it arose, what legal and institutional form it took under different conditions, the role of individuals and groups within it, its function and consequences for the production, distribution and exchange of goods, its role in capital formation and relationship to other social institutions, all were poorly understood.³

The enterprise was, according to Schmoller, a unit created by an entrepreneur (*Unternehmer*) which organised a special division of labour, and which regulated - through a constitution - cooperation and the distribution of returns, held together by the common interest of the participants in a common struggle for survival.⁴ However,

¹G. Schmoller, 'Die Thatsachen der Arbeitsteilung', *JbfGVV* 13 (1889), 1003-74; later in *idem*, *Grundriß*, vol. 1, 346-96, 429-55.

²*Idem*, 'Die geschichtliche Entwicklung der Unternehmungen' I, *JbfGVV* 14 (1890), 735-83, 1035-76.

³*Ibid.*, 737-39.

⁴*Ibid.*, 736.

the firm's formal legal and organisational structures were historical relics, transmitting older forms of social organisation. These laws, he believed, therefore required continued alteration to adapt to technical and material progress, as well as to changes in attitudes about the relationship between egoism and feelings of community.¹ The context of these writings was the massive strike of the Westphalian coal miners beginning in May 1889.

In late 1889, Schmoller gave a speech on the nature and constitution of the large firm and its role in the development of German industrial relations, later published in a series of articles in the *Allgemeine Zeitung*.² In it, Schmoller noted the importance of a historical perspective of the development of enterprise, providing an insight into its origins and indications of the possible path of future development.³ In Schmoller's view, enterprise had evolved from household businesses and as a consequence was a paternalistic institution which required the subordination of its members to the will of the head of the household. With the rise of the factory system, subordination and discipline took on particularly coercive forms. Modern enterprise still retained these autocratic structures despite the fact that they were no longer reconcilable with more democratic politics, civil liberties and legal equality. Yet things were changing. As modern enterprise grew, especially as these became joint-stock companies, their leadership was becoming more bureaucratic, composed of professional administrative officials managing external capital. A greater interdependence between employers and employees was developing, cooperation and

¹*Ibid.*, 739-40.

²*Idem*, 'Über Wesen und Verfassung der großen Unternehmungen' [1889] in *Zur Social- und Gewerbepolitik der Gegenwart* (Leipzig, 1890), 372-440.

³*Ibid.*, 374.

coordination were becoming more important; the firm was, Schmoller believed, becoming an ethical community of interest. The antagonism between labour and capital was diminishing, holding the hope of becoming a cooperative employer-employee relationship.¹ A new type of cooperative industrial relations appeared possible.

Moreover, as their size increased, enterprises were losing their private, autocratic character and becoming public organisations. But this did not mean that they were or should become state-owned institutions, which Schmoller saw as the ‘grave of all personal freedom’ and the end of ‘technical progress’. Indeed it was a sign of progress that they were out of the hands of the state administration.² The public nature of these enterprises was instead their public impact:

They have a public character because they serve a production which provides for wide-ranging areas and countless people, often enabling export in which the whole has an interest; they have a public character because with the first steps of their existence they are dependent upon state civil and administrative law, tariffs, concessions, streets, railways, stations, postal routes, schools, borough functions of all kinds, because they transform and feed whole valleys and villages, cities and regions, and during slow-downs or with collapse, cast these into misfortune. The more they cartelise, combine, organise common sites of sale, the more their power comes to the fore leaving behind all private life... .³

In short, the large industrial enterprise was the ‘skeleton of our economic organisation’ which required a readjustment of the relationship between the state and the economy. They had been or were about to be increasingly subjected to legal norms, greater regulatory control and rules of public disclosure. Schmoller emphasised in this regard

¹*Ibid.*, 375-88.

²*Ibid.*, 388-91.

³*Ibid.* 392.

the differences between Britain and Germany: as soon as they involved a larger number of workers or whole industries, strikes *were* a public matter, a matter of general welfare.¹

As Schmoller did not view enterprise as a stable, static institution, labour mobility was essential for the ever-greater differentiation of the division of labour within the enterprise, which required increasingly specialised skill and experience. This was a process of constant organisational change; instability and transformation was part of technical progress.² At the same time, enterprises provided a new social order which through rules, discipline, training and apprenticeships, career ladders and new incentives (group piece rates, bonuses, pensions and profit-sharing) allowed for social mobility and created a new elite of workers. There was far less turnover of this skilled class of workers. Indeed, firms were providing various other non-wage benefits and services such as garden land, higher sickness wages, funds for house building, and housing to keep their skilled workers. It was therefore not justified to brand every such attempt to tie the workers to the enterprise as ‘partriarchial’. What was in any case needed was to bring the factory order into harmony with the legal principles of equality by allowing workers to have greater influence and responsibility in managing the firm through consultative bodies in which employees and employers could openly discuss their different and common interests.³

While Schmoller acknowledged the benefits and achievements of trade unions and especially the new forms of wage arbitration developed in Britain, he also noted

¹*Ibid.*, 393-95.

²*Ibid.*, 397-405.

³*Ibid.*, 405-22.

their shortcomings, particularly the harsh struggle and antagonism they engendered and the damage they had wrought to industry. They were in any case peculiar to British conditions, as no other country had yet produced a similar movement. Much more important, in Schmoller's mind, was to develop further the bodies of regular factory-specific consultation and codetermination, such as the workers' committees and factory councils which had already been formed to solve practical problems. Further impulse in this direction had been given through the factory sickness fund boards, made up mainly of worker representatives, which after the 1883 Sickness Insurance legislation had been made compulsory. This forced the workers and the employer to cooperate in managing the factory sickness funds, thereby also allowing a continual exchange between the two. Further impulses had been given by the worker committees formed in Swiss and some German firms, which established factory rules and regulations, and to a growing degree, also administered factory discipline. Similar such boards and committees had developed in France and Holland and held the promise of avoiding disputes and industrial conflict.¹

Schmoller noted the opposition of industrialists like Baron von Stumm to the idea of workers' committees. Stumm had accused the 'men of the chair' of pushing forward a muddle of proposals which would destroy the 'personal' relationship he had with his 3,200 employees. Schmoller dismissed this opposition as absurd, especially as such consultative bodies were needed precisely in such large factories which could no longer be run like personal military operations. It was simply irreconcilable with the existing legal and political order which demanded more democratic and consultative factory constitutions. Moreover, trade unions would moderate their

¹*Ibid.*, 422-31.

demands through the greater knowledge of factory conditions, joint administration of various funds, and other practical tasks.¹ It was this self-administration of tasks within the firm itself which Schmoller believed could usher in a new era of industrial relations, ending the 'dictatorship of capital' and expanding the cooperative principle:

A more just and equitable distribution of national income as there is today has in the first instance the perquisite of the moral and commercial improvement of the lower classes and in the second the emergence of institutions which allow the lower classes to speak up, to assert their interests, to bring them into normal balance with opposing interests; only as the final result of this psychological and institutional transformation will a shift of power emerge which will express itself through higher wages, premiums and profit-sharing, and old-age pensions... .²

As Schmoller convinced himself of the viability of this more cooperative style of industrial relations, he increasingly explored the scope for profit-sharing.³ Again, through the historical perspective of the enterprise he had gained a number of insights into different modes of remuneration. Schmoller noted that the most primitive societies engaged in cooperative enterprise, with equal share in returns for work. As societies became more complex and differentiated, these forms disappeared, being replaced by slavery, serfdom and then money wages, and with it, estate and class-stratified social structures. Yet these forms, too, slowly revealed themselves to be inadequate to more sophisticated divisions of labour, which required ever-more precise payment for individual output. The flat wage was being replaced by piece rate wages, which were linked to premiums, bonuses and increasingly to profit-sharing schemes.⁴ Relying on

¹*Ibid.*, 433-38.

²*Ibid.*, 439-40.

³*Idem*, 'Über Gewinnbeteiligung' [1890], in *Zur Social- und Gewerbepolitik*, 441-61.

⁴*Ibid.*, 441-48.

many examples from throughout Europe, he noted that profit-sharing reduced the degree of control and coercion necessary in firms, while reducing the turnover of staff and enhancing the common interests of employers and their workers, thereby also encouraging the development of various consultative bodies.¹ Despite various hurdles, Schmoller was quite sure industrial relations could be steered into this progressive direction.

The massive coal miners' strike of 1889 convinced the *Verein's* board of the need to again take up the issue of striking and industrial relations. Brentano was asked to compile a study on strikes and the wage contract, while Max Sering compiled a study on workers' committees in various industries.² The lapse of the repressive Socialist Law, William's February decrees, Bismarck's resignation, and the new Reichstag made this renewed focus on industrial relations all the more promising. So was Schmoller's election to the chairmanship of the *Verein* in 1890 following Nasse's death, a position, due to his own ill-health, he only very reluctantly accepted. Schmoller opened up the *Verein's* membership and proceedings to a much wider range of people, including Social Democrats and industrialists, and the discussions themselves increasingly took on the character of parliamentary debate.³

Schmoller's faith in workers' committees and other such consultation bodies was not shared by Brentano, who had renewed his commitment to trade unionism and British-style collective wage bargaining following the success of the London dock workers' strike and the start of the Ruhr coal miners' strike, a commitment reinforced

¹*Ibid*, 452-61.

²L. Brentano, ed., 'Arbeitseinstellung und Fortbildung des Arbeitsvertrages', *Schriften* 45 (1890); M. Sering, 'Arbeiter Ausschüsse in der deutschen Industrie', *Schriften* 46 (1890).

³See Boese, *Geschichte*, 62 and Gorges, *Sozialforschung*, 223, 234

while collecting material with his students for the *Verein* study on strikes in England in the spring of 1890.¹ These differences quite naturally came to a head at the conference in Frankfurt in September. Not surprisingly, Brentano tended to see the relationship between workers and the firm in more antagonistic terms than Schmoller; reconciliation and agreement could only result after a collective struggle between parties of equal power: legally-recognised unions and representative bodies of industry. What was required, Brentano and his supporters believed, was the elimination of all remaining administrative and legal restrictions on trade union organisation. Collective wage bargaining with employer organisations had to be encouraged by granting corporative rights to occupational associations and by forming arbitration bodies.²

While he accepted the need for freedom of association and a trade union movement, Schmoller responded that British-style industrial relations could not simply be transferred or copied in Germany, nor was that particularly desirable, supporting this by noting the damning criticisms Brentano had himself made of British-style industrial relations in Germany in Conrad's *Jahrbücher* just two years prior.³ It had been healthy, Schmoller argued, that Germany had not merely copied British institutions but instead, as in social insurance, had created its own. Much was now possible with the new Reichstag. What was needed were practical steps: workers' committees at the firm level and the formation of an imperial labour office granting various occupational associations legal status in particular industries. Schmoller warned that trade unions had a shadow side: their potential for monopoly, their

¹Brentano, *Mein Leben*, 151-57; Sheehan, *Brentano*, 118-24.

²StA, 'Verhandlungen 1890', *Schriften* 47 (1890), 119-30.

³*Ibid.*, 202; L. Brentano, 'Die beabsichtigte Alters- und Invalidenversicherung für Arbeiter und ihre Bedeutung', *JbbfNS* 50 (1888), 1-46.

reproduction of the abuses of the old guild system which legitimated similar monopolisation among the employers. It would be the consumer, the general interest, that would suffer. If Brentano chose to brand him a 'bureaucratic socialist' because he called on the state to intervene to protect this general interest, that did not matter.¹ Interestingly, by early the following year Brentano had conceding many points to Schmoller regarding the suitability of British patterns of industrial relations in Germany.²

In 1890 and 1891 laws were passed allowing the formation of commercial courts in municipalities of more than 20,000 inhabitants. These were to act as arbitration bodies in matters of labour law in which workers would be equally represented. In 1892 Minister of Trade Berlepsch also took the initiative to introduce bills in the Prussian Landtag regulating mines. Despite the fervent opposition of mine operators, the law was passed in June 1892. Under it, mine operators were obliged to introduce work rules in consultation with workers and to form workers' committees. Employers were also restricted in their ability to discipline workers, and state supervision of mines was increased.³ This has been seen by some as a first step toward codetermination, a way to increase the bargaining power and representation in firms of workers at a time of growing concentration and cartelisation.⁴

Cartels were increasingly a factor in German industry and had been one of Schmoller's preoccupations for many years. His views, like those of Brentano, were

¹StA, 'Verhandlungen 1890', 202-6.

²BAK, NI. Brentano, 57: 42-43, Schmoller to Brentano, 14 Mar. 1891; GStAB, NI. Schmoller, 114: 253-57, Brentano to Schmoller, 19 Mar. 1891.

³See Born, *Staat und Sozialpolitik*, 106-12.

⁴Gladden, *Geschichte der Sozialpolitik*, 83-84.

to a considerable extent influenced by the Austrian economist Friedrich Kleinwächter (1838-1927), who had in 1883 written a pioneering book on the subject.¹ Kleinwächter had posited that classical economic theory, with its exclusive preoccupation with consumption, tended to overlook the fact that competitive production was incredibly wasteful and disorderly, fluctuating between bouts of over- and underproduction; cartels were an arrangement which gave greater order and certainty to production. Reviewing Kleinwächter's book, Schmoller emphasised the potential public danger cartels posed. At the same time he was intrigued by the prospect of state regulation of cartels to induce factory improvements and getting firms to assume ever-greater social obligations.² Schmoller was attune to the special organisational talents of entrepreneurship and the administrative task of managing an enterprise. In the light of growing tendencies to concentration and cartels, he also recognised the importance of worker coalitions and trade unions as countervailing organisations of interest representation.³

It was not until 1894 that the cartels issue gained the full attention of the *Verein*. Schmoller himself directed a study and edited a volume of the *Verein's Schriften* devoted to cartels in Germany and abroad, notable for including the statutes of various cartel and trust agreements, including a detailed analysis of the Standard Oil Trust and the development of anti-trust legislation in America written by one of

¹F. Kleinwächter, *Die Kartelle* (Innsbruck, 1883); Sheehan, *Brentano*, 111.

²G. Schmoller, Review of Friedrich Kleinwächter's *Die Kartelle*, *JbfGVV* 7 (1883), 336-37.

³*Idem*, 'Über die Entwicklung des Grossbetriebes und die soziale Klassenbildung', *PrJbb* 69 (1892), 461, 473, 476-77.

