

## **In search of full empirical reality: historical political economy, 1870–1900\***

***Erik Grimmer-Solem and Roberto Romani***

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While the modern historical school of economists appear to be only exploring the monuments of the past, they are really shaking the foundations of many of our institutions in the present (Toynbee 1908a: 35).

It is frequently asserted that modern deductive economics is not up to (or that it has abandoned) the task of addressing the complexity of economic action and processes of change. Claims have also been made that its rejection of history and the role of values in decision-making have made it less relevant to public policy (Snooks 1993: 1–66; but the mentioned shortcomings of modern economics nourish an apparently growing literature). These claims prompt a number of interesting questions about the history of the discipline, particularly about those economists who attempted to understand economic change and complexity, accorded a role to values, and prescribed policy. Adam Smith certainly comes to mind as the most notable example of such a 'political economy', but so does a rather more murky body of economic thought usually brought under the rubric 'Historical School of Economics'.

This paper seeks to define and characterize the specific attributes of a historical political economy which arose in Europe between roughly 1870 and 1900, a time when economics was still being professionalized and a variety of approaches coexisted. Authors from four countries are considered: Germany, Britain, France, and Italy. We focus specifically on the relationship and tension between empirical history and economic theory, thereby illustrating the resulting approach to policy. We contend that our characterization provides a useful illustration of the achievements and shortcomings of historical empiricism, inductivism, and pragmatism in economics.

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**Address for correspondence** Roberto Romani, Centre for History and Economics, King's College, Cambridge, CB2 1ST, UK; Erik Grimmer-Solem, Social Science Collegiate Division, The University of Chicago, 5845 South Ellis Avenue, Chicago, IL 60637, USA.



### 1. 'Historical School' and historical political economy

One of the initial hurdles facing any systematic understanding of the so-called 'Historical School' in addressing some of the questions we have posed is that the term is itself burdened with numerous vague associations and overlapping uses leaving it wanting as a useful rubric of more specific research. It is for these reasons that some scholars have been wary of using it or have chosen to abandon it altogether (Hutchison 1953: 1–32).<sup>1</sup> As it turns out, the various non-marginalist approaches which arose in the wake of the demise of classical economics between roughly 1870 and 1900 make the use of an all-encompassing term such as 'Historical School' untenable. Equally out of place are definitions of such a 'school' either in a strictly sociological or solely German sense (Grimmer-Solem and Romani 1997).<sup>2</sup> If there is anything at all in the 'Historical School' it is the relationship between economic theory and history, a relationship which ought to be at its very core and consequently the logical point of departure of any systematic analysis. What is therefore required, it seems, is first a clear term and a more precise working definition and then a systematic characterization of its specific attributes.

We refer in this paper to 'historical political economy' because the most important elements of what has been referred to as the 'Historical School' arose in the encounter between an empirically-grounded historical method and political economy, the latter having by the 1870s not yet abandoned Adam Smith's ambition to merge economics into a comprehensive social and moral science. This historical political economy was a policy-oriented empirical economics which viewed history as an essential source of data and knowledge and the national past as the principal inspiration for understanding patterns of change and for devising appropriate policies to accommodate that change.

We now need to identify those writers who did attempt to blend the two forms of knowledge. Tentatively, the ground usually apportioned to the 'Historical School' should be divided among a number of different approaches to economic phenomena. We can identify a statistical posture (among whose adherents the most important figures were Engel, Hildebrand, Lexis, Rümelin, Tönnies, Juglar, Levasseur, Lampertico, Luzzatti, Messedaglia, Morpurgo), a biological-sociological stance (Ottilienfeld, Schäffle, Schulze-Gaevernitz, Spann, Ingram, Boccardo, Cognetti de Martiis, Messedaglia), a juridical perspective (Miaskowski, Wagner, Cauwès and other holders of chairs in the French Law Faculties), an administrative focus (von Stein, Maurice Block, C. F. Ferraris), and an analytically minded line (Conrad, Knapp, Lexis, Nasse, Philippovich, Wagner, Cliffe Leslie, Ricca Salerno), besides a long list of eclectics and social reformers with a

