

The Germination of German Economics: A Bounded School through European Integration, Which Theorized Without Theory

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Abstract

Some scholarly works do not consider the German School, often called the German Historical School, as its own school of economics. Contrary to this view, this paper answers this question, and argues, through comparisons and contrasts with other schools of thought, that it was, and is, its own bounded school with lasting influences, but was derived from timely culture. Unique for economics, which usually prefers mathematical techniques, it placed less methodological stress upon theory and more upon historical analysis. It struggled between deduction and induction, but viewed society biologically like an organism, with concern for the development of societies and societal issues, popular in today's economics. Through the works of such brilliant minds as Friedrich List, Gustav von Schmoller, and Wilhelm Roscher, this paper traces the German School's influence from its origins in the mercantilist period up to the Freiburg School and ordo-liberals. Relying on qualitative foundations, it shows that these economists were their own bounded school, theorizing not with mathematical theory but qualitatively. They have had lasting influences, including through the development of neoclassical economics, modern sociology, and economic changes brought on by German unification, the two world wars, and particularly the development of the European integration process.

Keywords: German Historical School, European integration, Gustav von Schmoller, Wilhelm Roscher, Ordo-liberals

Introduction:

The German School, often called the Historical School, is a little researched or well understood branch of economics, often not considered its own economic school by some scholars. Its main proponent, Gustav von Schmoller, with his focus on induction rather than deduction, that is, moving from theory to general principles rather than the more standard principles to theory, influenced German universities for almost a century between the middle of the 19th and 20th centuries. The German School, a body of thought and of written works, would later, in the 1880s, divide into separate camps, one led by Schmoller and the other by economist Carl Menger, who is often considered an economist of the Austrian School. The German

School can also be divided into an “Old,” “Young,” and “Youngest” schematic of scholars, who disagreed over methods. This paper is an historical analysis of the contributions of the German School of economic thought to the understandings of modern economics. Over time, it has germinated, or blossomed, just as in the same historically evolutionary, and biological way, that its economic methodology purports.

After learning of this school, one is left wondering, how did this unified method of thought originate, who classified it as such, and who were its other main contributors, how did the scholars of both interact, and what impact did romanticism and idealism have on the German Schools’ proclivity towards relativism? This was characterized by rejecting universal truths, in favor of a more sociological approach that emphasized individualism as well as institutions. Could this method of thinking have influenced the European integration process? Methodologically, relying on both second hand interpretations, as well as the works of the economists themselves, these are some of the questions that this paper attempts to address. Relying largely on primary sources, this paper argues, in contrast to many scholars, and by using comparisons and contrasts with other schools, that German economic thought, derived from timely culture, was its own, bounded school, which had lasting influences to today, including upon the process of post-World War II European integration.

A Note on Schools, Methodology, and Brief Literature Review

The methodology of this paper compares the German Historical School with famous other schools that are applicable, and to use a chronology to show the school’s development, or germination, and influence upon European integration. According to Fukuyama, “Comparative methodology has a long history in the social sciences, beginning with classic studies like Emile Durkheim’s [works...]” (Fukuyama 1999, p. 25). And, it was the method preferred by the German economists, comparing the development of societies. Some of the literature critics of the existence of a German Historical School include Heath Pearson (1999) and Eric Grimmer-Solem and Roberto Romani (1999), while very little work exists on precisely linking, through process tracing, the connection between the German Historical School and European integration, which has expanded by both widening and deepening. Some schools would not be comparable since they are entirely different because of the increased complexity of society, such as byzantine interest rates that Keynes wrote about so eloquently, but which Gustav von Schmoller ironically predicted would eventually develop (Schmoller 1967, p. 90).

The two primal, dichotomous camps today would be: the Keynesians, named after John Maynard Keynes, who since the 1930s’ Great Depression have held the now “liberal” belief that markets may be slow to adjust by themselves, because of “stickiness” of wages and prices. The post-, and neo-Keynesians have a tendency to combine “stickiness” with rational expectations, that employers anticipate inflation and build it into wages and prices without changes in supply, demand, and employment. The second main school is the more “conservative” Austrian School, or “Hayekians.” This approach stresses non-interference by the government in the economy, and might also be called *laissez-faire*, supply-side (because tax cuts shift outward supply curves), Chicagoan for many of the Noble Prize winners from that university, Reaganomics, Thatcherism, or even neo-liberalism, which emphasizes less regulation and free international trade. The reader here should take note, if not already done so, that 19th Century “liberalism” was conservative by today’s typology, supporting free markets, and vice-versa. This is since, according to Hayek, market intervention in Great Britain had been “part of the camouflage of leftish movements..., helped by the muddle headedness

of many who really believe in liberty, that 'liberal' has come to mean the advocacy of almost every kind of government control" (Hayek 2007, p. 45). A distinction is also drawn between the earlier, neoclassical school and the Austrian school, the latter being more conservative in modernity.

A similar branch is now known as "monetarism," which believes that the government should center on using interest rates to affect the economy and not fiscal policy. Another significant and entirely separate branch based on "institutionalism," for which Douglass North won the Noble Prize in 1993, looks at not government policies but relationships between rules in society, such as property rights and the rule of law. The "Stockholm" school stresses income equality. The use of schools of thought categories help to make economics arguments easier to understand, and to be able to draw comparisons and contrasts. They need not be made of members from entirely of one geographical area. Whether schools constitute "belief and expression," or are "rival definitions of reality not all of which can be 'true'", this writer favors the former, which will be shown (Samuels 1990, p. 5).

The Players and Historical Context

The principal members of the German School included a forerunner, Friedrich List (1789-1846) (Pearson 1999, p. 1), who wrote about European "unity." His ideas about Napoleon uniting continental Europe credit him as the first European Unity theorist, which he himself suggested frequently, holding that German goods would spread across the continent (Daastol 2006, p. 4). It then consisted of an older branch of Wilhelm Roscher (1817-1894), Bruno Hildebrand (1812-1894), Karl Knies (1821-1898), one of the first economists to write about marketing, and Ernst Engel (1821-1896) (Peet and Hartwick 2009, p. 54-55). A final, "radical" scholar and politician was Albert Schaffle (1831-1903) (Nau and Steiner 2002, p. 6).

A second generation consisted of Gustav von Schmoller (1838-1917) (Peet and Hartwick 2009, p. 54-55), Adolph Wagner (1835-1917), Karl Bucher (1817-1892), who wrote about industrial organization (Pearson 1999, p. 3) and Eugen Von Philippovich (1858-1917), an economic protectionist (Riha, p. 1). It also included Etienne Laspeyres (1834-1913), who wrote on price and inflation calculations, Lujo Bretano (1844-1931), who wrote on wage theory (Pearson 1999, 3) and trade unions (Tribe 2, p. 12), and Georg Friedrich Knapp (1842-1926), who wrote on monetary policy and the economics of transportation (Pearson, p. 3).

Finally, the German School had a youngest generation of Werner Sombart (1863-1941) (wikipedia) and Max Weber (1864-1920), a sociologist, who were both also very much interested in history (Peet and Hartwick 2009, p. 108). It also included other minor names such as Spiethoff, Salin, von Beckerath, Weippert, Hoffmann (Riha 1997, p. 1), and even Henry George, an American proponent of a flat land tax, who also wrote "organically" (Riha 1997, p. 2). One can include even more names depending on interpretation. Consequently, despite all of its similarities, "German economics as it existed in the later nineteenth century was diverse" on a range of topics, but all using an historical and qualitative approach (Tribe 1998, p. 1&5).