Schmoller's students, Ernst Levy von Halle (1868-1909).¹ At the 1894 Vienna conference of the *Verein*, Karl Bücher gave a report on cartels which was followed by a discussion by Brentano. Both believed that cartels were a natural phenomenon, a free contractual arrangement which did not require new legislation or regulatory intervention except full legal recognition of trade unions as a countervailing force. Schmoller emphasised that cartel agreements, while a natural phenomenon produced by modern market conditions, had both advantages and disadvantages, believing that such monopolies could lead to abuses over time which called for regulation.²

Schmoller was aware of the differences between trusts and cartels. Cartels originated, he argued, as cooperative arrangements between weak firms. They were an arrangement which, unlike the massive 'monarchic-despotic,' American Trusts, were a loosely-organised 'cooperative-democratic' and 'federative' structure based on free agreement within which firms retained relative autonomy. Their main function, he argued, was regulation of demand and supply to moderate destructive price swings, smooth-out business cycles and stabilise employment, and unlike the trusts, were a development driven more by technology and the needs of specific industries than by speculation and acquisition. Cartels had, so Schmoller, enabled German industry to assert itself on world markets, securing the welfare of its respective members without many of the abuses of the trusts.³ At the same time, he acknowledged the potential dangers of cartels and called for the formation of an imperial cartel office, cartel laws,

¹*Idem*, ed., 'Über wirtschaftliche Kartelle in Deutschland und im Auslande', *Schriften* 60 (1894), on American trusts, 93-322.

²StA, 'Verhandlungen 1894', *Schriften* 61 (1895), 234-38.

³Schmoller, *Grundriß*, vol. I, 541-43, 547-48, 550; cf. W. Feldenkirchen, 'Concentration in German Industry, 1870-1939', *ZfU Beiheft* 55 (1988), 113-46; S. B. Webb, 'Tariffs, Cartels, Technology, and Growth in the German Steel Industry, 1879 to 1914', *JEH* XL, no. 2 (1980), 309-29.

and a register with strict rules of public disclosure.¹

...The centralising developmental process of entrepreneurial form... is natural and necessary, it cannot be suppressed, it corresponds to the technological and economic conditions, the organisational tendencies of the times. One must only strip it of its abuses and degenerations, through public and legal bounds one must influence it to benefit the general interest... . One must transfer an appropriate portion of excessive monopoly profits to the Reich, the state and municipality as it already occurs in individual cases.

...One must be clear that all price formation linked to these new organisations is something entirely different than the price formation of the market with small competing businesses. ...Cartels and other centralistic new organisations are not to be destroyed but to be steered off of wrong tracks into healthy ones so that they can function as the proper organs of a higher form of societalised economy [*vergesellschafteten Volkswirtschaft*], as the competent central steering organs of production.²

The technological advance and growth of large enterprises and their increasing bureaucratisation and concentration had other advantages; it was generating a broad new *Mittelstand*, a prosperous, technically educated class of employees (*Angestellten*) and highly skilled workers which was strengthening the ranks of the middle strata in Germany. Schmoller expressed this view in an address to the Evangelical-Social Congress in June of 1897, where he noted that it was often the case that these new employees and trained workers enjoyed more secure employment, a larger scope to accumulate savings, and greater independence of thought, character and lifestyle than the more traditional *Mittelstand* of independent businessmen, farmers, and craftsmen.³

This enthusiasm with concentrated enterprise as an organ of reform and social mobility was, however, not always well received by the public or the German press.

¹Schmoller, *Grundriß*, vol. 1, 543-44.

²*Ibid.*, 554-55.

³*Idem*, 'Was verstehen wir unter dem Mittelstande?' in *Verhandlungen des Achten Evangelisch-Sozialen Kongresses. Abgehalten zu Leipzig am 10. und 11.6.1897* (Göttingen, 1897), 153.

Indeed, Schmoller was often quite isolated, accused of socialism by some, and apologising for industry by others. A press response to Schmoller's 1903 speech to the general assembly of the Association of German Engineers¹ is particularly revealing for the hostility of many conservatives to his ideas:

The modern development of industry, for which America is an exemplar, tends toward educating a very one-sided, for their particular purpose downright sportively-trained [*sportmäßig dressierte*] workforce; this occurs under relentless exclusion of all physically and mentally unfit individuals. Such selected workers are... doubtlessly well-treated and highly-paid. The rest are, all the more hopelessly, left to a fate of chance. Therefore, we place our hopes, despite Schmoller, on the social policy begun in Germany with its compulsory insurance and protective laws. The calculating humanity of trusts etc. cannot replace state social welfare, and on this decisive point we have such an advantage that we need not fear the competition of the English or Americans.²

Schmoller's faith in enterprise as a dynamic institution of *Vergesellschaftung* and therefore of social reform was an extension of his progressive view of the development of all institutions; his confidence in the promethean, evolutionary force of industrial capitalism was reinforced by his conviction that it could be institutionally moulded to serve ever greater collective ends. This anticipated the basic content of the influential theories of enterprise and capitalism later taken up and developed further by Joseph Schumpeter, who, it should be noted, acknowledged Schmoller's insights.³ It is important to emphasise, however, that Schmoller's ideas were motivated and directed toward practical policy questions, and these ideas were informed by an understanding of the social significance of institutions drawn from a knowledge of their history. History was never itself an end, but always a means, a tool of reform to

¹*Idem, Ueber das Maschinenzeitalter in seinem Zusammenhang mit dem Volkswohlstand und der sozialen Verfassung der Volkswirtschaft* (Berlin, 1903).

²*Neue preußische (Kreuz) Zeitung*, 306 (3 July 1903).

³J. A. Schumpeter, *Capitalism, Socialism and Democracy* (London, 1976 [1942]), 42-43.

realise a vision of progress, a progress, in the case of social insurance, agricultural policy, as well as large enterprise and cartels, which he hoped would create a more equitable interdependent society of the *Mittelstand*.

CHAPTER 7:

FROM SCIENCE OF REFORM TO THE REFORM OF SOCIAL SCIENCE: THE METHODENSTREIT.

...[S]omeone could espouse the idea to suspend all political economists from their business, as was demanded by Kant for the field of philosophy in his *Prolegomena*. But this is not the way of science, much less, by the way, that of philosophy. It is always the question of the totality of problems with which we struggle throughout the centuries.

Otto Neurath¹

7.1 The Plurality of Methods and the Primacy of Ends

The research and policy disputes of the 1870s and early 1880s presaged and in some ways anticipated the dispute between Schmoller and the Austrian economist Carl Menger which has come to be known as the *Methodenstreit*. It has always been odd that such a heated dispute over economic method broke out and was fought with such vehemence. However, when it is understood that this dispute was not primarily about methodology but instead about the policy conclusions drawn from particular methods, this is perhaps better understood. The *Methodenstreit* was at bottom a debate about the admissibility of social reform and other activist economic policy. This dispute always transcended controversy over method, revealing differences over the public role of economics, the origins of law and institutions and the desirability of social reform. The previous chapters have explored the complex relationship between moral philosophy, statistics, inductive empiricism, and history, on the one hand, and

¹Quoted in N. Cartwright, *et al.*, *Otto Neurath* (Cambridge, 1996), 130.

the social question and social reform, on the other, providing an informed perspective of the issues at stake for Schmoller in this dispute. This should help to banish a few of the still-prevalent fictions about the rise of Austrian economics and its relationship to historical economics during the *Methodenstreit* and its aftermath, self-serving yarns which later Austrians themselves helped to spin. Schumpeter's assertion that Austrian economics emerged 'as from another world - unexplainable and uncaused' and Hayek's claim, that 'one can search in vain for any expression of his [Menger's] political views' are notable examples.¹

With the historical economists' involvement in social reform, their engagement in policy debate, and with their focus on empirical statistical treatises and historical studies, the elaboration of an explicitly historical methodology was never undertaken. In any case, method was always subordinate to the imperative of scientifically investigating and solving the social question, a relatively new phenomenon which seemed to defy existing economic doctrines and which demanded empirical understanding. This is supported by the fact that no textbooks were written by either Schmoller, Brentano, Knapp or Held outlining a specifically historical methodology or research programme, and the first systematic expression of methodology was not made by Schmoller until 1893.² Indeed, there were many more negative statements of directions that the historical economists were unwilling to go, such as their opposition to the discredited and outdated axiomatic foundations of classical theory, their restriction of teleology, rejection of laws of development and unified theories of

¹J.A. Schumpeter, 'Zum 75. Geburtstag Karl Mengers', *Neue Freie Presse* (23 Feb. 1915); F.A. Hayek in preface to *The Collected Works of Carl Menger*, vol. I (London, 1935), xxxv.

²G. Schmoller, 'Volkswirtschaft, Volkswirtschaftslehre und -methode' [1893], in *HdSt*, ed. J. Conrad *et al.*, vol. 6 (Jena, 1894), 527-63.

the economy of the so-called 'older' historical economists, and their criticism of the 'premature' economic theorising of some of their colleagues, such as Wagner and Schönberg. Only in the realm of economic policy was a clear position developed: a social reforming alternative to socialism, conservative state socialism, and *laissez-faire*. Historical economists did not in principle oppose economic theory or even economic laws, but instead were against premature deductive theorising and deductive theories divorced from empirical facts and tests. They, and Schmoller in particular, believed that economics was still in a metaphysical state and that thus no practical policy conclusions in economics were possible without some unified picture of reality or system of thought inextricably tied to value judgements and ideals of some kind, which in the absence of a positive, scientific picture of the world, had to provide an imperfect, temporary substitute. All science applied, in Schmoller's view, deduction and induction simultaneously and, depending on the tools used, was at times more inductive, at others more deductive. What one had to differentiate was the critical scientific investigation of causes and explanation from causes, on the one hand, and the distillation of all phenomena into teleological systems and views of the world based on ideals which provided a criterion of practical judgement and action, on the other.¹ That criterion of action could serve as a foundation for economic and social policy, possible because the economic organisation of society was not, in their view, mainly a product of nature but the outcome of social agreement reflected in economic institutions.² Policy to reform such economic institutions in accordance with changing times and demands was the main point of economics so far as Schmoller, Brentano,

¹Schmoller, 'Lorenz Stein', 266-67. *idem*, 'Ueber Zweck und Ziele', 3-6.

²See *idem*, 'Die soziale Frage', 337; *idem*, 'Die Gerechtigkeit', 50.

Knapp and Held were concerned.

7.2 The Publication and Reception of Menger's *Grundsätze* of 1871

The disagreements which subsequently became known as the *Methodenstreit* began much earlier than is usually realised. It predated the publication of Menger's *Untersuchungen* in 1883 and Schmoller's review of the same by more than ten years. Moreover, it was hardly the case that Schmoller and Menger were somehow predestined to clash. Indeed, in September of 1871 Menger sent Schmoller an obsequious letter with a copy of his newly published textbook, *Grundsätze der Volkswirtschaftslehre*, emphasising the importance of the findings of German economic research to his own new textbook:

I wager to send you, highly honoured Herr Professor, the first volume of my just published writings *Grundsätze der Volkswirtschaftslehre*. It would give me hearty joy if you, highly honoured Herr Professor, would extract from the same that the research of German economists also finds careful attention and serious emulation with us in Austria.¹

While this letter may seem somewhat surprising considering the differences which would emerge between the two, it nevertheless lends further weight to the argument that German and Austrian economists were at that time essentially working within a common tradition of scholarship.² Menger's *Grundsätze*, dedicated to Wilhelm Roscher, was, after all, a textbook devoted explicitly to contributing to a programme of research which was the product of 'newer developments in German economics'.³ By this Menger meant the early subjectivist and marginalist insights which had been

¹GStAB, NI. Schmoller, 168: 37, Menger to Schmoller, 27 Sept. 1871.

²See Streissler, 'The Influence of German Economics', 31-68.

³C. Menger, *Grundsätze der Volkswirtschaftslehre* (Vienna, 1871), x.

made by Hermann, Mangoldt, Roscher and others sometimes called ‘proto-neoclassical’.¹ Like the historical and other German economists, Menger was unhappy with the classical theory of value. By grounding value in the subjective valuations of individuals and not in labour, Menger believed that a firm foundation for a more stringent price theory could be established, aiding empirical understanding of institutions and processes of change.² All this, he hoped, would aid the historical method and the founding of a methodology of the social sciences. Indeed, Menger saw himself, like Schmoller, as a reformer of economics, ‘...who should not fear, with full independence of judgement, to take up criticism of the views of our predecessors and of doctrines which once stood as firm achievements of our science.’³ Menger made no less than 14 references to Roscher in the *Grundsätze* (more than any other person) and 3 to Schmoller.⁴ Similarities between Menger’s *Grundsätze* and Schmoller’s article on moral statistics, published the same year, also exist, especially the distinction between natural laws and empirical laws, the emphasis on positive scientific exactness, the weight placed on the triumph of the human intellect over material constraints as the origin of economic progress, and the common view, shared by nearly all German and Austrian economists, that the origin and end of economic action was fulfilling human need.

When Schmoller reviewed Menger’s book for the *Literarisches Zentralblatt*,

¹See Streissler and Milford, ‘Theoretical and Methodological Positions’, 43-79.

²Menger, *Grundsätze*, 77-86. Brentano noted that Menger’s argument on subjective valuation was uncannily close to Heinrich Gossen’s, but unlike Jevons, Walras and Pantaleoni, Menger never acknowledged Gossen’s contribution, *Mein Leben*, 142.

³Menger, *Grundsätze*, vi.

⁴References to Schmoller are made on pages 131, 213 and 226 and cite his *Kleingewerbe* (1870) and ‘Die lehre vom Einkommen’, *ZfGS* 19 (1863), 1-86.

however, he did not reciprocate Menger's flattery.¹ Schmoller also overlooked the originality and the potential of the subjectivist theory of value for aiding an empirical programme in economics, though this did not hinder him from later conceding and taking up important components of Menger's subjective theory in his own *Grundriss*.² That Schmoller overlooked the novelty of the *Grundsätze* in 1871 way well have been a consequence of the resemblance of Menger's textbook with those by Mangoldt, Hermann, Rau, and Knies, in Schmoller's and the other historical economists' mind, an old-fashioned and superseded line of reasoning. It is indeed ironic that Menger's approach in the *Grundsätze* was perhaps so much in line with these earlier classical and proto-neoclassical writers that it was misinterpreted and rejected by Schmoller:

[Menger] greets German science as a co-struggler [Mitreiber] from Austria; and he is also well-acquainted with the same, but his point of view is a thoroughly independent one. ...It comes to be a point of view which reminds more of Ricardo than of the directions [*Richtungen*] currently governing German science. Clarity in the abstract theory is his goal; very detailed, yes tiresomely broad discussions of examples, which remind more of Robinsons than any link to current economic conditions, are the means by which he operates.³

The importance Schmoller placed on economics which dealt with 'current economic conditions' needs to be emphasised. Schmoller was struck that while 'the results are without doubt the product of not inconsiderable sharpness of mind...', they were nevertheless 'more the reformulation of abstract scholastic questions than the solution for real problems.' What especially troubled Schmoller, and this is telling for understanding the later *Methodenstreit*, was that Menger had subsumed all public

¹G. Schmoller, Review of C. Menger's *Grundsätze der Volkswirtschaftslehre*, LZ 5 (1873), cols. 142-43.

