There Really *Was* a German Historical School of Economics: A Comment on Heath Pearson

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Echoing Voltaire's wonderfully wicked jibe about the Holy Roman Empire ("it is neither holy, nor Roman, nor an empire"), Heath Pearson (1999) recently issued a similar warning about the German historical school of economics. The title of his article is put in the form of a question: "Was There Really a German Historical School of Economics?" The purpose of my comment is to suggest that, despite his many well-justified claims to the contrary, there still are some good reasons for historians of thought to believe that there really was.

On one level, there is little to quibble about here, for surely most of Pearson's claims are uncontroversial. When he states that the school was not particularly German, he is simply noting the well-known fact that there were historicist movements in countries other than Germany (555–56). No one disputes this. Indeed, A. W. Coats (1954) emphasized this very point by using the term "*historist*" to distinguish the English variant of the movement from those in other countries.

When Pearson says that the German economists were not historical, his arguments are more diverse, but not more startling. He points out, for example, that the differences between the analyses of "older" German historical school members like Wilhelm Roscher (who provided "historical sauce on a classical dish") and the British classical economists whom Roscher criticized (for being ahistorical) were not all that great.

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He notes, too, that professional historians like Fritz Hartung were often severely critical of the attempts by economists to write history. Pearson also reminds us that even Gustav Schmoller, whose analyses came closest to following the methodological pronouncements of the school, in later years backed away from the strong claims he had made in the heat of the *Methodenstreit* (548–52). Again, there is nothing to dispute in the facts as Pearson reports them.

Pearson's last claim is equally plausible: the collection of German historical economists should not be considered a school because, well, there were considerable differences among them in terms of their analyses and interests (557–58). The same could be said, of course, of just about any purported "school." Modern-day Austrians include a priorist followers of Ludwig von Mises and radical subjectivist followers of Ludwig Lachmann; the label "post-Keynesian" has been applied to followers of Piero Sraffa and to those of G. L. S. Shackle. When one recognizes further that many Austrians, including Lachmann, were admirers of Shackle, it becomes clear that the identification of well-defined schools of thought in economics is often very difficult.

If Pearson's arguments about the facts surrounding the German historical school are mostly uncontroversial, the same perhaps cannot be said about the implications he draws from them. Pearson's conclusion is not the expected one—that historians of thought should be more careful and precise when they discuss the works of members of this putative school. Rather, he calls for further aggregation and homogenization. Were he to have his way, students would recognize the German historical school of economics as being one component of a larger "evolutionary," or "institutional," or "cultural" tradition in economics. Such a tradition would link together the previously distinct analyses of early Austrians like Carl Menger and Friedrich von Wieser, the "social law" movement of Karl Diehl and Rudolf Stammler, Walter Euken's Ordo movement, such disparate figures as Adolf Wagner, Joseph Schumpeter, and Max Weber, and perhaps most controversially of all, members of the Marxist tradition (554–55).

Pearson's justifications (559–60) for this proposed amalgamation are not very convincing. He argues first that such a grouping would be simpler, and that it would deepen our students' recognition of the breadth of the historical movement. Given that the main thrust of his article is that oversimplification is no virtue when doing history, though, it is curious that Pearson should conclude that a much more forced sort of simplification should be instituted. And while sharing Pearson's concerns about the scandalously minimalist training that most economists receive in doctrinal history, I hardly think that lumping together the historical school economists with Austrians and Marxists is somehow going to help. (One can imagine student essays reporting on the internal bickering between "cultural school" members Carl Menger and Gustav Schmoller, or Ludwig von Mises and Rudolf Hilferding!)

Pearson argues next that his proposed recombination would make it easier to see members of all of these groups as precursors of modern-day variants of "evolutionary" or "new institutional" economics, two fledgling movements that he appears to support. Again, I question the necessity of the proposal. Like many groups that lie outside the mainstream, those pursuing evolutionary and new institutionalist economics are typically well informed about the works of past economists who took similar approaches. To be sure, there are differences of opinion among them: were Veblen's writings more insightful on the nature of capitalism than those of Schumpeter? was Commons or Menger better on the emergence of this particular institution? But given this state of affairs, it is surely one of the jobs of the historian to ensure that today's economists, when they borrow from the past, have a clear understanding of "who wrote what when." Putting them all together into one huge basket does little to accomplish this. It should also be noted that at least some new institutionalist economists would view the methodological pronouncements of the leader of the younger German historical school, Gustav Schmoller, with considerable skepticism. Schmoller's opponent in the *Methodenstreit*, Carl Menger, tried to use the economic theory of his day to explain the emergence of institutions. That is exactly what many of the new institutionalists of today are trying to do. The early Schmoller, as Pearson admits, defended a "programmatically antitheoretical inductivism" (550) that directly contradicted Menger's approach. New institutionalists need to be aware of these differences, particularly given that one of those approaches, Schmoller's program, appears to have failed so miserably. It is bad enough to reinvent the wheel; ten times worse to reinvent phlogiston.