During these periods in Germany, this was a time of Romanticism, an era of European emotion and wit spanning from Beethoven to Brahms, Schumann, Bartholdi, and Liszt. It was a time when Ludwig II, the "fairly-tale" king, built his castles in the southern German state of Bavaria, and when he commissioned many operas based on Scandinavian mythology, produced by Richard Wagner, that flourished. Germany was beginning to industrialize and establish chemical companies and construct railroads, which would thrive until the 1950s and '60s ("Seidenader discussion," 2013). Germany's three Reichs ranged from the solidification

of the Holy Roman Empire in 800 AD by Charlemagne, to Otto von Bismarck's re-unification of the country in 1871. Fifty years forward, Germany grew from feudalism to an economic powerhouse, that then declined in the interwar years and produced the Weimar Republic, eventually leading to Hitler's rise to power in the 1930s, the so-called Third Reich ("Germany's Strong," 2013, p. 1). European integration would take hold after two world wars in an effort to strengthen economies and maintain peace. Headquartered in the small nation of Belgium, it has maintained a balance of economic and political power between the larger, more dyspeptic states.

Origins

The German Historical School emerged out of German thinking in the late 1700s, a muse being the French Physiocrat philosophers who wrote about agriculture, labor, the role of government, and taxes (Tribe1 1998, p. 119). The Germans held views similar to mercantilism, which was the desire of empires to acquire wealth, particularly gold and silver. But in Germany, it took a different form, called "cameralism," that meant a system of bureaucracy of state-administration encompassing "state-, society-, and political economy-building" (Samuels 1990, p. 4). It emphasized a role for government in the lands of the former Holy Roman Empire, but not for an authoritarian state. Later, it served as a basis of study for German and other-nation's civil servants. Cameralism stressed legal rules rather than theological rules. This was a break with scholarship to that time (Samuels 1990, p. 5). This legal emphasis would be a factor in historicism thinking, and later come into play with the subsequent German school of ordo-liberalism.

In the early 1800s cameralism morphed into "Nationalökonomie," a national economic order of the economy, civil society, and state that still stressed the individual and their needs (Samuels 1990, p. 2). This was called by some Geisteswissenschaft, the "unity of all branches of knowledge" (Herbst 1965, p. 55). After the Napoleonic Wars it developed into "Wissenschaft," an analysis of human motives and purposes that tried to harmonize reason, intuition, and experience in a sociological way (Herbst 1965, p. 57). Roscher and other Germans tried to link their school with the study of law and jurisprudence, which were very popular in German thought and culture, and offered the most academic degrees. This linkage was "a masterstroke of marketing" for their school says Pearson (Pearson 1999, p. 1). Schmoller in particular was a student of the economic policies of the German enlightenment leader Frederick the Great, and admired the earlier writings of Hildebrand, Knies, and Roscher. He strived to be both an economist and an historian (Schmoller, vi-vii). His and other German's emphasis on empiricism may have originated from the creative philosopher Immanuel Kant from the middle-ages onward (Herbst 1965, p. 54). An additional influence was mercantilist David Hume, who wrote that "government is always founded upon opinion," setting the stage for the German relativistic approach ("The Historical Setting," 2007, p. 15).

A later and important influence in the mid-to-late 1800s was the British scholar Charles Darwin who, with other life scientists, were working on theories of specie evolution. As Germany industrialized, although later than England did, they saw the emergence of an industrial working class and the rise of cities and suburbs. This gave need for a holistic theory that involved social reform (Nau and Steiner 2002, p. 1-2). Furthermore, the rise of railroads in German states created an inconsistent demand for steel and coal (Watkins1, 2013, p. 3). This caused both surpluses and shortages, but demand and supply were viewed as "inconsistent" because individual preferences could not be aggregated (Schmoller 1967, p. 52-53). Scholars in other subjects began relating these concepts to other social subjects to

conjecture “Social Darwinism,” that those businesses, institutions, and individuals would advance if they suit their environments (Herbst 1965, p. 129). The German economists were thus representative of the way scholars in hard sciences in Britain and the U.S. were beginning to view the individual (Watkins2, 2003, p. 1).

Fields like biology, chemistry, and anthropology were nascent subjects taking off, led by such researchers as Jean-Baptiste de Lamarck, Herbert Spencer, and Wilhelm Dilthey, who began to study other organisms scientifically (Watkins2, 2013, p. 1 and Nau and Steiner 2002, p. 4). The Germans then applied their ideas to economic philosophy, comparing individuals to a cell within a holistic, unified body of society. In the 1800s, Gustav Schmoller and French sociology founder Emile Durkheim traded notes and the latter visited the other’s university at least once, Durkheim perceiving that societies functioned much in the same way that organs or parts of the body do, each structure providing a specific role (Nau and Steiner 2002, p. 8). Economically, the German School was aware of much of England’s classical economics, which will be shown, but relied on the textbook of Karl Heinrich Rau published in 1826, although he is not considered a member of the school for lack of using history in his findings (Tribe2 2002, p. 5).

Principles

The German School had its golden era from around 1840 to World War I, when classical economics was becoming neo-classical economics. It can basically be considered a philosophy of development, a study of movement from primitive societies to more advanced ones, and as a science of society and culture, that all of mankind has written about from ancient times to the modernization theories of the administration of United States President John F. Kennedy in founding the Peace Corps and dealing with Vietnam and the Third World, of recent years. Schmoller himself was influenced by the writings of the “productive forces” of Friedrich List (Nau and Steiner 2002, p. 3).

This set of writings and thought received its name, the Historical School, from a reference by Carl Menger’s to Gustav von Schmoller’s lack of theory (Riha 1997, p. 1), and since Schmoller called the school historo-ethical himself (Shionoya 2005, p. 55). The principle distinction of the “historical school” from others was its methodology, one that emphasized empirical, or practical, inductive reasoning. It stressed “comparing data from various time periods, societies, and institutional frameworks” (Stolyarov II 2007, p. 1), such as from the ancient civilizations ranging from the Greeks, Romans, and Israelites to the Middle East and Asia, to medieval Europe, and categorizing them by political economic policies and culture (“Wilhelm Roscher,” 2006, p. 4-5).

The historicists did not believe in fundamental economic laws or theories, and while they did make use of data to indicate magnitudes, they did not use theories or principles to interpret the data or make long-term predictions (Younkins 2004, p. 1&3). To some statisticians today, this might seem unusual, against the positivist method that has been central to scientific thought since the early to mid-1900s. During the height of its prominence, some German School members favored using statistics, but Knies and Schmoller held the belief that “if statistics were to be used at all then it should be used only as an auxiliary way of handling historical materials” (Herbst 1965, p. 137). Later on, some minor members, such as Ernst Engel and Adolph Wagner, approved its use based on natural sciences, but were chastised by colleagues (Herbst 1965, p. 139). Like all schools, the German’s methods were not free from “ignorance, error, external coercion, and ... other basic motives or drives” (Younkins 2004, p. 2).

Most German School economists became proud supporters, and propagandists or defenders, of the unifier of the German state in the late 1800s, Otto von Bismarck (Younkins 2004, p. 1), especially because of his socially liberal policies by today's standards (Herbst 1965, p. 146). They felt that a truly unified state needed to reduce social tensions, as Germany was still very fragile and made of smaller states (Tribe 2002, p. 10). Hildebrand wrote of this when he questioned the "growing rift between poor and richer," while Schmoller held that economics should be about ethical ideals in shaping political and economic institutions. Most supported protectionism. Many of the German School's members would serve in the Prussian parliament or as civil servants (Herbst 1965, p. 143). Minor members of the school showed how historically governments grow over time because of welfare spending and increased interest payments.