²*Idem*, *Grundriß*, vol. 1, 121, vol. 2, 112-22.

³*Idem*, Review of Menger's *Grundsätze*, cols. 142-43.

economic problems (*Volkswirtschaft*) into the sphere of the private economy (*Privatwirtschaft*): ‘do not thereby all economic problems become purely private economic questions?’ It seemed to Schmoller, then, that Menger’s economics ignored the policy dimension, and especially social reform; it was an economics seemingly devoid of economic policy.¹

Menger, in Schmoller’s view, was also wrong to think that the abstract approach was the one most analogous to natural science: if that were true, Schmoller argued, then scientists would have to resort to working with abstract notions of the cell or particular elements. The ‘direction’ (*Richtung*) most analogous to the natural sciences, in Schmoller’s view, was the historical and statistical one. Overall, Schmoller cursorily concluded, the textbook was too ‘one-sided’ to be in touch with the times. Perhaps, he added, it would have been better had Menger not introduced his findings in the form of a textbook but first devoted some time to ‘detailed research’.² This judgement, while consistent with Schmoller’s aversion to ‘premature’ theorising, was nevertheless quite insulting and almost surely contributed to the souring of relations between the two, especially also because it added to the injury that Menger had suffered as a result of having failed his first attempt at *Habilitation* with selected chapters of the *Grundsätze* some two years prior.³

It is worth mentioning, however, that similar criticisms were made of Menger’s *Grundsätze* in a review by Hildebrand in the *Jahrbücher für Nationalökonomie* one

¹*Ibid.*, col. 143.

²*Ibid.*

³See Lindenfeld, *Practical Imagination*, 249.

year prior.¹ Clearly early marginalism was associated with the older economics of Rau, Hermann, Roscher and Mangoldt, and consequently considerable misunderstanding existed about Menger's implied individualistic methodology and its relationship to the subjective theory of value he had developed. Roscher in his *History of Economics in Germany* himself briefly praised Menger's *Grundsätze*, but tellingly, praised him on the value to historical economics of those who have 'continued on the path of Hermann'.² He, too, plainly misunderstood the intentions and originality of Menger's text and did not sufficiently return the compliments paid him by Menger in the *Grundsätze*.

The lack of acknowledgement in Roscher's *History* and the frosty reception of his *Grundsätze* in Germany were later reflected in Menger's bitter review of Roscher's *History of Economics in Germany*.³ In it Menger accused Roscher of bias, teleology and ahistoricity, criticisms which, as discussed in chapter 1, Schmoller, Knapp and especially Brentano too had made of Roscher's work. Menger also accused Roscher of one-sidedly focusing on the broader economic picture, the 'Historical School' and economic policy to the neglect of doctrines and other branches of economics. Reflecting his own bitterness and prestaging his later *Untersuchungen*, Menger concluded that there would come a reaction to this, and in time a critique and addenda of Roscher's history should arise in which contemporary 'dogmaticians' would be presented in a more favourable light. The Historical School would come to be seen

¹[B. Hildebrand], 'Drei neue Handbücher der Volkswirtschaftslehre' [Review of Mangoldt, Menger and Richter] *JbbfNS* 18 (1872), 342-45.

²Roscher, *Geschichte*, 1039.

³Originally published in *Wiener Abendpost* (26 Jan. 1875), reprinted in Alter, *Carl Menger*, 133-38.

simply as a useful preparation for new dogmatics.¹

As already pointed out in Schmoller's review, Menger's *Grundsätze* seemed to lack what would today be called a macroeconomic and policy perspective, and as Menger himself betrayed in his review of Roscher, he harboured hostility to the preponderance of policy issues in German economics. What, then, was Menger's position on economic policy? A clearer picture of this is given by his lectures to Crown Prince Rudolf, whom Menger privately tutored between 1876 and 1878. These lectures reveal that Menger adhered to a policy of uncompromising *laissez-faire* in which the state had fewer public duties than in Smith's *Wealth of Nations*. He opposed nearly all involvement of the state in social reform and also continued to uphold the discredited wage-fund doctrine.² Menger's deliberate neglect of the state and the public economic domain was an extension of the normative preferences of his 'old' Austrian liberalism (i.e., conservatism). These normative political positions were turned into basic methodological injunctions in his book on method, the *Untersuchungen*, which would bring to the boil an already simmering *Methodenstreit*.

7.3 Menger's *Untersuchungen* of 1883

Menger's *Untersuchungen*, a book on methodology published in 1883, and interestingly, by Schmoller's publisher Carl Geibel of Duncker & Humblot in Leipzig, were from the outset tinged with anger, something he himself admitted in his preface.³ He wrote of 'erroneous directions' taken in German economics, the pursuit of

¹*Ibid.*, 137-38.

²Streissler, 'Carl Menger on Economic Policy', 107-30.

³Menger, *Untersuchungen über die Methode der Socialwissenschaften und der Politischen Oekonomie insbesondere* (Leipzig, 1883), xx.

‘incidental avenues of research’ and of ‘relatively unimportant tasks’.¹ His ambition was no less grand than to define the real tasks of political economy, rid German economics of ‘one-sidedness’ and intellectual isolation, and thereby prepare the ground for the reform of the discipline.² Menger’s criticisms were directed mainly at the older historical economists, whose views he saw enjoying a nefarious hegemony within Germany, leading astray younger generations of historical economists. Schmoller’s criticisms of the ‘one-sidedness’ of Menger’s *Grundsätze* may have had an impact, since Menger consciously tried to broaden his methodological investigations to include questions relating to methods in the social sciences generally.

In the *Untersuchungen* Menger’s *bete noire* was the ‘Historical School’, an ill-defined, amorphous creature which at times encompassed the whole of German economics, at others was one and the same with Roscher, Hildebrand and Knies, and at yet others was merely a group of ‘historians’. Of the historical economists treated in this dissertation, Menger mentioned only Held and Schmoller, though he never gave any clear examples of what he disapproved of in the methodology of either. Instead he tended to identify their writings with those of Roscher and Knies and imply their guilt by association.³ Nor did Menger present examples of a definition of the scope and task of economics by Schmoller, Brentano, Knapp or Held with which to disagree, though he did give such examples from some 17 other economists (including Rümelin, Roscher, Hildebrand, Knies, Schäffle, Wagner, Schönberg, Scheel and Cohn) in order

¹*Ibid.*, xviii-xix.

²*Ibid.*, xxi.

³*Ibid.*, 13-14, note 11. Here no works by either are cited.

to reveal the allegedly low-level of epistemological reflection in German economics.¹ The only thing that could justify such a broad agglomeration of German economists into his critique, was not method, but a common involvement in social reform. This point will be discussed shortly.

In sections of the book where Schmoller is mentioned, Menger's criticisms never went much beyond quibbles with Schmoller's views, such as (citing from a page of his response to Treitschke, *Über Einige Grundfragen*, p. 42ff), Schmoller's 'not quite happy formulation' of the separation of the technical-natural and the psychological-ethical causes in economics, though Menger himself conceded in a footnote to a contrast between 'economic tendencies' and 'non-economic aspirations'.² In other criticisms, such as that of 'one-sided empirical realism' and 'Baconian induction' no names or works were cited as examples.³ In criticising the opposition to the dogma of private egoism, Menger spoke of the 'representatives of the historical school of German economists', then presented a caricature of their argument and wrote (citing again from the same page of Schmoller's *Über einige Grundfragen*, p. 42) that 'this is roughly the argumentation of the historical economists of Germany in their struggle against the dogma of self-interest'.⁴ Later Menger referred to them simply as 'our historians', implying that their views lacked authority. Yet only several pages later he again referred to the same as 'German economists'.⁵

¹See Appendix II, *Ibid.*, 238-44.

²*Ibid.*, 61, n. 26.

³*Ibid.*, 42-43, n. 19.

⁴*Ibid.*, 74.

⁵*Ibid.*, 74, 75, 80 and 82.

Menger claimed that the ‘historical school’ had failed to differentiate economic theory from economic history and policy. The upshot of these arguments was to counter the supposedly anti-theoretical, and inductive methodology of a still undefined ‘German Historical School’ with an ‘exact direction of theoretical research’ based on abstraction from non-observed (introspected) but at the same time factual essences (*Wesen*) which were irreducible last elements (i.e., human need, self-interest, desire for gain), an ambition which remains one of the most vexing and seemingly insurmountable contradictions in Menger’s methodology.¹ While Menger accepted a role for induction, history and statistics, these were nothing more than ‘auxiliary sciences’ in exact economics; the means to proper and exact theoretical economics were given instead by deducing from irreducible economic essences as the smallest constituent components. Menger’s ambition of a new *Aufbau* in economics was very similar in character to the legal positivist treatment of constitutional law of Paul Laband (1838-1918) which accepted *a priori* the legitimacy of the existing constitutional order and then grounded it in abstract legal concepts, building up systematically to ever more general legal principles, but thereby also excluding philosophical, ethical, political and sociological considerations in law.²

As Menger’s theoretical *Aufbau* hints to, there is compelling evidence that the *Untersuchungen* was never only or primarily about the failings of the historical method, but instead about the supposed wrongness of the policy conclusions drawn from that method. And here Menger had in mind the ‘incidental avenues’ and

¹*Ibid.*, 77-80. See N. Cartwright, ‘Mill and Menger’, *PSPSH* 38 (1994), 174-77; Hansen, ‘Methodenstreit’, 163-69; M. Alter, ‘What do We Know About Menger’, in *Carl Menger*, ed. Caldwell, 319 and 327-32 ; Alter, *Carl Menger*, 181-82.

²Lindenfeld, *Practical Imagination*, 256-59.

‘unimportant tasks’ that had been taken up by historical economists: social reform. Members of the ‘Historical School’, so Menger, ignored the conservative insights of the historical school of jurisprudence (Savigny) about the ‘organic’ origin of law, the state and society.¹ Instead the historical economists followed the strivings awakened by the French Revolution for the reform of social and state conditions, which the historical school of jurisprudence had opposed:

An analogous conservative direction in the field of economics had suggested itself, and a historical school of economists which would have advocated the existing economic institutions and interests against the exaggerations of the reform idea in the field of economics, especially also against socialism, would in Germany have fulfilled a particular mission and prevented a number of later setbacks.²

Instead, in practical matters historical economists, so Menger, were almost entirely in agreement with ‘progressive liberal politicians’, and worse, with ‘socialists’. This economics was shaped more by ‘outside events’ than by scientific insights, and the historical and organic view from historical jurisprudence was reduced by them merely to a scientific technique.³ Historical economists were guilty of a ‘one-sided collectivism’ because they wrongly believed in the singular collective entity of the economy of a people or nation (*Volkswirtschaft*), failing to reduce economic action down to its basic essential components and to understand that the economic action of private individuals (*Privatwirtschaft*) organically gave rise to the economy of a whole people or nation. *Volkswirtschaft* was thus the same as *Privatwirtschaft*, and not itself a legitimate object of scientific inquiry.⁴

¹Menger, *Untersuchungen*, 84

²*Ibid.*, 84.

³*Ibid.*, 84-85.

⁴*Ibid.*, 86-88.

The accusation that the historical economists were naïve collectivists was a bit unfair. As may be recalled from chapter 4 (section 4.4), the investigation of moral statistics had provided the historical economists with empirical regularities as evidence for the phenomenon society, which led to the investigation of the sources of that regularity which were posited to be common material constraints, common moral-ethical motivations and common institutions. In Knapp's view, statistical evidence for this commonality was the reason why 'atomists' always hated statistics such as those of mass poverty or crime because they revealed 'not random individual cases but instead damage and ills on the body of the whole from which no healthy part can view itself as isolated'.¹ Menger may have rejected statistics as a basis for 'exact theory' because it provided evidence for a *Volkswirtschaft* not reducible to *Privatwirtschaft*. Interestingly and ironically, Menger himself admitted that for the study of 'organic' phenomena the 'exact-theoretical' methodology was not sufficient and required the 'empirical-realistic method' for a 'direct view of social phenomena'.² He also later admitted that as society developed, purposive intervention by public authorities into formerly organically-developed social institutions increased.³

The organic analogy became the basic pillar of Menger's conservative opposition to interference with and reform of the state, law, society or the economy: every part of the 'organism' had a particular function, which if interfered with, caused disruption of the whole; the organism displayed a wondrous functionality which was not the product of human calculation, agreement or positive law but unreflected, non-

¹Knapp, 'Moralstatistik', 247.

²Menger, *Untersuchungen*, 154-55, 166, 169.

³*Ibid.*, 181.

pragmatic historical processes embodying ‘unknown wisdom’ collected over time; examples of such organically developed ‘social institutions’ given by Menger were money, law, language, markets, competition, prices (interest rates, rents profits, wages), cities, states, society and the economy.¹ Menger contrasted these with ‘pragmatic’ phenomena which were the deliberate product of agreement, conscious collective action or human calculation.² Menger himself criticised Adam Smith for having overemphasised the pragmatic, consciously-intended and agreed-to aspects of the economy and of ignoring unintended organic institutions.³ Against Smith he praised Edmund Burke as the great defender of organic structures against the ‘one-sided rationalism and pragmatism of the Anglo-French epoch of enlightenment’.⁴ It had been Burke, too, who had inspired the insights later taken up by the historical school of jurisprudence that law was the ‘unreflected result of higher wisdom’, and the outcome of ‘the historical development of the people’. The law-maker was thus the ‘true representative of the *Volksgeist*’ who had to respect continuity in the law.⁵ Menger argued that these insights helped prevent the ‘decomposition’ of an organic economy through a ‘superficial pragmatism’, a pragmatism, Menger warned, ‘which against the intentions of its representatives leads inevitably to socialism’.⁶ The original sin of historical economics, according to Menger, was its preoccupation with politics

¹*Ibid.*, 84, 139-42 and 163-64.

²*Ibid.*, 143-46, 161-62.

³*Ibid.*, 200-201.

⁴*Ibid.*, 202.

⁵*Ibid.*, 204-5.

