

The Soul of the German Historical School

Methodological Essays on Schmoller, Weber, and Schumpeter

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Introduction

This volume is a collection of my essays on Gustav von Schmoller (1838–1917), Max Weber (1864–1920), and Joseph Alois Schumpeter (1883–1950), published during the past fifteen years. These three intellectual giants are connected with the German Historical School of Economics in different ways. In the history of economics, the German Historical School has been described as a heterodox group of economic researchers who flourished in the German-speaking world throughout the nineteenth century. The definition of a “school” is always problematic. Even if the core of a certain idea were identified in the continuous and discontinuous process of the filiation and ramification of thought, it is still possible to trace its predecessors, successors, and sympathizers in different directions, creating an amorphous entity of a school. It is beyond question, however, that Schmoller was the leader of the younger German Historical School, the genuine school with a sociological reality.¹ Schmoller was indeed the towering figure of the Historical School at its zenith.

Although Weber and Schumpeter were both brought up in the German-speaking world under the influence of historical economics, their works are appreciated independently of the German Historical School, for they established their own system of thought that can be understood without reference to that school. Whereas Weber was sometimes counted as one of the members of the youngest Historical School (or its third generation) and declared himself repeatedly to be a student of the school, Schumpeter was never considered even as working on its periphery because he was in the vanguard of theoretical economists. However, Schumpeter’s aspiration to a universal social science was informed by the German Historical School, although he seldom revealed it when he addressed his Anglo-American audience after he left Germany for the United States in 1932. This collection treats Schumpeter, the apparent outsider of the German Historical School, as its key associate among the three addressed and approaches Schmoller and Weber through Schumpeter’s looking glass.

The unifying idea of the Schmoller-Weber-Schumpeter nexus in this book is to rationally reconstruct the methodological essence of the German Historical School led by Schmoller on the basis of Weber’s and Schumpeter’s works. Whereas Schmoller had devised a distinctive research program of economics as well as massive historical research that relied on a deep belief in historical economics, both Weber and Schumpeter, as the creative successors of the German Historical School, developed a characteristic methodology that contributed to the theoretical, if not actual, resolution of the *Methodenstreit* (the controversy on method between Schmoller and Carl Menger, or between

history and theory), and explored the unique field of economic sociology or *Sozialökonomik* that was methodologically designed for the synthesis of history and theory. By the synthesis of history and theory I mean the theoretical formulation of history, or “reasoned history” (*histoire raisonnée*)—to use Schumpeter’s favorite term—, or the “ideal-type construction of history”—to use Weber’s formula—, both of which are different from the mere collection, classification, summarization, and ad hoc explanation of historical data.

According to Weber and Schumpeter, the real challenge of the German Historical School to mainstream economics was not the dichotomy between theory and history, between nomothesis and idiography, between generality and specificity, between universality and individuality, between deductivism and inductivism, and so on. Rather, it was the need to analyze the overall picture of society, based on the conception of the whole man, from evolutionary and comparative perspectives. From these perspectives, other crucial concepts such as history, ethics, and institutions will follow.

This book focuses on the methodological aspects of the German Historical School because whereas its historical and theoretical work on economic institutions and its political and social advocacy were inevitably constrained by the historical context, its methodological contributions to the social sciences have been general and universal. Schmoller’s research program had proposed the methods and procedures by which a “historical-ethical approach” to economics could be substantiated in economic sociology. Schmoller’s defects, however, lay in the methodology for establishing a foundation of economic sociology. The contributions of Weber and Schumpeter in exploiting the potentialities of the German Historical School are found in their construction of the methodological foundation of economic sociology, which I contend could serve as the source of a future research paradigm in economics across time and space.