Schism Within

The Older German Historical School was more deductive, while the newer school, which was led by Gustav von Schmoller, was much more inductive, holding in a much more radical way that the older school had arrived at theories prematurely without considering specific conditions of the times (Stolyarov II 2007, p. 1). Gustav von Schmoller actually criticized Karl Knies, the founder of advertising, because he thought it indecent, writing that it "calculates more on deception, gullibility and stupidity than on genuine teaching, which works more through lying than truth-telling" (Fullerton 1998, p. 7).

The "Great Dispute" between Schmoller and Carl Menger led to the formation of the Austrian School, but the latter's "emphasis upon 'needs' and their satisfaction ... was the hallmark of the new German political economy of the early 1800s" (Tribe 2012, p. 1). At the turn of the 19th to 20th Century, another new group of German School scholars emerged, led by Max Weber and Werner Sombart, who had more of a cultural focus but retained the school's sociological elements (Watkins 2013, p. 2). Weber, the originator of the "Protestant ethic" theory, moved to Heidelberg in 1897, and assumed a professorship as successor to Knies, but students saw him as an Austrian economist. Later in life, Weber was able to merge both Austrian philosophies and the German School's evolutionary and institutionalist approaches. Similarly, Eugen Bohm-Bawerk and Friedrich von Wieser, early Austrian economists, were students of Knies, developing from his ideas theories of capital (Tribe 2012, p. 1-2).

Mercantilism

Much scholarly work portrays the German School as protectionist, like the medieval era mercantilists of the 1600s. This outdated policy is understandable in the sense that Schmoller wanted Germany to become a great, imperial power like France of the 17th Century. Previously, Germany had been subservient to the Catholic Austrian Hapsburg dynasty (Schmoller 1967, p. 47&57). Schmoller discusses balance of trade issues, and he justifies that nations attempt to become strong within and dispel competitors from abroad, although his position on trade is not fully clear, which is discussed further below (Schmoller 1967, p. 10-11). It is clear that he had read the mercantilist writers, and understood the "history of the movement," while accepting their regulations for precious metals, but found "peculiar" their stress on the active creation of money, perhaps because of lack of understanding of modern monetary policy. He summed up his views of the school by saying that mercantilism was "nothing but state making... and national economy making at the same time" (Schmoller 1967, p. 50). It was "union at home" and "barriers against the world," which corresponded

with his realist and nationalistic, but not necessary pro-German, views (Schmoller 1967, p. 54).

Classical

Some consider the German School in opposition to the classical “English School” (Shionya 2005, p. 10) of the 1700s, but the two have many similarities. Like Adam Smith and his description of needle making, which Roscher mentions, Schmoller’s writings include rich descriptions of industries such as of butchers, bakers, fishmongers, cloth makers, and copper-smiths, and goods like corn and wools, but also mentioning the role of guilds and knights in European history (Schmoller 1967, p. 24&43). The Germans considered economics a moral science, much like the early English academics of Smith and Thomas R. Malthus, which should aid society (Herbst 1965, p. 68). But, the German school rejected Classical dogma that economic laws were applicable to all times and places (Stolyarov II 2007, p. 1). They were a product of Romanticism, not the rationalistic Enlightenment (Screpanti and Zamagni 1995, p. 91). On trade, Schmoller wrote about the “internal” freedom of trade within nations (Schmoller 1967, p. 28), but his opposition to nations’ free-trading may have stemmed from Germany’s weaker industrial position compared to England (Michaelides and Milios 2008, p. 498).

Thus stated, the German School was overall more protectionist rather than free-trading like David Ricardo. Schmoller writes that each European town could pass laws prohibiting other towns from exporting to them, which happened from the 15th Century onwards. It protected the national industries, such as with corn in the Prussian lands of the Teutonic Order (Schmoller 1967, p. 25-26). Here, he almost advocated an import substitution industrialization policy later used in Latin America, saying that German corn producing territories have and should withhold exports, as the Netherlands withheld gold, silver, copper, and brass, thus “harmonising” internal product consumption or else it would be unsteady, this quoted word used with regards to Europe integration today (Schmoller 1967, p. 30). He writes, “the resources of the land were thought of a whole, which ought, first of all, to serve the needs of the country...” (Schmoller 1967, p. 31). Schmoller preferred the terms “prohibition” and “embargo” (Schmoller 1967, p. 32), but used “tariff barriers” in one instance (Schmoller 1967, p. 51).

A point to be made here is that Schmoller says, in typical, relativist German fashion, that each state responded to the corn question differently, a major issue for many years in Europe and featured in the writings of Smith and Ricardo. France prohibited the selling of corn abroad for some time, while England was in favor of it, and Holland created surpluses to export it. The effects of free trade, said Schmoller, required further “investigation,” but policy was, in today’s realist terms, determined by “national interest” and “competition with other countries” (Schmoller 1967, p. 58-59). Clearly he was unaware of Ricardo’s concept of comparative advantage, devised a half century before, which showed that all nations can benefit from trade by using the factors of production in which they specialize. He was, though, cognizant of Smith’s opposition to “bounties,” or tariffs, but does not say why (Schmoller 1967, p. 59); Ricardo was not popular on the European continent (Tribe2 2002, p. 16). The Germans make little mention of America. With regards to labor, which was one of Smith’s main contributions, the Germans saw the division much like a life-form having different organs (Nau and Steiner 2002, p. 4&7).

Neo-Classical

The German School rejected the marginalists “rationalization” of mankind, which came about in the late 1800s, and instead theorized that consumers purchase “goods,” an economic term they in-fact used, based on habit and style. Instead of being objective, consumers were individuals who have subjective valuations of goods (Stolyarov II 2007, p. 2). The German School instead favored a “holistic” or macroeconomic view, and all inclusive perspective (Watkins2, 2013, p. 1). They also opposed a static approach and felt that economic phenomenon change over time (Younkins 2004, p. 2). In addition, Schmoller writes that the study of individual action, of satisfying individual needs that the neoclassicists called marginal utility, is possible but overall “mistaken,” and that the collective or nationalistic need is most important in all stages of civilization (Schmoller 1967, p. 3-4).

Schmoller, like the neoclassicists, recognized that there could be “shocks” to economy, such as the religious Thirty Years War which caused a loss in manpower and economic “retrogression,” similar to recession (Schmoller 1967, p. 27-30). He also talks about salt price monopolies, and taxation, which were part of a political-economy. This was the same word that Alfred Marshall used around the same time, until shortly later when economics became a separate discipline from political science (Schmoller 1967, p. 41-42). Unlike the neo-classical marginalists, his writings did not seem to include the use of the word “demand,” but rather he spoke of culture and national unity creating a “corporate egoism” from which the commercial policy of each age gains its, in his words, “impulse” (Schmoller 1967, p. 77).