⁶*Ibid.*, 208.

in general, and lack of opposition to ‘enlightenment literature’ and ‘liberalism in politics’ in particular, noting that the majority of its adherents belonged to the ‘liberal direction’, a direction whose leading ideas were propagated through the use of history.¹ This political approach had originally been spread by the teachers of Roscher in Göttingen, Gervinius and Dahlmann, and from Roscher, Hildebrand and Knies to the likes of Kautz, Dietzel, Held, Schmoller, Scheel and Schönberg.²

As revealed by these passages from the *Untersuchungen*, an underlying intention of Menger’s methodological critique was to head off the profusion of non-conservative viewpoints within economic policy, especially the critical historical interpretations of institutions and redistributive policy conclusions which had given rise to socialism and social reform. In short, Menger sought through a self-contained theoretical *Aufbau* from *a priori* political ideals and appeals to organicism to ward off both critical historical scrutiny and the reform of existing institutions. What Menger was in effect proposing was not a rationalistic account of economic and social outcomes but instead a justification of existing outcomes on the grounds that they had stood the test of time. For an atomist like Menger, as with Thomas Malthus before him, organicism was appealing because it linked individuals to social outcomes, having to account neither for the formation of groups nor the discretionary impact of those groups on social outcomes. Menger’s method was in effect fused with his view of the world and his values, and he made no attempt to critically separate his political

¹*Ibid.*, 212-13.

²*Ibid.*, 210-30. Georg Gervinius (1805-71), literary and political historian, liberal democratic critic of romanticism, opponent of Austria, and one of the ‘Göttingen seven’; Friedrich Dahlmann (1785-1860), liberal *kleindeutsch* historian and politician, one of ‘Göttingen seven’; Gyula Kautz (1829-1909), Hungarian economist and nationalist politician; Heinrich Dietzel (1857-1935), economist, one of main proponents of deductive-theoretical economics in Germany.

teleology from his scientific method. The *Untersuchungen* showed unequivocally that Menger was continuing an idealistic and romantic tradition of economic thinking in which teleology and essentialist metaphysics were linked seamlessly with methodology and in which ‘exact theories’ were not subject to empirical tests. This was a tradition hostile to both enlightenment rationalism and liberalism. As both Hansen and Alter independently conclude, it was not Schmoller but Menger who was the intellectual heir of idealism, romanticism, historicism, Hegel and the ‘older historical school’.¹

7.4 Schmoller’s Review of Menger’s *Untersuchungen*

A dispassionate discussion of methodology was not much aided by Menger’s confrontational style and combativeness, not to mention the openness and stridency of the anti-liberalism and anti-socialism expressed as part of his methodological convictions. But by the 1880s Schmoller was well-accustomed to such accusations, especially since they resembled in a few important respects those made by Treitschke some ten years prior. Schmoller reviewed Menger’s *Untersuchungen* for the *Jahrbuch* together with a review of Dilthey.² Contrary to what has been claimed by Hayek, the review was not ‘more than usually offensive’, especially not considering the embittered tone of the book being reviewed, though Schmoller did retort with insulting comments of his own.³ What was more remarkable about Schmoller’s review were the numerous concessions made in it to Menger. First of all, Schmoller acknowledged the justification for a distinction between descriptive-individual (historical and

¹See also Hansen, ‘Methodenstreit’, 162-69; Alter, *Carl Menger*, 36-54, 79-112.

²G. Schmoller, ‘Menger und Dilthey. Zur Methodologie der Staats- und Sozialwissenschaften’, *JbGVV* 7 (1883), 975-94.

³Hayek, in preface to *The Collected Works of Carl Menger*, vol. 1, xxii.

statistical) and theoretical-general economics, though he added that this distinction should not become unbridgeable since the former provided the necessary preliminary work (description and definition) for the latter.¹ If it happened that the development of theory was temporarily hindered by such descriptive work, so Schmoller, that was an inherent consequence of a scientific division of labour; if indeed little was being done in the way of development of theory, then that was an accusation more against the theoretical than against the historical economists. Schmoller did admit, however, that the ‘historical direction’ may have been excessively cautious regarding generalisations and theories, though he added that it was only possible to achieve anything in life through such ‘one-sidedness’. Schmoller also accepted the need for isolation and admitted that through isolation ‘great progress’ had been attained in economics.² He even conceded that many of the individual criticisms Menger had made of the ‘historical school’ were correct, and wrote that the *Untersuchungen* would be read with ‘interest and profit’ by those interested in these matters.³

Where Schmoller had greater difficulty was not with isolation but with Menger’s claims of having discovered ‘last elements’. Schmoller admitted that once such last elements had indeed been discovered a science would be purely deductive. But only a ‘naïve bookworm alienated from the world’ would dare claim, so Schmoller, to have found in human need, the drive for gain, or self-interest last simple elements, something, according to Schmoller, refuted by scientific psychology.⁴

¹Schmoller, ‘Menger und Dilthey’, 977.

²*Ibid.*, 978.

³*Ibid.*, 983, 987.

⁴*Ibid.*, 979.

Most of Schmoller's review centred on the now familiar theme of the relationship between *Privatwirtschaft* and *Volkswirtschaft*, the account of the origin of institutions and the policy conclusions following from it. For example, Schmoller wondered how it was possible to touch on the 'great principal questions of economics' or develop a 'theory of the general nature of the economy' without ever dealing with the relationship between the state and the economy, corporate and public enterprises, or the one between households, enterprises and the state sector.¹ Furthermore, it was, so Schmoller, not possible to dismiss social phenomena merely as 'phantoms'; economics like many other social disciplines had to deal with the origin of mass connections and mass movements, with morality, customs and law, as well as with the powers of the state and personal freedom.² While agreeing with Menger that all social phenomena were based in the end on 'individual psychic processes', he wrote that Menger's tendency to reduce all social phenomena down to either individual agreement or individual egoism was the 'significant gap' in Menger's socio-political conceptions; Menger failed to grasp the mutual determination of such factors, that they were instead also 'the product of an endless variety of selfish and sympathetic feelings and drives, which in part through both conscious agreement or unconscious and only felt agreement', led to the phenomena of economic and social life. Moreover, in Schmoller's opinion Menger appeared to be unacquainted with or have deliberately overlooked the many scientific advances in understanding 'individual consciousness' and 'psychic mass phenomena'.³ Menger had also overlooked the scientific advances

¹*Ibid.*, 980.

²*Ibid.*, 981.

³*Ibid.*, 983.

which had been made in the subdisciplines of economic policy and public finance.¹ Menger allegedly failed to grasp that all the more important economic phenomena were spatially and chronologically so comprehensive that they could only be grasped by means of history and statistics, a view which was closed if one always remained, like Menger, at the level of personal exchange and value or viewed current conditions in Western Europe as the general nature of the economy.²

Schmoller was highly sceptical about the applicability of the analogy of natural organisms to social phenomena: only a part of these showed any analogy at all, and on the contrary, many more were the result of human calculation, law and agreement. Applied as a method, organic analogies were such nonsense 'as not even to be esteemed the serious refutation of anyone methodologically educated'. This was an 'unscientific, wrong path' which had led to dismissing exact investigation on the false premise that natural organisms could not be thus explained.³ And regarding the closely related matter of Menger's sympathies for Burke and Savigny's *Volksgeist* in defense of the *status quo*, Schmoller wrote:

This lively sympathy for the mysticism of the Savignian *Volksgeist* apparently has its origin in the Manchesterite aversion against every conscious activity of the collective organs of society. As law emerges on its own, so the economy should be left to itself and understood merely as the play of egoistic and at the same time harmonious interests. ... It was progress over Savigny that Roscher did not make these mystical conceptions his point of departure.⁴

Schmoller concluded his review by writing that while Menger's corner of the 'house

¹*Ibid.*, 981.

²*Ibid.*, 983.

³*Ibid.*, 984.

⁴*Ibid.*, 986.

of our science' had its justification, he was wrong to claim that it occupied 'the whole building' or the 'best and most proper salon' by schoolmasterly declaring the incompetence of those with different intellectual inclinations.¹

Schmoller's criticism of subsuming *Volkswirtschaft* into *Privatwirtschaft*, of denying social collectivities, the state and a policy dimension within economics and his very different view of social institutions reveals a now familiar pattern, since it had featured in Schmoller's 1873 review of the *Grundsätze*, had appeared in Menger's review of Roscher, had again been taken up by Menger in the *Untersuchungen* and was now repeated by Schmoller in his review. The continued repetition of these closely related issues lends weight to the argument that this was the most significant underlying matter in the *Methodenstreit*. Finally, Schmoller's review, for all its hauteur, seems to have had an impact on Menger who spent the last years of his life seeking to integrate a general sociology into his *Grundsätze*.²

7.5 Menger's *Irrthümer* of 1884

The last salvos in the *Methodenstreit* took a decided step down in civility and were fired by Menger as a direct attack on Schmoller's person in 1884. The book, titled *Die Irrthümer des Historismus in der deutschen Nationalökonomie (The Errors of Historicism in German Economics)*, was notable mainly for the immoderation of its insults and *ad hominem* arguments which added nothing in terms of new or more potent intellectual ammunition against the detested 'historians', who had 'trodden the

¹*Ibid.*, 987.

²Tribe, *Strategies*, 76; Lindenfeld, *Practical Imagination*, 255.

soil of our science as foreign conquerors'.¹ Written in the unusual style of a *Briefroman*, it seethed with anger and sarcasm, beginning by asserting Schmoller's gross misunderstanding, inexperience, ignorance and incompetence.² Schmoller, so Menger, had after all begun his scientific career in 'artisans' associations' where he had developed his writing style, a humorous if mean-spirited reference to Schmoller's *Kleingewerbe*.³ A more worrying aspect of the *Irrthümer* was that it frequently degenerated from anger and sarcasm to impassioned and unreasonable exaggeration. For example, Schmoller's point that Menger's employment of Burke's organicism and Savigny's *Volksgeist* grew out of Menger's 'Manchesterite aversion against every conscious activity of the collective organs of society', evidence for which abounds in the *Untersuchungen*, Menger claimed was 'plucked completely out of the air'. He wrote that 'nothing is more alien to my direction than the service of the interests of capitalism. No charge of Schmoller's is more contrary to the truth, no accusation more frivolous, than that I am a member of the manchester party.'⁴ This 'disclaimer of not being a "Manchester Liberal" and of not being opposed to all reforms in the matter of economic policy appears', in Streissler's judgement, 'somewhat forced, or at least liable to be misconstrued. Menger certainly was a minimalist as regards state action'.⁵

Menger's *Irrthümer* were so abusive that one of Menger's Vienna colleagues was embarrassed by it: Inama-Sternegg wrote Schmoller in early March of 1884 that

¹C. Menger, *Die Irrthümer des Historismus in der deutschen Nationalökonomie* (Vienna, 1884), vi.

²*Ibid.*, 1-5.

³*Ibid.*, 6-7, n.

⁴*Ibid.*, 82-83.

⁵Streissler, 'Carl Menger on Economic Policy', 129.

‘I cannot restrain myself from expressing my indignation over the unqualified attacks to which you are exposed in this abusive piece’.¹ Indeed, so insulting and unreasonable were Menger’s *Irrthümer* that Schmoller seems to have followed the advice given at the beginning of this book that the most effective response to ‘ill-considered and provocative criticisms’ was ‘to pass them over with silence’.² Thus in place of a review or response, Schmoller merely returned his copy to Menger and published the letter accompanying the returned book in his *Jahrbuch*. The letter stated merely that he had been told in advance, confirmed by a glance at the first page, that this piece would mainly be an attack on him, and true to his own convictions not respond to such personal attacks, returns the book to the author.³

That was the end of the *Methodenstreit* as far as it involved Schmoller. Indeed, it is remarkable how few pieces Schmoller himself later wrote on methodology generally, the only notable exceptions being Schmoller’s 1893 entry in Conrad’s *Handwörterbuch* on economics and economic method and a 1897 rectorial address, neither of which explicitly took issue with Menger or the *Methodenstreit*.⁴ Even more striking than this is the dearth of methodological tracts by Schmoller or others in the *Jahrbuch*, and the fact that methodological discussions played no significant role in the *Verein* before 1905.⁵ It seems, then, that of the two, Menger was much more preoccupied with both the dispute and methodology generally. Léon Walras (1834-

¹Quoted in Lindenfeld, *Practical Imagination*, 254, n. 239.

²Menger, *Die Irrthümer*, 1.

³G. Schmoller, Review of Menger’s *Die Irrthümer des Historismus*, *JbfGVV* 8 (1884), 677.

⁴*Idem*, ‘Volkswirtschaft’, (1893) *HdSt*, ed. J. Conrad *et al.*, vol. 6, 527-63 (revised 1911); ‘Wechselnde Theorien und feststehende Wahrheiten’, *JbfGVV* 21 (1897), 1387-1408.

⁵Lindenlaub, ‘Richtungskämpfe’, 96.

1910) was himself so baffled by the amount of energy that Menger invested into this controversy that he wrote ‘For heaven’s sake! Stop demanding the way in which science is best done and do it as you wish; but do it.’¹ It is a fact, for example, that after the *Irrthümer* Menger published no other books or longer treatises, though he reiterated in 1889 that the epistemology of the social sciences had continued to be his major preoccupation ever since publication of the *Untersuchungen*.² Perhaps because of this, his ambition of a grand sociological revision of his *Grundsätze* was never fulfilled.³

As revealed by his review of Menger’s *Untersuchungen*, Schmoller was rather more catholic in methodology than he has often been made out to be. Schmoller made important concessions to Menger about the value of theory and abstraction but disagreed mainly on the exclusiveness of Menger’s ‘exact theoretical’ method and its separateness from empirical economics. Indeed, reading through the *Untersuchungen* and Schmoller’s review, one is struck primarily by this difference. Schmoller never denied the usefulness or validity of universal (natural) laws in economics; he only posited that such an endeavour had to proceed after thorough empirical investigation had been undertaken into the complex of cause and effect and that such laws could only be posited with recourse to empirical observation and testing, not as inferences from non-observed, stylised ‘facts’. Held had himself as early as 1867 pointed to the problem of proceeding from observations of fact to general deductive statements of

¹Walras to Menger, 2 July 1883, printed in M. Boos, *Die Wissenschaftstheorie Carl Mengers* (Vienna, 1986), 47; also quoted in Lindenfeld, *Practical Imagination*, 255, n. 247.

²C. Menger, *Grundzüge einer Klassifikation der Wirtschaftswissenschaften* (Jena, 1889), 1.