The final virtue of his homogenizing scheme, according to Pearson, is that it would help revive the flagging reputation of the German historical school among economists. Now, there may well be benefits from reexamining the work of some of the people Pearson mentions (e.g., Georg Friedrich Knapp, Karl Bücher, and Lujo Brentano). On the other hand, it

would no doubt be wise to recall Schumpeter's (1954, 804) assessment of the 188 "volumes" (he used scare quotes to note that many of them were multivolume works) that formed the outlet for the work of many of the German historical school economists, the *Schriften des Vereins für Sozialpolitik*:

> Many of the volumes presented work of a high grade that was not only exemplary in its minute attention to detail but also analytically significant and inspired by considerations of scientific as well as practical urgency. . . . On the whole, however, the economists responsible for the reports that fill those volumes of the *Schriften*, cared little for analytic refinement. They took no end of trouble with their facts, but most of them went straight from their impressions of the factual pattern to recommendations, just as would have any non-professional worker. They neither used nor contributed to theoretical or statistical technique, in spite of their obvious opportunities for doing so. And the analytic apparatus of economics did not improve but even deteriorated in their hands.

But there is another problem with reviving the flagging reputation of the German historical school of economics, a reputation that (Pearson claims) is based on the indefensible tarring of all its members with "a dogmatic aversion to generalization and synthesis" (560). For noticeably absent in Pearson's account is a fact that, more than any other, provides the reason for considering the German historical school a school and, for some, for judging it so negatively. That is its connection with the so-called Althoff system.

In 1882 Schmoller was offered a chair in political economy at the University of Berlin, a post he would hold until 1913. In the decade preceding the move he had been a professor in Strasbourg, and one of his friends there was Friedrich Althoff. In the same year that Schmoller went to Berlin, Althoff was invited to serve in the section of the Prussian Ministry of Education responsible for recommending university appointments. Althoff's actual power soon extended far beyond Prussia, such that in time he came to be known as "the secret Minister of Education" or "the Bismarck of German universities." And because Althoff was quite willing to follow his friend Schmoller's advice in making appointments, Schmoller soon had an unofficial title of his own: "the Professor maker" (Balabkins 1988, 48–49; Mises 1969, 26–27; Epstein 1917, 437).

The Althoff system had multiple consequences. Schmoller could, of course, make sure that only those with the proper sympathy toward the historical approach were appointed to the professoriat. But equally important was a prospective candidate's views about the policies undertaken by the German state. Many of the students of these professors, after all, were destined to fill the ranks of the imperial bureaucracy. It was essential that new professors understood the critical importance of forming their charges to the great responsibilities that lay ahead.

Althoff's influence was not all negative: as recent scholarship has shown, this "exceptionally gifted but domineering" bureaucrat made many contributions to German higher education (Backhaus 1993, 14). But it is equally clear that the abuses of power that were associated with the Althoff system were deeply resented by many scholars, and this produced a backlash in the first and second decades of the new century. Max Weber (himself a member of what might be called the "youngest" historical school) was one of the leaders. As Wilhelm Hennis (1991, 39–48) has shown, Weber's methodological views on the value-freedom question were formulated in large part as a reaction to the Althoff system. Weber strongly opposed the general practice of encouraging professors to express their political views freely within the classroom. As he put it:

> The fact that the supposed "freedom to teach" is related 1. To the possession of views that are politically acceptable to polite society and to those in authority, and that over and above this 2. That one evinced, or probably feigned, a definite minimum of devoutness. In Germany *"freedom of science" exists within the bounds of political and ecclesiastical acceptability*—and not outside these bounds. (quoted in Hennis 1991, 42; emphasis in the original)

Although similar prejudices existed in other countries, the Althoff system permitted Schmoller to enforce his prejudices with Prussian-like efficiency.

Many blame Schmoller's policies for Germany's failure to develop its own theoretical tradition in economics in the first decades of the century. And certainly the inability of the German mandarins to make any noticeable contribution to the war effort during the First World War gives credence to the view. Some have even held Schmoller at least partially responsible for the postwar hyperinflation (Barkai 1991, 37–39). Whatever one thinks of these claims, it is clear that Schmoller's control over

academic appointments profoundly affected the development of German economics. His ability to impose his will is sufficient grounds for considering him the head of a school. The German historical school of economics existed, and its existence had consequences.

In conclusion, I certainly am happy to join with Heath Pearson in urging that more attention be paid to this particular episode in the history of thought. My reason is not simply that many whose work has gone neglected had important things to say. It is also that, especially today, when a single paradigm reigns apparently unchallengeable in economics, it is wise to consider the eventual fate of another school whose hegemony was once equally complete.

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