Roscher’s writings, though, do make extensive use of elaborating on supply and demand, which are determined by “value,” not “utility,” as John Stuart Mill reasoned (Roscher 1972, p. 229-230). The first use of “supply and demand” dates to James Denham-Steuart in 1767, was first graphed by Antoine Augustin Cournot, and then was used by Smith but not yet fully understood (Pressman 2014, p. 52-53). The graphs we use today come from Alfred Marshall, who inadvertently reversed the independent and dependent variables. Additionally, Roscher makes the distinction between normative, or opinionated economics and positive, or descriptive economics (Roscher 1972, p. 105), and he writes about the modern day concept of economies of scale (Roscher 1972, p. 206). Roscher had a concept of saving and the stationary state in-line with Robert Solow’s (Roscher 1972, p. 269). He recognized the importance of confidence to financial markets and speculation (Roscher 1972, p. 273), and he had a basic concept of money liquidity (Roscher 1972, p. 291). The German School however saw neoclassicism as lacking a “moral dimension” (Nau and Steiner 2002, p. 7).

Marxism

The German School believed in a welfare, socialistic state, but it was based on pragmatism, not ideology, and strong nationalism, which held that Keynesian-style government intervention in the economy was justified because it was a natural progression (Younkins 2004, p. 1). As such, they stressed evolution, and saw no need for revolution, the “bomb-throwers- dynamiters and anarchists” (Herbst 1965, p. 145). Karl Marx, an ethnic German writer from the same era, shared the Germans’ view that economic theory should be in-flux and not static like the neo-classicists, but he saw it in terms of revolution (Watkins2, 2013, p. 1). Like the Austrians, and to some extent the Marxists, the Germans were concerned with “motives, influences, or basic tendencies of human beings and include ... moral sentiments, altruism and justice” (Younkins 2004, p. 2), which conflicts with the Marxist rejection of religion. Marxists had a market concept of value, not a cost concept (Tribe 2, 8). The historicists supported a strong middle class, even proposing a “strategic alliance” between the German monarchs and the workers (Screpanti and Zamagni 1995, p. 172).

While a proponent of individualism, elsewhere, Schmoller writes that the “communitistic” activities “play the most important part” in the development of states and societies (Schmoller 1967, p.4), seeming to stress the importance of collectivism. He further discusses the “communal selfishness” that was at one time restricted by the Church and by empires (Schmoller 1967, p. 12). However, while altogether ambiguous towards socialism, the majority of the school rejected it, because it opposed steady progress and not scientific in terms of organic evolution as they saw their school. Schmoller fought against what he saw as the radicalism of socialism” (Nau and Steiner 2002, p. 2). Despite this, the Classical School attacked many of them as “Kathedersozialisten,” or professorial socialists (Herbst 1965, p. 146). Even Keynes, whose ideas are most liberal today in the modern sense, called Schmoller an “extremist,” but only in regards to his views on history, and instead read works by Roscher and Wagner (Tribe2 2002, p. 14). The Historical School can best be seen as in-between capitalism and Marxism, as “market socialism” in the words of Hayek, if such a balance exists, which Hayek called “pseudo-competition” (Hayek 2007, p. 7). It would give rise to German corporatism, a link between businesses and the government without the preeminence of lobbyists. Marxism, on the other hand, would lead to the 1917 October Revolution in Russia.

Austrians

The Austrian School, led by von Mises, and later von Hayek, in the late 1800s and early 1900s, differed in that they held that abstract theory and universal economic laws were of central significance, and were necessary in order to “make sense of historical economic phenomena” (Stolyarov II 2007, p. 2). This difference was referred to as the “Methodenstreit,” the “Great Dispute Over Method” (Watkins2, 2013, p. 2). The bridge between this gap was possibly the early economist Carl Menger, who agreed that more than one methodological approach could be used to understand economics, but fought hard for one based on explained theories, laws that do not change, except under unusual disturbances (Younkings 2004, p. 2). The Austrians did not object to the significance of history in economics, but they stressed competition of institutions and businesses, and entrepreneurship (Stolyarov II 2007, p. 2). The Austrians hoped to provide a “superior theoretical base” to the work of classical economics. They also agreed with the Neo-Classicists in that consumers purchase goods based on their marginal, or additional, utility, rather than “sunk costs,” but unlike the Germans held that this principle was “valid for all societies at all stages of development” (Stolyarov II 2007, p. 2). An example of German thought is Joseph Schumpeter using stages of societies to create a theory of development, rather than using theories to explain why societies move through stages; today, economists might find it questionable.

Joseph Schumpeter, one the world’s finest economists, was strongly affected by the German School, and believed that, “the older Historical School... while appreciating the importance of historical research, displayed no hostility toward ‘theory’” (Pearson 1999, p. 2). He believed that both sides of the methodological dispute had value, and called the antipathy between Menger and Schmoller “wasted energies.” In effect, the dispute may have been over institutions and evolution versus neo-classical utility and price (Shionoya 2005, p. 5&16). Like Sombart, Schumpeter was influenced by Marxism in believing that capitalism was “on the decline,” but Schumpeter also believed that technology could be used to jump-start an economy (Michaelides and Milios 2008, p. 496). Both seemed opposed to central planning, but instead favored the “spirit of the principles” in each country, according to Sombart (Michaelides and Milios 2008, p. 500). It was actually Sombart who coined the term “creative destruction” in regards to new innovations replacing old ones. Unlike the neo-classical

marginalists, neither saw the entrepreneur acting out of greed, while to another German, Max Weber, the ideal innovator was the hard-working Protestant (Michaelides and Milios 2008, p. 500-06).

Neo-Institutionalists

The German school did not address every institution, from Douglass North's writings in the 1980s, that we know today were important, such as property rights and the rule of law, but Schmoller's historical depiction of the middle-ages reads similarly to North's history of feudalism. Schmoller specifically mentions institutions many times, such as, in his footnotes, what he called "municipal" institutions, such as the right of holding a medieval market for goods, of collecting tolls on travelers, and on coining money. He saw this as providing members of a nation an economic advantage as opposed to foreigners, which might be relevant today in studying the regulations that inhibit foreign direct investment (Schmoller 1967, p. 7-9).

Furthermore, Schmoller describes the importance of fairs in medieval Europe, especially in Germany, that North also describes, as well as the "luxuriousness" of some goods which "new" institutionalists like Thorstein Veblen, an American mid-western economist, wrote about in the roaring 1920s (Schmoller 1967, p. 11). He also mentions the importance of "freedom of economic movement," while Roscher describes the importance of communication, contracts, insurance, private property, and the value of time, similar to North's and later Gary Becker's writings and have the qualities of a modern writer on globalization (Schmoller 1967, p. 25). Austrian economist Joseph Schumpeter actually later called Schmoller the "father" of American institutionalism, comparable today to the works of North (Nau and Steiner 2002, p. 8). Institutional works are probably the most qualitative branch of modern economics.

Influence

The German Historical School flourished within German academia. In 1882, Gustav von Schmoller was offered a chair at the University of Berlin, while his friend and colleague Friedrich Althoff simultaneously became a minister on the Prussian Ministry of Education. The former would make recommendations to the later, thus becoming "the Professor maker" (Caldwell 2001, p. 652). From 1820-1920, over 9,000 American students traveled to Germany to study in their lecture halls, seminars, and laboratories. They considered German universities, which were mostly state funded schools (Tribe2, 2002 p. 2), the best in the world. After all, kindergarten is a German word, begun there. Some were motivated to travel abroad by German professors at American schools, although this trend trailed off with World War I. It increased in the 1870s, because American religious scholars did not accept the religiously-upsetting threats of Darwinism until after Germany did. Prussia had also supported the North in the American Civil War, it had similar industrial and social problems as America, and it offered more amenities than the Sorbonne in France. The economist Karl Knies was a source of interest at Heidelberg, while other German economists taught at Munich, Strasbourg, Freiburg, Bonn, and Jena. This was despite the fact that there were no dining halls or dormitories, and German professors would often share and consume beer informally with students, such as in beer gardens. These professors were less motivated by teaching salaries than the freedom to analyze as they wished. American schools were about reform, German schools about research, with an emphasis on memory (Herbst 1965, p. 1-45&57).