³See Boos, *Wissenschaftstheorie*, 87 and Lindenfeld, *Practical Imagination*, 255.

necessity, and from these to logical inferences.¹ He wrote that Smith had not relied on an observation of facts or conditions but only on inference and logic in a few of his sections, notably in seeking evidence for the utility and necessity of absolute economic freedom. This was one of the dangers of deduction. He noted however that Smith had used both empirical-historical and deductive tools to arrive at this theory, and Smith had always availed himself whenever he could, of empirical observation and the historical record.² Indeed, Held considered Adam Smith ‘the excellent paragon’ of the historical school.³

Menger’s method was not criticised by Schmoller alone. The noted statistician and historical economist Wilhelm Lexis, whom Alfred Marshall considered ‘distinctly the ablest and strongest German economist’, was himself a highly adept formaliser, theoretician and applied mathematician who would have an impact on F. Y. Edgeworth and Karl Pearson (1857-1936).⁴ Yet he was suspicious of abstract theory and considered subjective utility a concept far too inexact for scientific purposes and therefore thought that Menger would be unlikely to provide much in the way of knowledge about real economic phenomena.⁵ Lexis’ critique of Carl Menger and his students was made on the grounds that they ignored mathematical reasoning, statistics and empirical facts. Even generally sympathetic reviewers of Menger’s

¹Held, ‘Adam Smith’, 249-79.

²*Ibid.*, 263-64.

³*Ibid.*, 254.

⁴Letter 801, Marshall to J.N. Keynes, 8 Aug 1904, in Whitaker, ed., *CAM*, vol. 3, 87-88; on Lexis, see Porter, *Statistical Thinking*, 240-55.

⁵Porter, *Statistical Thinking*, 242-43; W. Lexis, ‘Zur mathematisch-ökonomischen Literatur’, *JbbfNS* (new series) 3 (1881), 427-34.

Untersuchungen by Heinrich Dietzel (1857-1935), Austrians such as Emil Sax (1845-1927), and Menger's student Eugen von Böhm-Bawerk doubted the possibility of exact theory divorced from reality or that such laws could lead to a final understanding of reality.¹ Later commentators, such as Wilhelm Hasbach, pointed out that Schmoller had not opposed theory but only the economic and social policy conclusions drawn from Menger's theory.² Given Schmoller's concessions to theory and with closer scrutiny of the basic contradictions in Menger's methodology (especially of deriving the non-observed, irreducible economic essences of economic phenomena *a priori* as the last elements of an exact deductive economics) one recent reexamination of Menger's position has gone so far as to claim that Schmoller may well have been right in the *Methodenstreit* all along.³ Very interestingly, ten years after his *Irrthümer*, Menger came to substantially modify his position, concluding that the *Methodenstreit* had not, after all, been about method, but about the specific ends or goals of research:

The difference which emerged between the Austrian school and a part of the historical economists of Germany was in no way one of method in the actual sense of the word. If the historical economists of Germany are frequently described - even in scientific works - as representatives of the inductive, the Austrian economists, as such, as those of the deductive method, this does not reflect the actual situation. Neither the empirical direction of research in contrast to the rationalistic one, nor also induction in contrast to deduction remotely describe the inner relationship of these learned schools. Both recognise in experience the necessary foundation for the investigation of real phenomena and its laws, both - as I presume - recognise in induction and deduction epistemological means which belong closely together and mutually support and supplement each other. The basis of the real difference

¹H. Dietzel, Review of Menger's *Untersuchungen*, *JbfGVV* 8 (1884), 353-70; E. Sax, *Das Wesen und die Aufgaben der Nationalökonomie* (Vienna, 1884); E. von Böhm-Bawerk, Review of Menger's *Untersuchungen*, *Zeitschrift für Privat- und öffentliches Recht der Gegenwart* 11 (1884), 207-21.

²W. Hasbach, 'Zur Geschichte des Methodenstreits in der politischen Ökonomie' I-II, *JbfGVV* 19 (1895), 751.

³M. Alter, 'What do We Know About Menger', in *Carl Menger*, ed. Caldwell, 332.

between the two schools which remains unbridged to the present day is a much more important one; it concerns the different views about the goals of research, about the system of tasks science must solve in the field of economics.¹

7.6 Subsequent Disputes and Economics at Vienna

Though Menger's *Irrthümer* marked an end to the dispute so far as Schmoller and the other historical economists were concerned, the *Methodenstreit* did continue to simmer on in a number of other ways. One way was in a continued preoccupation of other German and Austrian economists with methodology, of which only the work of Heinrich Dietzel will be mentioned.² Another way was in academic politics. When one of Schmoller's Austrian students in the Strasbourg economics and statistics seminar, Siegmund Adler (1853-1920),³ returned to Vienna and sought the *Habilitation* in the Vienna law faculty, he came up against Carl Menger.⁴ The impression that Menger made on the young Adler reveals to what degree Menger was, one year after publication of his *Irrthümer*, still preoccupied by the *Methodenstreit*:

The impression I got from the person as such was an overwhelmingly pathological one, which must arouse honest sympathy. In any case Menger is terribly overstrained; his appearance and behaviour have a morbid character. One would do him injustice if one were to carefully weigh every affectedly spoken word. He asked me what you now think of him, and since I wanted in any case to avoid all personal matters, emphasised vigorously the honest fact that in my last encounter with you, highly honoured sir, his person was not directly discussed. This comment of mine visibly surprised Menger. Apparently his entire

¹C. Menger, 'Wilhelm Roscher' [1894], in *The Collected Works of Carl Menger*, vol. III, 278-79.

²H. Dietzel, 'Beiträge zur Methodik der Wirtschaftswissenschaften', *JbbfNS* 43 (1884), 17-44 and 193-259. For a fuller discussion of this literature see Nau, *Eine "Wissenschaft vom Menschen"*, 173-90.

³GStAB, Nl. Schmoller, 6: 87-91, Tables showing attendance of S. Adler in Schmoller and Knapp's 'Nationalökonomische und Statistische Übungen', SS 1879-WS 1880-81.

⁴GStAB, Nl. Schmoller, 179: 146-149, Adler to Schmoller, 27 Nov. 1885.

nervous system is still under the impression of the polemic and he cannot understand that there are other things beside this matter which preoccupy.¹

Adler wrote Schmoller that he realised that historical science ‘cannot be without a home’ which was the reason that he chose to return to Vienna to continue his studies, but he added that he considered Austria ‘today and in the future as the *Ostmark* of the Reich’ and ‘that Germany is in no way a foreign country to me’.² Adler’s work in historical economics, his pan-German sympathies, and not least Adler’s Jewish background (he was the younger brother of Victor Adler [1852-1918], later to found the Austrian Social Democratic Party) did not help to endear him to Menger, as Adler would later find out. Adler was subjected to considerable Mengerian mischief, such as continued arbitrary changes in the subjects to be examined for the *Habilitation*: first Menger had promised Adler of being able to habilitate in political economy (economics, public finance and administrative science).³ But later he demanded that Adler complete his *Habilitation* in the history of finance and administration, only then to demand an additional theoretical piece to receive the *venia legendi* in history and theory.⁴ When Menger asked Adler what his position was regarding history or theory, Adler responded that he did not reject theory, but that theory had to rest on empirical foundations. Menger then told Adler that Austrian law understood *Staatswissenschaft* as theory and not history, which was only an auxiliary science (*Hilfswissenschaft*), and financial history, the subject Adler had chosen, was far inferior in importance to

¹GStAB, Nl. Schmoller, 179: 150-53, Adler to Schmoller, 10 Dec. 1885.

²*Ibid.*

³*Ibid.*

⁴GStAB, Nl. Schmoller, 179: 156-60, Adler to Schmoller, 28 Dec. 1885.

administrative history. Thus Adler was asked to write and be examined on the history of administration and history of public finance, only to be followed by a piece on financial history. It all made little sense to Adler, apart from making it clear, as he wrote, that he was dependent on Menger's grace.¹ However, in the end Adler did prevail; he became a *Dozent* and then professor in the faculty, in whose seminar the young Joseph Schumpeter later studied the history of land tax.² Similar discrimination against 'historians' in the faculty was reported to Schmoller by another Austrian.³

When Brentano was appointed to the Vienna faculty in 1888 (against the wishes of Menger) and came to call on him for the first time, Menger frankly told him 'you cannot imagine what bitterness your appointment has filled me with'.⁴ Brentano reciprocated with indirect jabs at Menger in his inaugural lecture at Vienna and his later lecture upon assuming a chair in Leipzig in 1889.⁵ In the former, Brentano discussed the practical harm wrought by the various erroneous classical price theories. He also discussed the revisions suggested by empirical and historical insights, with the consequent greater relevance of practical economics (economic policy) and empirical investigation. In the latter he stated that in face of the great challenges raised by the 15-year world-wide depression, mass unemployment and poverty, new formulations of subjective value or definitions of interest and rent for vague struggles against

¹*Ibid.*

²Y. Shionoya, *Schumpeter and the Idea of Social Science* (Cambridge, 1997), 15.

³GStAB, NI. Schmoller, 179: 252-253, Adolf Bruder to Schmoller, 29 Aug. 1886.

⁴Brentano, *Mein Leben*, 142.

⁵*Idem*, 'Die klassische Nationalökonomie' [1888], in *der Wirtschaftende Mensch in der Geschichte* (Leipzig, 1923), 1-33; *Idem*, *Ueber die Ursachen der socialen Noth* (Leipzig, 1889).

socialism were utterly irrelevant.¹

These various differences were not merely personal but also curricular and institutional. As discussed in chapters 1 and 2, Austrian and German *Staatswissenschaften* both grew out of cameralism, had a common curricular tradition, and shared common textbooks.² But the link to cameralism remained stronger in Vienna than in many German universities. This was reflected in Vienna's unified faculty and curriculum of law and *Staatswissenschaft* (an absolutist measure introduced in 1782),³ the traditionalism of its curriculum, and the fact that teaching and examinations were organised as in the old cameralist academies, with the overwhelming majority of the candidates in the faculty expecting to enter the Austrian civil service. It was noted by the American observer H.R. Seager (1870-1930), for example, that economics in Vienna was taught not as a science but as a degree course with a very narrow range of required subjects and that all of its students seemed to be jurists.⁴ These links to cameralism were themselves invoked by Carl Menger, who insisted that the candidates of the faculty see themselves as 'administrators of the state', not just as jurists, but also as 'cameralists'.⁵ And consistent with this position, Menger actively opposed all attempts to separate economics from the law faculty.⁶

The institutional structure of an academy with lone professors with heavy

¹*Idem*, *Ueber die Ursachen*, 5; this was likely an indirect reference to Menger's, 'Zur Theorie des Kapitals', *JbbfNS* 18 (1888).

²See Streissler, 'Influence of German Economics', 31-68.

³See Hennings, 'Institutionalisierung' in *Insttutionalisierung*, ed. Waszek, 45.

⁴Seager, 'Economics at Berlin and Vienna', 252-54.

⁵Lindenfeld, *Practical Imagination*, 250.

⁶See Hansen, 'Methodenstereit', 171.

teaching and exam loads in a well-established, narrow range of subjects suited a unified, highly standardised and dogmatic subject like Viennese *Staatswissenschaft* well, but by the 1870s and 80s economics was becoming more empirical-statistical and research-driven, encouraging a division of labour and the seminar system of research and teaching.¹ As discussed in chapter 2, in the case of Prussian and other German universities (and eventually everywhere else), original research became a prerequisite to academic careers, essential for cutting-edge teaching and curricular innovation. Moreover, academics engaged in both research and teaching throughout their careers. This process would, however, also ultimately bring about the demise of *Staatswissenschaft* as a unified science.² In Austria, by contrast, a scientific division of labour, empirical research and seminars were rarer and came much later. Indeed, Seager spoke of ‘the comparative neglect of economic science’ and the absence of demand for a ‘really comprehensive course in economics’ at Vienna.³ It is worth noting that Menger’s research output dwindled after publishing his textbook the *Grundsätze*, for which Streissler cites Menger’s teaching and examination load, remunerative interest in large student numbers and the fact that research monographs were written mainly by younger scholars and ‘non-academic outsiders’.⁴ But this was much more a testament to the old-fashioned approach to economics emphasising a ‘simple paradigm’ of doctrines typical of Vienna. For example, while Professor in

¹See J. G. Backhaus, ‘The University as an Economic Institution’, *JES* 20 (1993), 8-29; S. M. Wickett, ‘Political Economy at German Universities’, *EJ* VIII, no. 29 (March 1898), 146-50; Schmoller, ‘Wechselnde Theorien’, 1402-3

²Lindenfeld, *Practical Imagination*, 281-86 321-22

³Seager, ‘Economics at Berlin and Vienna’, 254; compare the English account of German economics around the same time in Wickett, ‘Political Economy at German Universities’, 148-50.

⁴Streissler, ‘Influence of German Economics’, 62-65.

Vienna in 1888 Brentano complained of the excessive ‘rents of the lectern’ (*Kathederrente*) earned by professors from lecture fees in the narrow range of obligatory exam subjects, as he did of the heavy exam load and lack of cooperation between faculty members.¹ He also complained of the ‘exam fee usury’ of the faculty members, who had pecuniary interests in frequent exams for the fees that were collected.² Knapp, who was made attractive offers to go to Vienna in 1888 and again in 1892, declined because Vienna was too much run like a school, not a research institution: lecturing was encyclopedic, repetitive and in a narrow range of subjects with no academic division of labour, and examinations were held almost daily; best suited to the job, he wrote, was someone who did no research and only lectured.³ Knapp did note earlier, however, that the Austrian ministry was placing a greater emphasis on seminar work and no longer saw this as a marginal activity as it once had.⁴ Research monographs and academic journals were much more limited and less significant to academic careers in Austria, and many of the important journals were founded quite late, such as the *Zeitschrift für Volkswirtschaft, Socialpolitik und Verwaltung* in 1892, and the *Zeitschrift für Sozial- und Wirtschaftsgeschichte* in 1893, the latter with the help of Germans. The Austrian professional body in economics, the *Gesellschaft österreichischer Volkswirthe* (of which Schmoller had been a member since 1875),⁵ was also much less research-driven than its German counterpart, the

¹Brentano, *Mein Leben*, 143-44.

²GStAB, NI. Schmoller, 114: 253-57, Brentano to Schmoller, 19 Mar. 1891.

³GStAB, NI. Schmoller, 130a: 376-77, Knapp to Schmoller, 14 Nov. 1892.

⁴GStAB, NI. Schmoller, 130a: 369-70, Knapp to Schmoller, 27. Sept. 1892.

⁵GStAB, NI. Schmoller, 172: 34, Hertzka to Schmoller, 6 Mar. 1875.

Verein für Sozialpolitik.