It is remarkable that the neo-Kantian philosophy (represented by Heinrich Rickert) as the basis of Weber’s methodology, on the one hand, and the early positivist philosophy (represented by Ernst Mach) as the basis of Schumpeter’s methodology, on the other, converged into similar methodological thought through their conscious orientation toward economic sociology. This methodological idea, combined with the scope and method of a universal social science, is called here the “soul of the German Historical School.” By the soul I refer to the Greek *psyche*, meaning the breath of life, which differs not only from the *nous* embodied in intellectual achievements but also from the *mind* embedded in the body or society. As, according to the Platonic conception, the soul is related to the general ideas and rational reconstruction of thought, it can transmigrate between bodies or societies. This book describes how the soul of the German Historical School was succeeded, reconstructed, and developed by Weber and Schumpeter at the peak of the school so as to crystallize the use of teleological holism and instrumentalist methodology as the tools needed to arrive at the big picture of society.

Why can Schumpeter be regarded as the key contributor to this project? Indeed, my knowledge of Schmoller and Weber is relatively limited compared to that of Schumpeter. But I find in Schumpeter's work three useful organizing ideas to reconstruct the soul of the German Historical School, the ideas that I suspect have been little known to both contemporary Anglo-American theoretical and historical economists.

The *first* idea is Schumpeter's interpretation of Schmoller's historical-ethical approach as the prototype of economic sociology in his article, "Gustav v. Schmoller und die Probleme von heute" (1926). This proved to be a noticeable declaration of the "first Schmoller renaissance" in the midst of the dismissive academic atmosphere of the inter-war period following the defeat of Germany and the demise of the German Historical School. Schumpeter was concerned with "*living* Schmoller and his *influential* message, not with what is combined with his rich personality and is today nothing more than a memory and monument."²

The *second* idea is his formulation of economic methodology as instrumentalism in his first book, *Das Wesen und der Hauptinhalt der theoretischen Nationalökonomie* (1908), which is meaningfully compared to Weber's methodology of *verstehende* (interpretive) sociology. Schumpeter's instrumentalism is different from the caricatured notion of instrumentalism, which is the way most economists understand the term today. It is expected to apply to much broader fields of the social sciences.

The *third* is his idea of a universal social science in the last (seventh) chapter of his *Theorie der wirtschaftlichen Entwicklung* (1912), which was entitled "*Das Gesamtbild der Volkswirtschaft*" (The Overall Picture of the Economy). Since he deleted this chapter from the second and subsequent (including English) editions of *Entwicklung*, that idea has long remained unnoticed. This chapter, revealing for the first time the idea of Schumpeter's research program for a universal social science, presents not only a useful clue to understanding his wide-ranging work but also his alternative to the past major attempts to construct a universal social science. Incidentally, the chapter can be seen to compete with the last (fourth) book entitled "*Die Entwicklung des volkswirtschaftlichen Lebens im ganzen*" (The Development of Economic Life as a Whole) in Schmoller's *Grundriss der allgemeinen Volkswirtschaftslehre* (1900–1904).

Although these three critical works of Schumpeter's (1908, 1912, and 1926) had long been available only in German, it is a welcome development that one of them, the seventh chapter of the first edition of *Entwicklung*, was recently translated into English in the first volume of the series, "The European Heritage in Economics and the Social Sciences."³

I discuss each of the three ideas, which constitute the core blocks of this book, in Chapters 2, 5, and 7. Schumpeter also displayed a masterly skill in writing the history of economics; his penetrating analysis of the doctrine and method of the German Historical School is also utilized as the basis of this book.

Let me explain briefly the content of each chapter. Chapter 1 describes the nature of the approach taken in this book as the rational reconstruction, rather than the historical reconstruction, of the German Historical School and Schmoller.⁴ I do not contend that the German Historical School had a single overarching vision of historical economics, but that one aspect of its scholarship can be reconstructed through artificial efforts of the human mind to mine the valuable groundwork for evolutionary and institutional thinking from its quarry. Of course, such a reconstruction must contribute to an understanding of the German Historical School as well as to the orientation of our contemporary research that must extend beyond the scope and method of mainstream economics.