The German School was specifically a “school” in the fact that its members read and referenced each other, such as how Roscher referred to “we,” and “our” theory, using facts alone to be scientific in “Volkswirtschaftslehre,” the science of national economy (Herbst 1965, p. 133). Schmoller even referenced Adam Smith and David Ricardo as their own schools. In 1872, the Germans founded the “Verein fur Sozialpolitik,” and opposed the “Congress of Nation Economy,” another group from 1858 onwards. This was in order to advocate protection of the lower classes, oppose free trade, and support social welfare programs (Herbst 1965, p. 144-145). In-between liberals (or conservatives today) and socialists, the Verein met each year during summer vacations in important German cities to discuss social reforms (Tribe2 2002, p. 11). By 1885, at the time of the founding of the American Economic Association, when neo-classical marginalism was taking grip, the German School had influenced professors at Columbia, the University of Pennsylvania, John Hopkins University, the University of Michigan, Cornell University, Harvard University, and Yale University, who were looking for a new, more progressive way forward beyond the laissez-faire (Herbst 1965, p. 134).

A study by Professor Farnam at Yale University after the turn of the 19th to the 20th Century found, out of 116 economists and sociologists at Yale, 59 had studied at some point in Germany, with 20 earning Ph.Ds; of 80 listing their most important muse, 30 indicated the historical school, and 23 the scientific and historical method combined. They noted their influences as Wagner, Schmoller, Conrad, Roscher, and Knies, although many also listed the influence of the Austrian Bohm-Bawerk, and his neo-classical, marginal utility economics (Herbst 1965, p. 130-31). The debate between older and younger members of the German School over the use of statistics in the late 1800s turned into an international debate, which led to the teaching of statistics at places like the Massachusetts Institute of Technology, and Carroll D. Wright, the U.S. Commissioner of Labor beginning in 1885, pushed for teaching statistics at all American colleges (Herbst 1965, p. 139&142).

Effects Leading up to European Integration

Now, let us turn to the development of the European Union, a union of twenty-eight current member states formed through numerous treaties after World War II but dreamed of much earlier. The European Union was created so that trade amongst inner countries would grow faster. However, by 2005, inner-country trade was less than five years prior. Prices converged at first but then slowed in this progression after “only” fifteen years (“Singling out the market” 2007, p. 1). It was only because of the euro, albeit Great Britain abstained, that great progress has been made. From 1992-2007 it increased member state GDP by 2.2% and created an estimated 2.7 million jobs (“Singling out the Market,” 2007, p. 1). It has also led to improved product quality and much lower prices. Common markets boost FDI (foreign direct investment), such as for car production in Slovakia and Poland, but FDI has stalled in Europe. However, mergers have led to economies of scale. European firms in the world’s top 500 are starting to become worth more than US firms. Writes *The Economist*, “big firms have become European even more than they have become international” (“Singling out the Market,” 2007, p. 1).

Friedrich List, the earliest economist of the German School, frequently proposed European Unity, in Kantian fashion, writing that “the highest aim for rational politics... the uniting of all nations under the common law of right” (Daastol 2006, p. 1-4). He wrote that if the whole world were “united” like Great Britain, “the most vivid imagination will not be able to picture itself the sum of prosperity and good fortune which the whole human race would thereby

acquire" (List 1966, p. 123). He also wrote about the importance of custom unions between German states, which fell on deaf ears (Tribe 1998, p. 13). The German Historical School, in this writer's opinion, foresaw a European Union, if not of the same name. After all, List wrote, the development of families, towns, and states would be "powerful enough to accomplish the union of all nations" and could be accomplished within a few decades, he wrote, leading to "material and mental interchange" (List 1966, p. 124). Later in his life he would serve as secretary to American House of Representative leader Henry Clay, and support the infant industry argument, as many German economists would migrate to America in a diaspora over the 19th to 20th Century for numerous reasons (Screpanti and Zamagni 1995, p. 92).

The German School was a product of its time, and swayed its time. In the mid-1800s, Germany and particularly Prussia, its northernmost state, favored freer global trade under the Zollverein's customs tariff and Trade Code, but when Otto von Bismarck unified the country in 1871, he ended the regional kingdoms by uniting them. He then began interventionist economic policies. This included "labor legislation, social security, pro-union attitudes, progressive taxation, protective tariffs, cartels, and dumping," which is selling abroad at lower prices ("The Historical Setting," 2007, p. 13). Germany industrialized in the 1800s later than England, but soon it emerged as a Great Power. Cartels, or blocks of businesses, soon became very powerful, which dated back to 1864 with the Schienenverband, a railway cartel. Then later cartels evolved in the 1880s and 1890s in mining. An 1897 German court ruling supported cartels, replacing the small firms that had existed in competing industries. Successful German chemical firms constituted another cartel and included IG Farben, which was a collection of Bayer, Hoechst, and BASF, and the Vereinigte Stahlwerke, a cartel of German steel firms (Seliger 2013, p. 4). Industrialization displaced farmers and craftsmen, and led to disparities of wealth. It also eliminated the barter economy in favor of credit, and led to a European economy of peasants in the Black Forest, so-called because it receives little sunlight as it is on the side of the Alps Mountains, producing potatoes for a more global market (Fullerton 1998, p. 1-2).

In the writings of Nikolaus Wolf, the economic integration of Europe that resulted up until the time around World War I resulted in a globalized Europe that was more cohesive than at any other point in recent history. He writes, "Germany provides us with an intriguing case study of how the project of a 'national' economy at the heart of Europe in 1871 was cutting across the long-standing network of European economic cooperation" (Wolf 2008, p. 1). Germany, pursuant to the Historical School, raised tariffs, created a common currency, and built infrastructure along three river systems of the Rhine-Main, Elbe-Oder, and Danube. But, there were still divisions economically between east and west. The west provided coal, and with some imports from England, while the east provided agriculture, that also arrived in the north via shipments to sea ports from the new world (Wolf 2008, p. 1-2).

The German School reached its "heyday" approximately around World War I, when, according to Hayek, the conservative tendencies, or liberal by today's standards, of Bismarck led to socialism and Nazism (National Socialism), which some say grew out of German historicism (Hayek 2007, p. 6). Some blame the hyperinflation in Germany from 1921-23 on Schmoller and Georg-Friedrich Knapp, who had theorized that currency was only a legal matter, and Wagner and Friedrich Bendixen, whose "State Theory of Money" speculated that a banking system could never create too much money, causing prices to increase (Laidler and Stadler, p. 2-3). One modern scholar, George Friedman, writes that the German problem was one of nationalism, and that had spread to other European countries, and that "Europe's task was therefore to overcome nationalism and create a structure in which Europe united and

retained unique nations as cultural phenomena and not political or economic entities” (Friedman 2011, p. 3).