It was for these various reasons that the Vienna law faculty and the Austrian government were keen to attract German economists like Knapp to Austria to help modernise the curriculum. Indeed between 1870 and the mid 1990s Brentano, Held, Knapp and Schmoller were all made attractive offers to come to Vienna,¹ and at one point or other Lujo Brentano, August von Miaskowski, A.E.F. Schäffle, Lorenz von Stein and Adolph Wagner, among other Germans, taught economics in the law faculty in Vienna. If the effect of the *Methodenstreit* is gauged by changes to the mode of production of Austrian economics in the 1880s and 1890s, it would appear that it had little effect in drawing Austrian and German economics apart. Indeed, as will be discussed further below, Austrian *Staatswissenschaft* would take up more impulses from Germany in the early 1890s than ever before.

7.7 The Rise of Social Reform in Austria and the *Verein's* Vienna Conference of 1894

Time, as it turned out, was not on the side of an economics which ignored the state, denied much of a role to economic policy, and which dismissed social reform and socialism as one-sided 'collectivism', 'rationalism' and 'pragmatism'. With increasing industrial expansion and urbanisation, the successive broadening of the franchise in Austria in the 1880s, and the rise of a working class movement, the labour question increasingly entered public discussion. The Austrian Social Democratic Party was formed in 1888 by Viktor Adler, some 20 years after the German SDAP, and in the summer of 1893 party members organised a general strike and massive

¹BAK, Nl. Brentano, 27: 13-14, Held to Brentano, 22 June 1872; Brentano, *Mein Leben*, 137-43.

demonstration of 50,000 people before the parliament in Vienna to demand suffrage reform. Austrian social reformers such as Moritz Roser (1818-1906), Hippolyt Tauschinski (1839-?) and Eduard Lewy (1838-1905) had at the same time increased public awareness of the conditions of the working classes. Unlike most other Austrian liberals, they supported health and factory legislation as well as franchise reforms and were committed to broadening the social base of liberalism, though some, such as Roser, would themselves later join the Austrian Social Democrats. As Wilhem Wadl has argued, Austria never did develop a 'social liberal' organisation like the *Verein für Sozialpolitik*, though in the 1890s involvement of Austrians in social reform did pick up.¹ Reflecting this was the founding of the Vienna Fabian Society, out of which developed the *Sozialpolitische Partei*. Within this group were such outstanding figures as Eugen von Philippovich, Michael Hainisch (1858-1940, later first president of the Austrian Republic), Engelbert Pernerstorfer (1850-1918), Anton Menger (1841-1906, Carl's younger brother), and Julius Ofner (1845-1924). But their influence remained minimal. With the almost complete demise in the 1890s of liberalism as a political force in Austria,² it was already too late to create a broad social liberal party, though such Austrian 'social liberals' would have considerable influence on the formation of social reforms in the last decades of the monarchy and in the first republic.³ In the 1880s social insurance modeled on German schemes was introduced in Austria.⁴ Moreover, the commercial code was repeatedly modified to restrict child and female

¹W. Wadl, *Liberalismus und soziale Frage in Österreich* (Vienna, 1887), 75-77.

²L. Höbelt, *Kornblume und Kaiseradler* (Vienna and Munich, 1993), 351-52.

³Wadl, *Liberalismus*, 77-78.

⁴See K. Ebert, *Die Anfänge der modernen Sozialpolitik in Österreich* (Vienna, 1975).

labour, regulate working hours and introduce factory inspection, taking Austria well ahead of Germany in this respect.¹ As a further indication of the shift in mood, the Austrian government also decided to introduce and make social policy an obligatory subject within the economics curriculum of the Vienna law faculty in the 1890s, in the hope that awareness of the social question would grow among administrators.²

Carl Menger, recalling the shift that had taken place in public opinion and the decline of Austrian liberalism, wrote in early 1891 that this was due to the disrepute into which Adam Smith's teachings had fallen as a consequence of the popularity of 'new' German economics, which had wrongly conflated Adam Smith with *Manchestertum*.³ But interestingly, the spectrum of educated opinion which had developed in Austria revealing greater awareness of the social question was itself reflected in Menger's family. Menger had two brothers who had also studied law but who developed rather different (even opposite) political views to their brother. Carl's older brother Max (1838-1911) was, unlike Carl very much a politician and public figure as a leader of the Austrian Liberal Progressive Club and the United German Left.⁴ He had strong social reforming commitments and was an Austrian advocate of Schulze-Delitzsch's cooperative movement, about which he wrote an early book.⁵ Unlike his brother Carl, public economics and social reforms figured centrally in his

¹Ritter, *Social Welfare*, 11 and 64.

²StA, 'Verhandlungen 1894', 128; see also Kesten-Conrad, 'Verein', 148.

³C. Menger, 'Die Social-Theorien der classischen National-Oekonomie und die moderne Wirtschaftspolitik' [1891], in *The Collected Works of Carl Menger*, vol. III, 221-23.

⁴H. Slapnicka, 'Menger (von Wolfensgrün), Max', *ÖBL*, vol. VI, 222.

⁵M. Menger, *Die auf Selbsthilfe gestützten Genossenschaften im Handwerker- und Arbeiterstande* (Vienna, 1866).

work, and he was considered a leading expert in public finance and economic policy.¹ Carl's younger brother, Anton, finished his doctorate in law two years earlier than Carl and had in addition also studied philosophy, history and mathematics. Like Carl he was appointed as professor in the Vienna law faculty.² But almost diametrically opposite to Carl, Anton had strong socialist leanings and viewed the state and law not as organically grown, unintended and legitimate institutions, but as products of force and power. He subjected socialism to legal treatment, positing that the purpose of socialism was to establish basic economic rights (right to full produce of labour, right of subsistence, right to work),³ arguments which were reviewed favourably by Schmoller.⁴ Together with Philippovich, Anton Menger was, as noted, a leading figure within the Austrian Fabian Society. A later commentator who had studied under both Menger brothers at Vienna, noting the striking contrasts between the two, recalled that while he had learned his economics from Carl the problems that he would himself later deal with (the social question and its solution by the state) were introduced by Anton.⁵

Throughout the 1890s the social question rose to the very top of the agenda within economics at the Vienna law faculty and in policy circles. This spurred ever

¹See P. M. Judson, *Exclusive Revolutionaries* (Ann Arbor, 1996), 137-38.

²H. Hörner, 'Menger (von Wolfensgrün), Anton', *ÖBL*, vol. VI, 220-21.

³see A. Menger, *Das Recht auf den vollen Arbeitsertrag in geschichtlicher Darstellung* (Stuttgart, 1886).

⁴G. Schmoller, Review of A. Menger's *Das Recht auf den vollen Arbeitsertrag*, *JbGVV* 11 (1887), 395-98.

⁵R. Sieghart, *Die Letzten Jahrzehnte einer Großmacht* (Berlin, 1932), 21.

greater interest in social reforms and the activities of the *Verein für Sozialpolitik*.¹ Indeed, upon suggestion by Philippovich, who had in 1893 returned to Austria to take up a professorship in the Vienna faculty, and with a formal invitation from Vienna in 1894, the general conference of the *Verein* was held there for the first time. Since the 1880s, and especially after the 1894 conference, numerous Austrians, including Siegmund Adler, Böhm-Bawerk, Philippovich, Friedrich von Wieser, Emil Sax, Inama-Sternegg, Adolf Menzel (1857-1938), Wilhelm Neurath (1840-1901) and R. Zuckerkandl (1856-1926), became active members of the *Verein*. So did, incidentally, Siegmund Adler's brother, Victor, and Menger's brother, Max. More revealing even than this, Böhm-Bawerk, Philippovich, and Inama-Sternegg became members of the *Verein's* board. Indeed the only prominent member of the Austrian economics establishment not involved in the *Verein* seems to have been Carl Menger himself.² Some ten years after the *Methodenstreit* Austrian economists were overwhelmingly voting with their feet regarding the relevance of both empirical economic investigation and social policy.

Giving the opening address of the *Verein's* conference, Philippovich said that the worries about leaving Germany to hold the conference in Vienna had today disappeared. The direction of the proceedings (by Inama-Sternegg and Philippovich together with Schmoller) was a witness to the fact that a 'deep living interest in the social question also exists here with us'.³ Philippovich continued by saying that the prestige of the *Verein* and the strength of its ideals brought so many Austrians into the

¹GStAB, Nl. Schmoller, 130a: 354-55, Knapp to Schmoller, 17 Jan. 1894. Knapp wrote Schmoller of Austrian interest in the *Verein*.

²StA, 'Verhandlungen 1894', 535-42.

³*Ibid*, 127.

ranks of its membership, and this was a testament to a growing awareness of the importance of the questions which the *Verein* addressed. These questions, Philippovich continued, were of great relevance and momentous importance to Austria:

No one who has conscientiously considered the development of our public life can refrain from the sense that above all the question of how we come to terms with the economic and social shift of classes, with the emancipatory striving of the lower classes, with the question of the social and state organisation of the economy, will decide our future. The need to discuss these matters, the desire that through the path of social reform dangerous class antagonism can be settled, that the transition to new forms of economic organisation can more easily be made are widespread among us and we have at our disposal a wealth of talent and warm feelings which only lacked a fitting central point, concentration and organisation in order to manifest itself in practical work.¹

As an example of the growing recognition of the 'new thinking,' Philippovich recalled that government and parliament were in agreement on the decision that the curriculum of lawyers and economists in Austria had to be supplemented with the subject 'Socialpolitik', which henceforth became an integral part of the economics curriculum.² In any case, Philippovich continued, the impending and unavoidable necessity of expanding the franchise would bring into the parliament those classes of the population which took the strongest interest in the social questions with which politics and legislation would have to reckon. These groups and their interests would increase in importance. Thus the question of economic and social reform would step into the foreground. These new demands, so Philippovich, required new methods of collaborative research:

who is not convinced, that in finding a solution one cannot dispute on the basis of lonely intellectual work, that much more the vibrant co-

¹*Ibid.*, 127-28.

²*Ibid.*, 128.

operation of all politically-healthy and strong elements of the people is an indispensable precondition? ...I believe, therefore, that the *Verein für Sozialpolitik* could not have found a more fitting time for its conference in Austria as the present one, and I am firmly convinced that it, according to its whole configuration, which provides the soil for an impartial and unpartisan treatment of things, allowing the expression of all views, so long as they bear an inner justification, is very well suited for us in Austria to spread not merely material instruction, but that we shall draw from its conferences inspiration for our own positive work in the direction in which it has gone with such success in Germany.¹

As a consequence of industrial expansion, urban growth and franchise reforms and the consequent challenges of democratisation and new *Mittelstand* and working class political organisations, Austrians were starting to experience the same sorts of changes that had long since occurred in Germany, changes which seemed to demand more than the old canard of *laissez-faire* and instead detailed empirical investigation and constructive policies. It is telling that Schmoller himself felt that the Vienna conference was the most successful in 22 years, which was to say that it was the most successful conference since the founding meeting in Eisenach in 1872.² It must have been a considerable personal vindication. Returning from Austria in October 1894, Brentano wrote: 'in Vienna I had an opportunity to convince myself that the general conference of the *Verein* has left a very favourable impression.'³

An indication of this success is given by the dramatic increase of Austrian membership in the *Verein*. Before the conference the *Verein* counted only 10-12 Austro-Hungarian members; the list of members of the *Verein* from the Habsburg monarchy after the conference rose to some 144, and overall membership from some

¹*Ibid.*, 128-30.

²Boese, *Geschichte*, 74.

³GStAB, NI. Schmoller, 114: 269, Brentano to Schmoller, 10 Oct. 1894.

375 to 489.¹ Indeed, when it came to the studies in the *Verein*, such as the study of artisans, adherents of Austrian marginalism, such as Philippovich, easily switched to an empirical-historical methodology, and neither he, Böhm-Bawerk, Wieser nor the other Austrian economists criticised this methodology in the *Verein*.² The Austrian government itself even paid the *Verein* a grant of 600 Austrian gulden for the execution of the extensive investigations of handicrafts proposed by the *Verein's* board.³ Also reflecting the mood was the founding of the Austrian economics journal *Zeitschrift für Volkswirtschaft, Socialpolitik und Verwaltung* in 1892, the organ of the Society of Austrian Economists edited by Böhm-Bawerk and Philippovich. The significance of historical-statistical economics in Austria is also gauged by the fact that one year later Brentano, Karl Grünberg (1861-1940) and Ludo Moritz Hartmann (1865-1924), founded the journal *Zeitschrift für Sozial- und Wirtschaftsgeschichte*.⁴ All of these developments show that interest in Austria for social reform and empirical, statistical-historical economics were not on the wane, but growing in the 1890s. If the development of Wieser's own views is taken as an indicator of this shift, the affinity of these with those developed by Schmoller is particularly striking. Even though Wieser was the premier exponent of Austrian marginalism (he invented the term 'marginal utility'), he did not share the essentialism, methodological preoccupations or political conclusions of his teacher.⁵ When asked by Edgeworth to

¹Boese, *Geschichte*, 74-75.

²Lindenlaub, 'Richtungskämpfe', 96-97.

³Kesten-Conrad, 'Verein', 148.

⁴H. Matis, *Österreichs Wirtschaft 1848-1913* (Berlin, 1972), 15.

⁵See Alter, *Carl Menger*, 221-29.

contribute an article on the Austrian School to the first volume of *The Economic Journal*, Wieser felt it necessary to begin his article by asserting that

The historical school of political economists in Germany, and the Austrian, or as it is frequently termed, the abstract, school are more nearly related than is at first sight apparent. Both follow the spirit of the age in rejecting speculative theory and in seeking their highest laurels on the field of observation. In art, as in science, naturalism must be distinguished from truth to nature, and we Austrians, while we certainly have no wish to be disciples of naturalism, are wholly set on being experientialists. This is what I would remark in the first place to the readers of this Journal, in complying with the Editor's kind invitation to give some account of our theories.¹

Wieser's policy views, like those of Schmoller's, were ones of the middle way, i.e., a justification of the mixed economy. Wieser's greatest work, *Theorie der gesellschaftlichen Wirtschaft* (1913) combined economics with historical and sociological analysis, and in it mass phenomena, distributive justice and the tasks of the state figured prominently.² Proof of the uncanny affinity on policy of Wieser and Schmoller came with the publication of Wieser's *Recht und Macht*.³ Schmoller's resoundingly positive review of the same provides yet further evidence that what divided Schmoller and Menger was never mainly method, but largely the policy ends of their science. In concluding his review of the book, Schmoller wrote:

...I would just like to express the great joy which these speeches have given me. They are made by a student of the Austrian theory of value, whose highest priest had once tried to excommunicate me. Here I now encounter a point of view, a basic position, yes many thoughts which are in complete agreement with my own. And it must satisfy me all the more in that I assume that this is not the consequence of the study of my writings but the result of independent research; nothing could satisfy me more than if he came to similar results through the logic of

¹F. von Wieser, 'The Austrian School and the Theory of Value', *EJ* 1 (1891), 108.