Schmoller's idea of economic research originated from a simple notion, inherited from the older Historical School, that the economic process consists of the interactions between the natural-technical and the psychological-ethical factors of society, and proceeded to the formulation of the historical-ethical approach. However, his historical-ethical approach was diametrically opposed to the theoretical-economic approach of mainstream economics. A more balanced view might be that the relationship between natural-technical and psychological-ethical factors was the quintessence of the moral sciences in the eighteenth century, which I formulate as the evolutionary approach to the interaction between the "mind and society," and that the German Historical School is logically located within the framework of this approach.

Chapter 2, on a methodological evaluation of Schmoller's economic research program, analyzes the structure of his historical-ethical approach in terms of two axes: history versus theory and ethics versus economy. Schmoller's vision of economic research was concerned with the whole range of these controversial issues. According to Schumpeter, the combined vision of the development and unity of social life was the essence of the German Historical School. I suggest the use of instrumentalism and teleology to sustain the structure of Schmoller's historical economics or economic sociology.

Chapter 3 is intended to interpret Weber's methodological work for sociology as essentially equivalent to instrumentalism and to remove the barrier between sociology and economics. Importantly, Schumpeter's approach to economic sociology, starting from theoretical economics, differed from Weber's, which started from the overarching tool of sociology. The goal of my methodological investigation of the German Historical School is to help to discover, understand, and justify the approaches to economic institutions and their changes from the standpoint of Schumpeter and Weber.

Chapter 4 presents a summary view of Schumpeter's relationship with the German Historical School, covering the reconstruction of Schmoller's research program and Schumpeter's conception of economic sociology. Schumpeter's *Capitalism, Socialism and Democracy* (1942) was not a "pot-boiler," as he often called it, but a serious work of economic sociology focused on the evolution of institutions in terms of the consistency (or inconsistency) between economic machinery and value schemes, or the interactions between economic factors and noneconomic factors.

Chapter 5 is an interpretation of Schumpeter's *Wesen* as the application of Ernst Mach's philosophy of science to economics. If it is admitted that neoclassical economics emerged from the metaphor of mechanics, Schumpeter put the final touches on its system, laying the groundwork for its paradigm by ingeniously adapting the methodology of natural science to economics.

For Schumpeter, however, instrumentalist methodology was not confined to abstract economic theory. Insofar as economic sociology is also a theory, the same methodology can be applied to a broader perspective of economic and social change. I have examined the applicability of instrumentalism with regard to Schmoller and Weber in Chapters 2 and 3, respectively. Chapter 6 further explores the methodology of economic sociology in reforming the methodological foundation of the German Historical School.

Chapter 7 describes Schumpeter's research program for a universal social science or a comprehensive sociology, relying on the missing seventh chapter of the first edition of his *Entwicklung*. His program consists of three layers of economic research: economic statics, economic dynamics, and economic sociology. This represents half of the system of the moral sciences; in other words, it is a system of substantive theory that is distinct from a system of metatheory. Schumpeter the polymath also worked in the area of metatheory that includes the philosophy of science, the history of science, and the sociology of science; thus what he delivered throughout his life was much broader than what he planned in his missing seventh chapter. I call his broader system a "two structure approach to the evolution of the mind and society," as referred to in Chapter 1 of this book.

Although this book addresses the German Historical School through the looking glass of Schumpeter, it is untrue that he was concerned only with the tradition of that school. His intellectual background was influenced primarily by Léon Walras, Karl Marx, and Schmoller. In his preface to the Japanese translation of *Entwicklung*, he explained the aim of the book with special reference to Walras and Marx.⁵ Chapter 8 examines how Walras and Marx could coexist coherently within Schumpeter's thought; this is the question that has confounded Schumpeter scholars who have sometimes regarded him as somewhat schizophrenic. Whereas Schumpeter's conception of economic sociology that was inspired by Schmoller relates to the formal framework of socio-cultural development, his theoretical analysis based on the presumption of Walrasian and Marxian visions provides the substantive content for the workings of the economy and society.