While associated with the rise of Nazism in the 1920 and '30s, with Roscher's early writings, one sees the importance of ethics and Christianity, with no apparent aversion towards Judaism. He writes of Christian's "love of the rich for the poor, not by the hatred of the poor by the rich" (Roscher 1972, p. 258). He says that Christianity was "the greatest revolution which history records," not socialism or Nazism (Roscher 1972, p. 8), with Catholicism popular in the south and Protestantism in the north. He also wrote that individuals are responsible to "God and their conscience" (Roscher 1972, p. 84). Although he strongly supported the nation-state, Schmoller likewise may have favored peaceful rather than militaristic European integration, and understood the natural progression of, larger and economic and political organisms, so long as they were backed-up by a common culture, which Europe today could arguably have. He wrote extensively on the increase in the number of European treaties, which would later be crucial to integration, specifically by Frederick the Great, and particularly with other great powers of Europe such as Poland. They would proliferate in the future, he thought, and he believed he was living in the age of "iron and coal," which, if by happenstance, were the first two goods included in the European Common Market (Schmoller 1967, p. 83).

It is also unclear today whether or not a student of Schmoller's, Werner Sombart, who coined the word "capitalism" and not Marx ("Sombart," 2013, p. 1), was anti-Semitic. He analyzed Judaism to discern four reasons for their stereotypical wealth, which included their international contacts, their rationalism over local custom leading to new opportunities, their focus on economics and not politics, and their history in the banking industry. His feelings towards the Jewish people are "vague and contradictory," but at one point he criticized Berlin Jewish department stores as being "crass" (Beauman 2013, p. 1). The Nazis would later destroy Jewish stores on Kristallnacht, which, so-called by Nazi propaganda to highlight the sun's reflections, is now more correctly called "Reich Pogrom Night" ("Third Reich Tour," 2013).

The radicalism of the inter-war years may have risen from the ashes of the German Historicists, say some since they were relativists, but there is no direct connection, other than that of Sombart. He would later in life vacillate in opinion between different editions of his books, such as *Hucksters and Heroes*. Later, he claimed that Hitler received his directives from God, that the Fuehrer was the supreme leader of the universe, and that this leadership was permanent, a change from earlier, Historical School thinking ("The Historical Setting," 2007, p. 13-14). Writes one author on the Historical School, clearly pushing tentative boundaries, "Such was the progress of German academic economics from Schmoller's Glorification of the Hohenzollern [German nobility until the Weimar Republic] Electors and Kings to Sombart's canonization of Adolf Hitler" ("The Historical Setting," 2007, p. 15). Economic cartels supported the Nazis in control of the economy and "their ideology of a separatist state," but other historicists dissented.

However, in the 1930s, German economists Walter Eucken and Franz Bohm, who would later become associated with the Ordo-Liberal School, to be discussed, opposed the link between German government and cartels, and believed in the free market politics of Adam Smith. According to Hagelucken, "Out of these deliberations, there emerged first a German and later, along European lines, a European competition authority" (Hagelucken 2009, p. 2). They professed that competition lessens prices for consumer. "The freer the markets, the

more social they are,” said Erhard, if these ideas do not contradict themselves, but setting the stage for future German corporatism (Hagelucken 2009, p. 2).

If he had lived through to see the end of the two world wars, Schmoller, who claimed that all wars throughout history were based on economics, would have favored political institutions to end the wars that divided Europe, rather than militaristic actions. He was a supporter of the progress in developing political institutions, though he might have feared for some loss of sovereignty, a concept he does not address. Nor does Roscher, other than in terms of the individual. Roscher blamed war and other nations’ intrusions onto German soil for its then relative economic hardship, such as by imposed river tolls, and wrote that Germany was too small, too medieval, too fragmented, with too small a coastline, so he indeed would have been in favor of greater integration. Meanwhile, Roscher frequently mentioned the world economy, saying that “important preparations have been made for it,” and that “We are approaching more nearly to it,” listing aspects of modern day globalization (Roscher 1967, p. 80).

One of the goals of early European integration was to prevent harmful interactions of the German economic and political power that had started two world wars. According to one author, “The political significance of the work of the Historical School consisted in the fact that it rendered Germany safe for the ideas [such as relativist “anshaulich,”] the acceptance of which made popular with the German people all those disastrous policies that resulted in the great catastrophes” (“The Historical Setting,” 2007, p. 13). This included expansionist imperialism, high inflation in the 1920s, and the Nazi regime, the politicians of which one author says “acted as they had been taught by the champions of the Historical School” (“The Historical Setting,” 2007, p. 13). Other historians instead point to the eccentric culture of the time, or the easy-to-win election system. Despite this, even if it is true, the line of thought that developed would combine liberal and illiberal beliefs into an economic philosophy of one of today’s strongest economic countries, and one of the world’s strongest economic unions, today, stronger than those in Latin America, Africa, the Mid-East, or Asia.

Integration of the world economy, though, was hampered at first by the presence of the cartels, supporters of and supported by the government during World War II, which reduced economic efficiency. Another integration-harming factor was from the rise of economic tariffs in the inter-war years (Seliger 2013, p. 4-5). In addition, Germany, in line with the Historical School, enacted trade barriers like quotas and foreign exchange controls, during this time (Wolf 2008, p. 2). German resorted to state planning, and rationed consumption goods, but after WWII lost one-fourth of its territory, including Silesia, and 70-80% of its production capacity (Seliger, 2013, p. 4-5). The second world war’s aftermath, though, opened up “opportunities for cross-border cooperation” in Germany and Europe in total, but certain areas of nations continued to fulfill specific economic functions, what Wolf calls the “stubborn beast” of a national division of labor throughout Europe. The Germans may have viewed this organically (Wolf 2008, p. 2).

Towards the end of World War II, even Austrian economist Friedrich Hayek, who won the Nobel Prize for opposing big government, rounds-out his seminal work *The Road to Serfdom*, by writing that “the idea of the world at last finding peace through the absorption of the separate states in large federated groups and ultimately perhaps in one single federation, far from being new, was indeed the ideal of almost all of the liberal thinkers of the nineteenth century” (Hayek 2007, p. 233). The most “practicable” area would be “as part of western Europe” (Hayek 2007, p. 235). Some possibly speculate that the German school can best be

said to have morphed into the Austrian and neoclassical branches, from which Hayek wrote, and is now part of mainstream economics (Senn 2005, p. 1).

Over this period, the Historical School's role, though, may be misunderstood. Some claim it called for state planning, but Roscher writes in support of private business, writing of the "connection... between the political freedom of a people and their economic production" (Roscher 1972, p. 252). They claim the historicists supported the "Junter aristocracy," the Prussian aristocracy, but Roscher in fact was in favor not of elites but of a strong middle class. The historicists received no opposition from businessmen, because they held no ideological antipathy towards them themselves. The only opposition that emerged through the early-to-mid 20th Century were the communists, who were backed by labor unions, says one author, slowly influencing the historicists who gradually began to adopt the doctrine of the Marxists. Marxist economist Friedrich Engels even developed a theory of interest from the German Wilhelm Lexis, and the German word *burglich* became *bourgeois*, he says ("The Historical Setting," 2007, p. 13-14). But, the Germans were not Marxist and instead, historicism spurred a combined, middle-ground economic approach.