²*Idem*, *Theorie der gesellschaftlichen Wirtschaft*, in *Grundriß der Sozialökonomik*, sec. I, part II (Tübingen, 1914).

³F. von Wieser *Recht und Macht* (Leipzig, 1910).

facts.¹

7.8 The Legacy of the *Methodenstreit*

A contextual, historical account of the *Methodenstreit* prefaced by a detailed account of the development of historical economics and focused upon the actual texts, activities, and events in question reveals a dimension to this dispute which has frequently been overlooked. If the *Methodenstreit* is interpreted not as a dispute over deduction versus induction or theory versus facts, but instead as one centred on the empirical basis for doctrines and theory, and even more so, the public domain and ends of economics, the origin of institutions and the legitimacy of policy conclusions drawn from economic inquiry to alter these institutions, it must be conceded that these issues were not and could not have been resolved by either Menger, Schmoller or their respective students. Indeed, the cordial working relationship which developed between historical and Austrian economists in the 1890s did little to resolve the underlying issues which sparked the *Methodenstreit*; conciliation between these two camps suppressed these issues, only to reemerge after the turn of the century in an acrimonious dispute over value freedom. Similar issues continue to be a potent source of dispute to the present day. The conservative economics represented by Menger has a thriving contemporary counterpart in adherents of Chicago economics, whose own doctrines (in their case, tight prior equilibrium and rational expectations) are, as in Menger's day, linked closely to a normative dismissal of nearly all government action.² As Melvin Reder concludes, the Chicago School 'took a leading role both

¹G. Schmoller, Review of F. von Wieser's *Recht und Macht*, *JbGVV* 34 (1910), 1355.

²M. W. Reder, 'Chicago Economics', *JEL* XX (March 1982), 25-32.

in scientific research and in providing a rationale for political conservatism'.¹

It appears, then, that the tension between economic theory and empirical observation has been ongoing in economics.² Unlike the physical or biological sciences, economics is a policy discipline situated directly in political, legal, social and material contingencies; it has continually been forced to adapt and evolve new tools with changing material conditions, social needs, and political demands. There can therefore hardly be a history of economic thought without also an account of the set of economic and social problems which it sought to tackle in particular times. The Austrian economist and philosopher Otto Neurath (1882-1945) coined a metaphor which perhaps comes closest to capturing this image of economics as a situated science: it is a ship on a perpetual journey where the sailors are forced to make unending repairs and adjustments without the luxury of a dock; economics is always engaged with unending, changing problems and the hope of an ultimate theoretical foundation has proved illusory.³ It is not logically defensible to make distinctions between analytic and synthetic *a priori* used to fill the gap between empirical observation and a scientific heritage: all *a priori* are synthetic and purely instrumental. Output and therefore scientific progress, as in all sciences, is the result of continued empirical observation and pragmatic adjustments to a scientific heritage.⁴ Rationality is an instrument, or to borrow Herbert Simon's words, 'a gun for hire'

¹*Ibid.*, 35.

²M. Blaug, *Economic History and the History of Economics* (Brighton, 1986), 252-54; W. Leontief, 'Theoretical Assumptions and Nonobserved Facts', *AER* 61 (1971), 1-7; H. A. Simon, *Models of Bounded Rationality*, vol. 3 (Cambridge, MA and London, 1997), 387-432.

³Cartwright, *et al.*, *Otto Neurath*, 89.

⁴Quine, *From a Logical Point of View*, 46.

which depends upon empirically induced, tentative facts and normative premises or goals which, while disputable, cannot be logically derived.¹

¹Simon, 'Alternative Visions of Rationality', in *Rationality in Action*, ed. Moser, 191.

CONCLUSION

This thesis began by revealing that the rise of historical economics during the Bismarckian era and the role of historical economics in the development and professionalisation of German economics have not been studied in detail. Likewise, the complex relationship between historical economics and social reform has not been investigated closely. No reliable accounts of Gustav Schmoller's life, thought, and career exist, though few doubt he was one of the most important figures in German social science and public affairs. Historians of economic thought have tended to divorce economic ideas from their social context, positing accounts which emphasise cohesive schools and assumed (though largely undemonstrated) intellectual linkages, which in the German case are commonly tied to a grand narrative of intellectual peculiarity. This usually assumes the hegemony and continuity of idealist, romantic and historicist currents of thought. Much of what is conventionally assumed about historical economics, Gustav Schmoller and the early German social reform movement is often based upon untested assumptions and unwarranted conclusions, a situation reinforced by the fact that the 'Historical School' has for generations acted as a convenient scapegoat for a variety of alleged failings and provided a useful foil to neoclassical economics.

While no single study can feasibly address the many problems raised, this thesis hopefully provides a clearer picture of the origins and development of the historical economics of Gustav Schmoller and his colleagues and thereby also of the social reform movement which they helped to establish. Schmoller, as was revealed,

was rather pluralistic in his choice of methods and more tolerant of alternative approaches than he has often been made out to be. Historical economists like Schmoller aspired to a causal understanding of social and economic phenomena and did so by applying an empirical method which employed both induction and deduction, but in which metaphysics, ideologies, axioms, intuition, introspection, and other undemonstrable propositions were insufficient to establish statements of fact upon which to base an investigation of causal relationships leading to generally valid propositions. Such general or universal knowledge could, in Schmoller's view, only be derived empirically from the world of perception through continuous observation and testing. At the same time Schmoller and his colleagues accepted that scientific inquiry was guided by values, views of the world and teleology, though these had to be kept as much as possible out of the process of causal analysis itself. Likewise they accepted that the application of scientific knowledge to practical problems required values or a teleology. Concern about social inequality and a view of social progress directed their research toward the social question and applied the information and propositions derived from empirical investigation to the project of social reform. Historical economists like Schmoller asserted that economics had the same epistemology as the natural sciences, and that the establishment of non-empirical epistemologies and axioms (as, for example, Mill and then Menger had done) was a way of introducing inadmissible teleologies, values or political opinions into the analysis of causes.

As revealed in this thesis, it was remarkable to what extent nearly all the writings of Schmoller on statistics, economic and agrarian history, social, fiscal, and economic policy, and the origin and evolution of the division of labour and enterprise

were driven first and foremost by the desire to address contemporary policy issues, and only in the second instance by historical or scholarly interest. Evidence in this thesis suggests that the historical economists came to embrace history via statistics. They had perceived through their collection and study of statistics that social phenomena were not mainly based on unchanging individual motivations or natural laws, but instead upon shared values, customs, laws, and institutions in a context of material constraints, all of which changed over time. Moreover, human action, whether economic or social, was mainly a cooperative activity held together by common values, customs, laws and institutions, an understanding of which required historical analysis, especially if any attempt was to be made at legal and institutional reform. It is a myth that these various empirical and historical investigations never bore theoretical fruit: Schmoller produced a theory of mercantilism, a division of labour theory of social classes, and a developmental theory of entrepreneurship. Brentano developed a theory of solidarity and trade union organisation, Knapp a theory of manorial capitalism and a state theory of money, and Held a theory of industrialisation.

Much evidence in this thesis suggests that the notion of a cohesive and dominant 'Historical School' with Schmoller at its centre needs to be abandoned. Historical economists were an eclectic group spread all over Germany and Austria, and Schmoller and his colleagues were frequently isolated figures with numerous vociferous critics within both academia and politics. Schmoller did not alone dominate the choice of appointment of economists in Imperial Germany nor was he an intolerant academic hegemon bent on advancing a narrowly historical research programme. If for practical reasons the rubric 'historical' is used when referring to Schmoller's economics, then it must be clear that what is meant is 'historical-statistical

economics', since what set this mode of inquiry apart was in the first instance not so much history, but statistics and other empirical investigation, including historical material; Schmoller and his colleagues never claimed that economic science was history, but instead that history along with statistics and direct empirical observation were tools of an economics which ultimately sought theoretical generalisations. Schmoller also never proposed general laws of historical development, nor did he claim that history tended to a particular end or that a unified human history was possible. At most a set of specific historical generalisations useful for comparison could be derived. These generalisations were often expressed as part of an interpretative view of the world which made no claim to being a law of history. Schmoller and the other historical economists believed that historical change made economic theory, historical interpretations, laws, and institutions, relative over time, but the value of law and institutions had to be judged, not by the past, but instead according to the values and demands of the present. And they needed to be altered pragmatically as the need arose.

The historical economics of Schmoller and his colleagues cannot be accurately described as historicist, neither in Friedrich Meinecke's sense of an individualising view of history which replaced an Enlightenment generalising view, nor in Karl Popper's sense of a philosophy or science of history claiming to predict or determine the future.¹ Little evidence also exists to tie the historical-statistical economics of Schmoller to a tradition of post-Kantian German idealism or romanticism. If anything, Schmoller and his colleagues were reacting against speculative philosophy and

¹F. Meinecke, *Die Entstehung des Historismus*, vol. 1 (Munich and Berlin, 1936), 2-3; K. Popper, *The Poverty of Historicism* (London and New York, 1957), 45-49.

romanticism. A decidedly empiricist and critical rationalist intellectual mood prevailed in the formative decades of the 1860s and 70s during which the historical economists developed their views. Schmoller and his colleagues had a deep respect for the empirical, experimental methods of the natural sciences, in many cases a product of their own formal study of branches of science. They were also part of a European network of reformers and statisticians who shared ideals and exchanged ideas freely. The empirical orientation of the historical economists was a remedy for what they perceived as the excesses of speculation, idealism and metaphysics in German and British political economy. It is revealing that Schmoller and other historical economists criticised Carl Menger on these grounds: his theories were, they argued, imprecise, inexact, unempirical and speculative. And as this study reveals, it is Menger who emerges as the particularly 'German' economist: Menger relied upon introspected facts, essentialism, organic metaphors and made no secret of his sympathy for German romantic and conservative thought.

One of the most formative influences, indeed perhaps *the* formative influence on the approach taken and subject matter tackled by the historical economists were statisticians, foremost Gustav Rümelin and Ernst Engel. Engel was not only important as a teacher, but also as a mentor for empirical investigation of the social question, an outstanding academic organiser and innovator, a source of contacts to influential statisticians and economists abroad, and as a leading liberal social reformer. It was of great consequence that Engel's bureau was in Berlin, bringing together the young historical economists and exposing them to the social question in the largest Prussian city. Direct confrontation with the severity of social problems in Prussia was a major impulse to social reform, and it appears that much of these efforts were directed at

overcoming a legacy of social inequality and at westernising East-Elbian Prussia. From the outset, then, historical-statistical economics and social reform were inseparable activities given impulse by the research undertaken in statistical bureaus. The social question and social reform had primacy in the historical economics of Schmoller and his colleagues; addressing this set of interrelated subquestions and challenges was the *raison d'être* of nearly all their investigations, as it was the main aim in founding the *Verein für Sozialpolitik*. It is a symptom of the inadequate historical understanding of the intellectual currents in Germany during this era that has led in the past to misleading accounts of the 'Historical School' stressing intellectual continuity; while an intellectual heritage played a role, closer examination reveals not only a much more complex and interesting picture, but also one which suggests discontinuity, reform and renewal.

It is important to scrutinise the mode of production of communities of scholars. Of great consequence to the scholarship and public profile of Schmoller and his colleagues was the close contact to one of the leading academic publishers in Imperial Germany, Carl Geibel of Duncker & Humblot. This relationship greatly aided the publication of their research output and led to the creation of a number of new monographs, Schmoller's *Jahrbuch*, and the organisation of the *Verein*. Without Geibel, Schmoller and his colleagues would have reached far fewer people and subsequently would have had far less influence on public opinion and policy, especially considering the fact that it was Geibel's strong personal commitment to social reform which was a major factor in decisions to publish. Publishers like Geibel thereby played decisive roles not only in the development of historical economics and the German social sciences, but also in advancing the project of social reform.

Schmoller and his colleagues had a considerable impact on the curriculum of *Staatswissenschaft*, especially in introducing the seminar system of teaching and research. They insisted on original empirical research, the systematic study of statistics, and helped introduce the social question as a subject of university study, thereby helping to redefine the curriculum of *Staatswissenschaft* in Germany. This had some influence on the *Weltanschauung* of the generations of future private administrators, civil servants and academics who would attend their lectures and seminars, and it did not go unnoticed by those hostile to the social reforms advocated by Schmoller and his colleagues. The processes of curricular and research innovation were consolidated by the founding of *Verein für Sozialpolitik*, which, as it slowly became a scholarly society, eventually helped to define the problems and mode of inquiry of economics not only in Germany, but also in Austria. This was not so much a symptom of the alleged hegemony of Schmoller and the 'Historical School' as it was a manifestation of the broad consensus over the importance of the social question, the priority of social reform, and a shared respect for empirical statistical-historical economic and social research among German and Austrian scholars from a variety of methodological backgrounds. As revealed, the *Verein's* 1894 conference in Vienna was a great success precisely on these grounds, uniting leading Austrian theorists and German historical-statistical and theoretical economists. That the differences between Menger and Schmoller arose mainly as a consequence of their disagreement over the aims of economics, and that this centred crucially on the priority given to social reform in Schmoller's work, is only fully revealed once the *Methodenstreit* is understood within the broader context of curricular innovation, professionalisation and the rise of social reform in Germany and Austria.

The *Verein* was originally conceived as a super-partisan body to influence public opinion, to fill an information vacuum created by public and official ignorance and indifference, and thereby to advance an agenda of reform. All evidence suggests that the *Verein* was a quintessentially civic, liberal creation, though it was itself a response to the increasing narrowness of German liberalism, particularly the doctrinaire opposition to nearly all state intervention and the unwillingness and inability of liberals to broaden their political programme to include the interests of the working class and *Mittelstand*. Historical economics and the *Verein* were expressions of a particular strand of German liberalism, according to which a *Mittelstandsgesellschaft* socially broader than the English middle class or French bourgeoisie remained an appealing social ideal. Conditions in Britain and France were studied with great interest, and as was discussed, both Brentano and Schmoller spent considerable time observing conditions there. Britain especially was a source of inspiration for what could be achieved through practical reforms. While much borrowing occurred, many also came to the conclusion that certain developments abroad were neither particularly desirable nor applicable to Germany. The single greatest lesson learned abroad was that unbridled economic freedom did not by itself produce an equitable and functioning civil society, and that consequently economic processes had to be subordinate to and serve social and political ends. The research of the historical economists was initially also driven by the desire to evaluate and test empirically the large body of economic writings and literature on the social question which had been generated in Germany since the 1850s and 60s.