Chapter 9 focuses on Schumpeter the historian of economic thought. Contrary to a commonplace view that he pursued the development of analytical economics along Walrasian lines, I elucidate how he assessed the attempts of economic sociology as they appeared in the historical literature in light of his research program for a universal social science. Whereas Chapters 2, 3, and 6 consider the relationship between economics and sociology from the methodological viewpoint, Chapter 9 examines that relationship from the perspective of the history of thought, covering Comte, Marx, Pareto, and Weber.

In Chapter 10 I discuss the supporting evidence on the role of instrumentalist methodology in Schumpeter's concrete work on business cycles, another example of his synthesis of theory and history. The evidence is his preface to the fourth German edition (1935) of *Entwicklung*, which supplements the previous chapters (Chapters 2, 3, and 6) on instrumentalism. It might be argued that the disagreement between Schumpeter and Simon Kuznets (a Schumpeter critic) on his work on business cycles is reminiscent of the *Methodenstreit*.

The genealogy of the Schumpeter family is appended as Chapter 11. When I visited Schumpeter's birthplace, Třešt', Czechoslovakia, in August 1989, this small town was governed by the communist regime just before its fall. I found that although Schumpeter himself was despised there as the puppet of capitalists, the history of his family had been indispensable to the town of Třešt' for four hundred years even without Schumpeter the economist. I am deeply indebted to the staff of the town office and regional historians for decoding the historical record.

With the increasing acceptance of evolutionary and institutional thinking among contemporary economists, general interest in the German Historical School and Gustav von Schmoller in particular has risen steadily during the past decade.⁶ This can be called the "second Schmoller renaissance." Isaiah Berlin characterized the rise of German romanticism as a great turning point in the history of Western thought.⁷ The German Historical School, belonging to the tradition of historicism as part of German romanticism and idealism, wrought a radical transformation in the outlook of economics. Yet mainstream economics has never taken the impact of the romantic revolution on economics seriously; it is only in recent decades that economic thinking in the form of evolutionism and institutionalism is gradually returning to it. However, because the so-called neo-Schumpeterian evolutionary economics is largely confined to the problems of technological innovation, it cannot cope with the challenge of Schumpeter's socio-cultural development. Similarly, the so-called new institutional economics is an extension of neoclassical economic theory and thus unable to cover the subject matter of Schmoller's historical-ethical approach. I cannot but suspect that there is a strong divide between the Continental and the Anglo-American perspectives on the social sciences.

In editing the articles for this volume, I have not changed their content in principle. Rather, my revisions involved three nonsubstantive areas. First, as the original articles inevitably overlap somewhat, I tried to eliminate duplication as much as possible. Second, I used a consistent style for the text, notes, and references. Third, I tried to reduce grammatical shortcomings contained in the original articles.

Notes

- 1 J. A. Schumpeter, *History of Economic Analysis*, New York: Oxford University Press, 1954, p. 809.
- 2 J. A. Schumpeter, 'Gustav v. Schmoller und die Probleme von heute,' *Schmollers Jahrbuch für Gesetzgebung, Verwaltung und Volkswirtschaft*, 1926, p. 339.
- 3 Ursula Backhaus, 'The Theory of Economic Development,' in Jürgen Backhaus (ed.), *Joseph Alois Schumpeter: Entrepreneurship, Style and Vision*, Boston: Kluwer Academic Publishers, 2003.
- 4 For a recent work of the historical reconstruction of Schmoller, see Erik Grimmer-Solem, *The Rise of Historical Economics and Social Reform in Germany 1864–1894*, Oxford: Clarendon Press, 2003.
- 5 J. A. Schumpeter, 'Preface to the Japanese Edition of *Theorie der wirtschaftlichen Entwicklung*,' 1937, reprinted in R.V. Clemence (ed.), *Essays of J. A. Schumpeter*, Cambridge, Mass.: Addison-Wesley, 1951.
- 6 Helge Peukert, 'The Schmoller Renaissance,' *History of Political Economy*, Spring 2001.
- 7 Isaiah Berlin, 'The Romantic Revolution: A Crisis in the History of Modern Thought,' in *The Sense of Reality*, New York: Farrar, Straus and Giroux, 1996, pp. 168–70.