After this muddled period, historicism more likely gave rise to the ordo-liberals, who were influenced by both the German School's methodologies and that of the logical positivists, a group of early 20th Century philosophers who believed in the scientific method. The ordo-liberals were a distinct school themselves, their greatest impact upon the English School being ideas contributing to James Buchanan's public choice theories about how politicians behave economically, but this is not to downplay their contributions (Feasel 2008, p. 2). One of Eucken's muses was the Historical School, as he wrote, "Inevitably a new organic social ordering comes into existence, with central control of the economic process, in which order leading men have a proper survey of the whole process..." (Krabbe 1996, p. 106). Apparently, writes Krabbe, "the reformist spirit of the Historical School had not yet vanished..." (Krabbe 1996, p. 107).

The European Union integration process, thus, was shaped more by the Freiburg, or afore-mentioned Ordo-liberal School started in the 1930s at the University of Freiburg by Walter Eucken and legal scholars Franz Bohm and Hans GroBmann-Doerth (Vanberg 2011, p. 1). These two set about to "provide an alternative to the Historical School's a-theoretical approach," but as Eucken wrote in 1940, "to criticize Schmoller is to criticize a considerable part of economic doctrine of our time" (Vanberg 2011, p. 5), so perhaps he did have lasting influences. The primary advocates of integration were diplomats like France's Robert Schuman and Jean Monet, who had quasi-economic backgrounds. Both were inspired by their Christianity, although the European Union flags with twelve stars are not religious symbols, contrary to widespread speculation ("Xirorchakis discussion," 2013). Economics played an equally central role to politics, to create an economic powerhouse that was smoother and could compete globally. One could argue that both the integration process itself, and later the policies of the European Central Bank, were affected by these economic ideas.

Ordo-liberalism "drew from critiques" of the Historical School and was also "influenced by the Austrian and [Swiss] Lausanne Schools" (Riha 1997, p. 1), the latter being a neo-classical, mathematical school led by Leon Walras and Vilfredo Pareto with their general equilibrium models. Nevertheless, the ordo-liberal economics, based on the Historical School, were critical for the "redesign of economic policy of Western Germany after 1945" (Seliger 2013, p. 5). As Jukka Pekkarinen notes, a nation's economy are the results of "a historical legacy of policy experiences which cumulatively point in certain directions and

gradually become institutionalized within the structures and operating procedures of the state” (Afleitch 2011, p. 2). Therefore, the ordo-liberals were very likely swayed by the Historical School.

From 1945-1948, the allies used coupon rationing for the economies of the German zones, but vandals formed black markets. Afterwards, though, the Freiburg School was the foundation for the new economy in West Germany (Seliger 2013, p. 5-8). It was “in direct response to Nazi abuses of central state power,” and had a monetary component in reaction to Germany’s high inflation due to the reparations after World War I (Afleitch 2011, p. 1). With the “ordo” meaning “act,” the word meant a price system as an allocation method, and a new monetary policy devised by Irving Fischer in America, to fight inflation. It also stressed private property, contracts, and preventing monopolies (Seliger 2013, p. 5-8), which “rediscovered” from the Historical School the importance of such institutions (Pearson 1999, p. 5). After all, Roscher wrote of state interference, and Karl Heinrich Rau had listed conditions when a state might intervene, such as if, according to Tribe: “the purposes of the state are ... involved; and where the activities of individuals are ineffective” (Tribe1 1988, p. 192). The goals of such could be expanding production, securing a firm, better distributing income, useful consumption, or having fewer paupers (Tribe1 1988, p. 192). The new school, like the old, combined several subjects, this time law and economics, and professed constitutional means for a free economy and society, opposing the Historical School in the latter’s relativism in law and economics (Vanberg 2011, p. 1). They held, similar to the old, “a welfare state is not in and of itself unethical or illegitimate..., but only as long as the government is following particular rules and does not discriminate in the collection of funding redistribution” (Feasel 2008, p. 1).

Early post-war European Union unification philosophy in the ‘50s and ‘60s, undertaken in the small and non-powerful nation of Belgium, incorporated both the macroeconomic ideas of scholars of German background, as well as France, the two largest and most important countries, and later on Anglo-Saxon, or English, principles. Most West German scholars at the time were of the ordo-liberal belief and stressed market mechanisms and moderate wage controls, while French scholars were Keynesian and Colbertist (a medieval socialist), emphasizing five year plans. English ideas, which have been most influential throughout history, followed in time-specific trends, such as Keynesianism, monetarism, and supply-side economics, which were more theoretical and based on research from places like the Organization for Economic Cooperation and Development (OECD) (Eichengreen 2013, p. 1-2).

British economist James Meade, the Hungarian-American Tibor Scitovsky, Austrian-American Fritz Machlup, Canadian Jacob Viner, Canadian Richard Lipsey, and American Charles P. Kindleberger all would contribute economic theories towards the union (Wegner 1989, p. 281). Most of these ideas reflected “Anglo-Saxon pragmatism” (Wegner 1989, p. 285). Manfred Wegner writes, “German thinking in the framework of economic order (Ordnungspolitik) contrasted with the interventionist attitudes of French economists and the adaptability of Italian and Belgium policy tradition” (Wegner 1989, p. 285-286). The European Union began with the regulation of domestic markets. This started with the Treaty of Paris in 1951, to the Treaty of Rome in 1957, and the creation of European Atomic Energy Community. By 1967, all three treaty communities, two from the latter, had joined, and in the next year, the founding six countries abolished all tariffs between each other and established a common tariff, which they are now negotiating about with the United States (Eichengreen 2012, p. 1-2). In-between, “the German policymakers [had] accepted more active macroeconomic thinking and budgetary management, the medium-term programming of public expenditure

and even the forecasting of important macroeconomic variables”, which was Keynesian (Wegner 1989, p. 288).

After several decades, in the late 1970s, with changes in all European states which set the European agenda, the Commission shifted from Keynesianism, and job and infrastructure creation, to supply-side economics, particularly after 1978 when a Keynesian “Concerted Action Plan” to meet certain European goals failed. They instead stressed free movement of goods, services, capital, and labor. France was actually more protectionist, favoring the safeguard clause of Article 109 of a minor economic treaty for quick balance of payment problems (Maes 2009, p. 1-6&20). As time progressed, some economists like Manfred Wegner believed the economic institutional arrangement in Western Germany, with a small Council of Economic Advisers, could serve as a model for the future European Union (Wegner 1989, 296).

In the 1980s and 1990s, around German unification, plans for the euro were introduced in studies for a Single Market Program (Eichengreen 2012, p. 3), which relied heavily on the works on currency unions. These could reduce transaction costs, Canadian economist Robert Mundell, leading the discussion, and other economist concurred (“Xirorchakis discussion,” 2013). Still, over 150 German (now unified) professors petitioned, calling for its “orderly postponement” because the European economic situation was “unsuitable” for it (Norman and Munchau 1998, p. 1).

The latest American and European financial crisis has “jump started” the Historical School and ordo-liberal debate (Hagelucken 2009, p. 3). By the end of the last decade, amidst a new European financial crisis, the German state as corporatist was injecting itself into the economy more than ever, aiding the call for help by executives. Corporatism differs from the American system in that the government works with businesses to set economic policy, rather than relying mostly on lobbyists as in other parts of the global West. Germany was, like the United States’ government at the time, buying stock in Commerzbank, Germany’s second largest private bank, and giving loans to carmaker Opel (Hagelucken 2009, p. 1). Despite this, many German economists, according to current professors at the Ludwig Maximilian University, continued to favor a “liberal,” or anti-interventionist belief (“Ludwig Maximilian Discussion,” 2013). They felt aid packages distorted competition, and that the European Commission, the executive branch of the European Union, should stop state protectionist policies, like France’s “buy national” program, which might have conflicted with the Historical School’s nationalism (Hagelucken 2009, p. 2-3).