Given this background, historical economists accepted many of the socialist critiques of liberal economics and policy. Both from outside and within the discipline,

classical economics had been exposed as a threadbare system of axioms refuted by mounting empirical evidence and qualified by numerous theoretical innovations, all of which undermined its claim to being a science. Schmoller and his colleagues realised that the link between liberal politics and classical economics was highly problematic, since it further discredited their discipline and enmeshed them in an unfruitful struggle with socialism. Abandoning the most discredited components of classical economics was thus a first step in social reform, since it was an affirmation of the ability of conscious human action to shape an economic destiny. Scientific and social improvement were complementary; classical economics had long since ceased being a liberating and emancipating moral philosophy, instead condemning society to a contrived inexorability whose main function was defending specific interests and perpetuating the status quo. It was for these reasons that the aspiration arose to create a positive, empirical economics which transcended class, and it was to this challenge that the historical economists directed their early scholarly work. For the historical economists and other reformers the policy end of their research was securing a *Mittelstandsgesellschaft*: the state could not privilege the interests of specific dominant classes. Property rights entailed social obligations; a division of labour created power relationships which required regulation; and the firm had a public impact and was embedded in, and dependent upon, public institutions.

While Schmoller and his colleagues accepted certain criticisms of the free market, they cannot be identified with the conservative state socialism of Rodbertus, Schäffle, Schönberg and Wagner. Indeed, Schmoller, Brentano, Knapp and Held were almost unfailingly critical of their economics and policy recommendations. Also, Schmoller and his colleagues were not opportunistic or uncritical supporters of

Bismarck and his allies. And the policy positions which the historical economists themselves supported were neither extreme, dogmatic, nor were they ill-informed; in most instances policy recommendations were based upon a substantial study of facts and considerable command of the issues. There were few issues or events of relevance to policy which were not studied in the *Verein* or discussed in the pages of Schmoller's *Jahrbuch*, and while their influence on policy was indirect, it was considerable. The historical economists were vigorous advocates of worker protection laws, factory inspection, trade union rights, and the reform of vocational and technical education. They opposed centralised and bureaucratic forms of worker insurance, advocating instead decentralised and worker-administered schemes which retained autonomy and a scope for choice. Their justification of temporary, moderate agricultural tariffs was based upon knowledge of the price implications of the international shift in the supply of agricultural commodities and was conceived as a means to prevent massive foreclosure, and especially, to encourage land reform and changes in tenure toward modern intensive farming. Schmoller was an enthusiastic advocate of industrial enterprise, which he saw as a motor of prosperity and social mobility, advocating the democratisation of industrial relations through consultative bodies and profit-sharing schemes. He also urged the regulation of cartels to prevent abuses of monopoly power. Branding such policy with the ideologically-charged labels 'state socialism' or 'neomercantilism' is clearly off the mark. For similar reasons gauging the decline of German liberalism by the fate of liberal economic policy can be misleading.

The central place of order, both moral-ethical and institutional, in the historical economists' conception of the economy has been one of the main themes emerging

from this dissertation. This preoccupation with order was in part a product of the unresolved tension between freedom and risk which vexed so many German liberals. A moral-ethical and institutional order was thought to contain the riskiness of freedom while at the same time tapping its strength. This notion of ordering society and markets has continued to prove compelling to modern generations of Europeans, seemingly representing a tradition with a continued function. Historical economists were among the first to systematically reflect upon and give expression to this notion. At the very least, the importance of historical economists in helping to conceptualise and shape into policy this notion of order has warranted a more detailed study of historical economics and social reform in the Bismarckian period.

A particular interpretation of German history, and especially that of Prussia was central to the social reform movement. Antecedents were found not for stasis, but for change and reform, and in this sense the discovery and interpretation of modern Prussian history was central. The history of Prussia was interpreted to reveal the triumph of the human intellect and will over material circumstances, the vindication of adaptability, pragmatism, and reform, the triumph of enlightenment rationalism over feudal particularism, outmoded laws and institutions, and economic parochialism. It also revealed the state as an initiator of social and economic change and defender of the general interest. Schmoller would project this role on to the Prusso-German state to secure a *Mittelstandsgesellschaft*, though in the 1860s and 1870s the reality of the Imperial and Prussian states fit poorly with this ideal, and Schmoller and his colleagues felt compelled to direct the information and insights gathered through their research as much to civil servants and government ministries as they did to the public at large; the priorities of the state had to be changed, its officials informed, and future

administrators educated. For a more accurate picture of German social reform, attention must continue to shift away from Bismarck toward the study of what happened within civil society as the Prussian state was brought into union with the south German statelets. It was, after all, not so much East-Elbian Prussians who were disturbed by urban conditions in Berlin and peasant life in Prussia, but non-Prussian investigators and activists like Schmoller, Knapp, Held and Brentano. And it was they who sounded the alarm and launched the *Verein*. In this respect Schmoller and others helped to invent the traditions of Imperial Germany to suit the agenda of social reform, and in the process imported to Prussia the communitarian aspirations of the south German *Mittelstand*, a risk-averse, liberal-nationalistic political culture. Prussia was the administrative and legal arrangement which held the hope of implementing a communitarian social peace longed for by many south and west Germans. Despite its flaws, Prussia was seen as a flexible, tolerant, cosmopolitan, rational and centralising force in a collection of petty German states plagued by civil warfare, division, intolerance, narrowness, provincialism, and hostility to change. This does not deny that Prussia was also authoritarian and militaristic, but Prussia was clearly more than that to many Germans.

More broadly and closely related to the previous point, what also emerges from this thesis is a case study of the relevance of history for criticism, reform, and for a more scientific perspective in the social sciences. For all their study of history, Schmoller and his colleagues did not seek in it a justification for the sanctity of the status quo or natural inevitability. They found instead the insight that the economy was a legal and institutional arrangement which had been and could be consciously adapted to changing needs and ethical demands. History revealed how those institutions had

triumphed and had failed, as well as how they were reformed or otherwise changed. And it hinted at possible paths of future development. History provided a perspective of development and change and the insight that it was possible to shape a future. It also provided a set of policy tools abandoned out of ideological dogmatism and the dominance of vested interests. Through history the sanctity of existing institutions, the 'organic order of things' or 'natural law' were often revealed as little more than legitimated violence, brutality and injustice; institutions were not always organically-grown structures embodying inscrutable wisdom (Menger) but also the product of interests, struggle and power. In short history provided an empowering perspective which informed and could justify policy. And it provided an idea of where the individual and group was in the broader scheme of things. In this vein the strong similarities between the historical economists' conception of history and similar movements in other countries, such as British New Liberalism and Fabianism, and American Progressivism, Institutionalism and Pragmatism are particularly suggestive.¹ Consider, for example, Oliver Wendell Holmes' (1841-1935) view of the importance of history to law:

Every one instinctively recognizes that in these days the justification of a law for us cannot be found in the fact that our fathers always have followed it. It must be found in some help which the law brings toward a social end which the governing power of the community has made up its mind that it wants. And when a lawyer sees a rule of law in force he is very apt to invent, if he does not find, some ground of policy for its base. But in fact some rules are mere survivals. Many might as well be different, and history is the means by which we measure the power which the past has had to govern the present in spite of ourselves, so to speak, by imposing traditions which no longer meet their original end. History sets us free and enables us to make up our mind dispassionately whether the survival which we are enforcing answers

¹See especially Rodgers, *Atlantic Crossings*.

any new purpose when it has ceased to answer the old.¹

This further illuminates the hostility to history of men like Menger and most of the neoclassical economists, whose timeless theories and laws provided an ideal refuge for political prejudices which could then be imposed upon the public, not by weight of argument or facts, but through ‘scientific’ and ‘professional’ authority. Like Holmes in America, Schmoller was an advocate of the prerogative of the legislative and administrative over the legal-judicial functions of government, and history was a tool to clear away institutional, legal, and axiomatic rubbish accumulated over time with no other justification than continuity.

In closing, it is worthwhile to reflect why it was that no new theoretical foundations of the kind established by Jevons in Britain, Walras in Switzerland, and Menger in Austria were laid in Germany. Historical economists did not heed the ‘siren song of social physics’, as Philip Mirowski has called the application of the formalisms of classical mechanics and ‘proto-energetics’ to what is now called neoclassical economic theory.² But before attributing this to a want of training in physics, mechanics, or mathematics, recall that quite a number of historical economists had trained in physics and other natural sciences, and those who had been particularly critical of Queteletan social physics (Knapp and Lexis) were in addition highly accomplished applied mathematicians and statisticians. As was discussed, social physics had been proposed by Quetelet in the 1850s and 60s and opposed by historical economists on the grounds of the variability of causal factors determining statistical

¹O. W. Holmes, ‘Law in Science and Science in Law’ (1899), in *Collected Legal Papers* (New York, 1921), 225.

²P. Mirowski, *More Heat than Light* (Cambridge, 1989), 396.

averages; observed regularities were not causal but only to varying degrees probable. Just as they had been critical of Quetelet's astronomic and Carl Menger's organic analogies and essentialist metaphysics, historical economists were critical of Walras and Jevons' adaptation of mechanical metaphors from physics on the grounds of inappropriateness and inapplicability. In social systems where a strong volitional and random component prevailed, where time was not reversible, and in which common social institutions, laws, customs and values had a substantial and observable impact on individual and group behaviour, it was hard to imagine a more inappropriate and irrelevant metaphor than the slavish transfer of Lagrangian-Hamiltonian mechanics yielding the unmeasurable differential calculus of marginal utility. It is suggestive that contemporaneous physicists and engineers frequently confronted marginalism with bafflement and criticism, and when they subjected economic problems to analysis usually resorted to descriptive and statistical (empirically measurable) approaches much like the historical economists.¹ Indeed, some have argued that the 'marginal revolution' and the rise of neoclassical theory was symptomatic not only of an impoverished conception of social phenomena, but also a particularly shallow understanding of physics (Walras) and ineptitude with its mathematics (Jevons and Walras), a dubious attempt to raise the status of undemonstrated propositions by mathematical technique, oblivious to the unresolved inconsistencies (i.e., utility as potential energy conserved in a vector field).² As Mirowski argues, the Laplacian dream of mathematical certainty independent of empirical measurement or testing shackled neoclassical economics to the rigidly deterministic physics of energetics at

¹*Ibid.*, 241-54; Porter, *Trust in Numbers*, 49-72.

²Mirowski, *More Heat than Light*, 27-30, 196-97, 201-202, 217-41, 254-75.

a time when this was rapidly being undermined by developments in thermodynamics and quantum mechanics.¹ It also meant that, unlike nearly all the sciences, a probabilistic understanding of causation would elude economics until well into the 20th century.² In this light, the fact that the statistical tools so enthusiastically embraced and adapted by historical economists were not developed further, that so much emphasis was placed on variability and criticism, and that statistical tools were often not effectively transmitted to the next generation of German and Austrian economists, was unfortunate.

Despite the belief, still widely held, that German theoretical economists were a rare or uninfluential breed and that Schmoller single-handedly hindered their appointment to academic posts,³ no shortage existed of prominent and influential practitioners of deductive-theoretical economics in Germany, of which mention only need be made of Conrad, Diehl, Dietzel, Nasse, Schäffle, and Wagner, some of whom (Dietzel, Conrad and Wagner) openly sided with Menger in the *Methodenstreit*. Conrad and Wagner each exercised an influence on appointments at least equal to Schmoller or Lexis. In the marketplace of ideas the onus was on these self-professed theoreticians to develop and popularise a new body of theory and revised curriculum, which for whatever reasons was never successful. This leads, however, to the more difficult question of how an innovative and growing industrial economy dominated by large, scientifically-driven and professionally-managed firms (which by the 1890s was

¹*Ibid.*, 59-98,

²C. Ménard, 'Why Was There No Probabilistic Revolution in Economic Thought', in *The Probabilistic Revolution*, ed. Krüger, Gigerenzer, and Morgan, vol. 2, 140-46; M. S. Morgan, 'Statistics Without Probability and Haavelmo's Revolution in Econometrics', in *ibid.*, 171-97.

³See most recently R. Swedberg, *Max Weber and the Idea of Economic Sociology* (Princeton, 1998), 175

overtaking Britain in industrial production), a complex financial system, and a growing public sector (including, for its time, elaborate public works and novel welfare provisions) could have been successfully understood and managed before 1914 with the relative dearth of fundamental training in economic theory. Was there really no demand or incentive for this skill in such a complex society? Could one person and a band of academics scattered throughout Germany really have hindered this demand being supplied? Was this a little-known case of market failure or Say's 'law' at work? This thesis suggests that the demand for a foundational *a priori* approach provided by neoclassical theory, Austrian economics and German theoreticians was indeed very low in Germany between 1864 and 1894. Economists and administrators, whether in the public sector or in private firms, were preoccupied by ever changing practical concerns centred on applied problems which required empirical observation and measurement. Indeed it is hardly an exaggeration to say that German economics between 1864 and 1894 was predominantly applied economics and economic and social policy, tasks for which the generation of a system of foundational theory divorced from statistics and application appears to have been largely irrelevant.

It is an interesting irony that Britain, despite its remarkably flexible and responsive parliamentary system, political centralisation, impressive momentum of reforms, experienced civil servants, vibrant civil society and trade union movement, and the much-touted Victorian impulse to subject social problems to scientific scrutiny and control - precisely those qualities which had so impressed and inspired German social reformers - would itself respond reluctantly and haltingly to many social and economic policy challenges in the last quarter of the 19th century.¹ And policy

¹See D. S. Landes, *The Wealth and Poverty of Nations* (London, 1998), 449-61.

preserving the economic and institutional status quo was frequently justified by leading British neoclassical economists.¹ Imperial Germany - despite the flaws of its authoritarian political institutions, the strictures of federalism, endemic fiscal problems, frequent legislative deadlock, and insular and reactionary ministries and civil servants - somehow managed to respond to many similar policy challenges in a timely and decisive manner. This thesis has shown how one component of this response arose, what form it took, its ideas, and the various avenues of its activity and influence. Schmoller and his colleagues believed, like Adam Smith, that economics addressed questions bigger than satisfying the wants of commodity-trading individuals; it was a policy science concerned with the basis of national prosperity, a science of progress which unavoidably contained an applied ethical component. If the historical economists could be blamed for lacking theoretical sophistication or for falling short of their ambitions, they could not be blamed for complacency, impracticality, inaction or irrelevance.

¹See R. Middleton, *Charlatans or Saviours?* (Cheltenham and Northampton, MA, 1998), 112-44.

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