In 2008, a new German textbook on European integration devoted an entire segment to criticizing the use of fiscal stimulus to sure-up an economy (Dullien 2008, p. 1). Others in Germany and Europe saw the use of state stimulus as “structural impediments” to the economy (Dullien 2008, p. 2). Some modern day ordo-liberals like Michael Wohlgemuth are “hastily trying to prove that the state, too has failed” (Hagelucken 2009, p. 2), while others like William Ropke are arguing that, like in the 1930s, Keynesian support for the financial system is needed. Yet, all agree that the state “should not become a long-term manager of companies” (Hagelucken 2009, p. 3). However, the basic idea of social justice, as a legacy of German philosophers like Carl Hegel, is esteemed by many modern German economists (Nau and Steiner 2002, p. 2). They are still all wrong, though, in this writer’s opinion, to blame current political leaders who are dealing with difficult times. Germany, the “reluctant hegemon,” perhaps because of its past, must come to realize that its great economic strength is also a source for international strength.

The goal of the EU, says *The Economist*, was “harmonization, not deregulation.” It has seen new firm creation, intellectual property right creation, and increased competition in transport, energy, and infrastructure, to lower industrial costs (“Singling out the Market” 2007, p. 2). By most measures, the European Union has been a strong success, and it appears that the Greek and other “PIIGS” nations’ debt crises will be somewhat ameliorated by creditors basically allowing Greece to refinance its debts at a new interest rate of 4% on bonds, combined with some austerity measures. The EU works in part because of the specialization of its member states, such as Eastern Europe in textiles, metals, and coke production, Hungary and the Czech Republic in some high-tech areas, knowledge-intensive manufacturing in Finland and Sweden, and knowledge intensive services in Great Britain and Luxembourg (Andreosso-O’Callaghan and Nicolas 2007, p. 3-4), almost as in a biological way as envisioned by the Historical School.

Interpretation Today and Lasting Contributions

Edward W. Younkins may be wrong when he writes that there are “no graspable laws of historical development” (Younkins 2004, p. 1) and in saying that if mainstream economists today were of the German School, it could lead to policy advisors giving suggestions centered on “absurd theoretical constructs” (Younkins 2004, p. 3). Younkins calls economics an “exact theoretical discipline,” in which all relationships hold, given certain assumptions and free for unintended influences (Younkins 2004, p. 2). In defense, writes Samuel quoting from Tribe, “Economic theorizing might be the most prestigious form of activity for the contemporary professional economist; but this was not the case in the past, nor does it provide a useful perspective on the heterogeneity of modern economic discourse” (Samuels 1990, p. 3).

But even the view this quote above refutes may be questionable as to considerable intelligentsia. Economics, if properly understood, is in many ways an art. As Paul Samuelson, the defender of the modern-day-liberal “orthodoxy,” showed in the late 1940s, societies always have both winners and losers, which results in choices having to be made which do not always benefit everyone. Additionally, the German School had an enormous impact upon American sociology, since “economists in Germany found it easy to transfer their discipline from a division of moral philosophy to a branch of social science,” sociology (Herbst 1965, p. 150). They impacted such sociologists as the Frenchman Auguste Comte, Herbert Spencer in England, and Albion Small in the United States, who first conceived of the idea “social process” in sociology, the link between “scientific description and ethical prescription” (Herbst 1965, p. 156). And, because the Historical school rejected neoclassical marginal utilitarianism, it was up to the Austrian Carl Menger to define the loss of utility in supply, which he did through the concept of opportunity costs (Screpanti and Zamagni 1995, p. 174), the cost of the next best alternative. Moreover, Karl Knies’ writings on marketing foreshadowed the works of John Kenneth Galbraith on marketing as an institution and Joan Robinson’s monopolistic competition.

Furthermore, the German School may have stimulated the interest of academics like Charles Beard, an American historian who believed that the United States’ Founding Fathers were motivated mostly by personal economics (Watkins2, 2013, p. 2 and wikipedia), while the Germans’ development approach may have influenced the Russian Alexander Gershenkron’s development theory of backwardness (Shionoya 2005, p. 9). Writes Herbst, the “heritage of the German historical school was absorbed into the main stream of American pragmatism and ceased to be identified with the country of its origin” (Herbst 1965, p. 158). Furthermore, it might be possible to link the anti-relativist philosophies of Pope Emeritus

Benedict XVI with a reaction against the relativist philosophies of the historicists in German schools, if one can make the nexus between economics, the once “moral sciences,” and religion. It was Leopold von Ranke, a German philosophical historian, who wrote all ages in time are equally close to God (Pearson 1999, p. 3).

Because the German School today is not commonly read, it is therefore often misinterpreted, and even some do not consider it to constitute its own school. According to Heath Pearson, it would be better classified as “cultural” or “evolutionary” economics (Pearson, 1990, p. 4). However, the influence or unintentional uses of their approaches are observed not only in the evolutionary way in which modern scholars view thought, although they emphasize the development of theory (Samuels 1990, p. 3), but also in the works of such scholars as Milton Friedman and his University of Chicago colleagues, who seem preoccupied with making predictions. Such predictions might be for stocks, inflation, or interest rates, which came into existence with the Dutch joint-stock companies (Schmoller 1967, p. 34). These neoclassical and modern day monetarists then observed if their predictions match empirical evidence, as did the Germans (Younkins 2004, p. 3). This libertarian approach, more free-wheeling than the Austrians, ironically sometimes calls for “social engineering,” or what the Germans would have called influence, to correct for flaws in an unbalanced society (Younkins, 2004, p. 3).

Although some scholars, such as Heath Pearson, claim that historicism was used in other schools of thought, such as in England, this should not detract from considering the German School as its own branch. In the end, all schools are in fact rough characterizations, and classification simply makes analysis easier to compare and contrast, which is necessary because we need to know where each other stand on principle. Others like Grimmer-Solem and Romani hold similar views, but Laidler and Stadler point out that to some extent “The German language was then used for scientific communication well beyond the borders of Germany itself” (Laidler and Stadler, p. 2). Writes Pearson, in concession, “the German-speaking world was known to be the Mecca of this style of thought, the intellectual milieu in which it came closest to hegemony” (Pearson 1999, p. 5). Moreover, many scholars change their views as their careers progress, which, as has been shown, makes classification itself difficult (Caldwell 2001, p. 649-51).

Additionally, more economists need to be aware of the history of thought so they know how ideas progressed, or “who wrote what when” (Caldwell 2001, p. 651). Contrary to widespread belief that the German School died out, in some way or another, the similarities that exist with mainstream economics indicate German economics was incorporated or returning into modern economics, which is once again starting to look at societal issues, rather than just growth, such as through the works of Indian economist Amartya Sen. Thus, it may have been far ahead of its time. As Nau and Steiner write, “The questions they put at the center of their agenda are still at the heart of present day inquiries” (Nau and Steiner 2002, p. 9). Additionally, the study of history tells us when and how ideas changed. If the German Historical School’s emphasis on induction and qualitative research established an entire line of thinking for the universities throughout Germany for nearly a century, which it did, then there can be no argument that it was its own, relevant school of thought, which may not offer theories for today, but is rich and elegant to read in qualitative fashion, from which to conceptualize new ideas for the future, particularly on national or further worldwide economic integration.

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