penchant for theory. Once the scene is re-ordered in this way, it becomes easier to point to the 'real' historical economists, that is to those who effectively and systematically put history to work as an economic tool: Brentano, Bücher, Cohn, Gothein, Held, Herkner, Knapp, Miaskowski, von Schanz, Schmoller, Schönberg, Stieda, Ashley, Cliffe Leslie, Cunningham, Hewins, Thorold Rogers, Toynbee, de Laveleye, Levasseur, and in a more limited manner Leonce de Lavergne, Cusumano, and Toniolo. A certain degree of overlapping among the above mentioned groups is the rule rather than the exception.

What this group of European historical economists shared was: 1) the combination of economic history and economic theory; 2) a strong methodological characterization as an empirical, fact-based type of science; 3) an emphasis laid on the historical and geographical relativity of theory; 4) striving after some sort of model of development; and 5) a pervasive concern with policy issues, and in particular with social reform. These points are dealt with in this order; examples are provided in order to illustrate them as vividly as possible. However, even a rough delineation may occasionally require the discussion of particular questions in some detail.<sup>3</sup>

### 2. Economic history and economic theory

A characteristic version of economic thinking, not reducible to economic history, can be traced with similar traits in all the four countries.<sup>4</sup> The still non-existent academic separation of disciplinary fields made possible a novel interaction of economic history with economic theory, and the moving force behind such a blend must be found in the latter rather than in the former. Granted that the consolidation of the marginalist approach did not occur before the beginning of the new century (Howey 1960), the crisis within Ricardian-Millian economics coincided with a positivistic intellectual climate conducive to a more empirical approach. Evolutionism too played a part: after Savigny, Darwin, and Spencer, for instance, change and progress became intrinsic attributes of the notion of law.

The association of political economy and history was not novel, of course; but at this point in time a conscious attempt to amend the basic approach of the former through the latter was made. It should be recalled that rapid advancements in the discipline of historiography (Niebuhr, Ranke, Droysen, Maine, Stubbs, Fustel de Coulanges, etc.) and increased availability of archival sources lent the new 'positive history' a high degree of prestige, even a claim to being a hard, empirically-based science. This new emphasis on historical empiricism exposed what came to be seen as an

inadequate empirical basis from which classical economic theorists had made generalizations and devised hypotheses. In the eyes of historical economists, it was necessary to abandon the metaphysical, dogmatic and speculative aspects of classical economics in order for it to move forward and become a modern, empirical social science (Schmoller 1897: 255–60). Yet from the beginning the goal was not so much to replace, but to correct and amend classical economics historically and statistically (see especially Schmoller 1911: 459–65). Therefore, under the pressing need to respond to social questions, the economists who were in search of a more solid base of facts quite naturally encountered history.

In marking the birth of modern scholarship in economic history, books like Schmoller's *Zur Geschichte der deutschen Kleingewerbe im 19. Jahrhundert* (1870), Ashley's *An Introduction to English Economic History and Theory* (1882), Levasseur's *La population française* (1889), or Cusumano's *Dell' economia politica nel Medioevo* (1876) present a common tension between elaborate historical scholarship and views on economic theory and policy issues. This tension was never really resolved. On the one hand, their economic history was not naively bent on prescribing policies – we are dealing here with modern scholarship which aimed at constructing a historical science, not pamphlet writing. The works of concern here thrive on exhaustive sources and erudite discussions on weighing the available evidence, and appeals to the historian's peculiar expertise are often made as guarantee of scientific impartiality. But, on the other hand, it was also not the case that theirs was history for history's sake. In short, historical economists continually switched between and mixed the role of historical scholar, theoretical critic, and policy advocate. What is certain is that their research was directed by strongly held values and that history provided a mantle of scientific credibility which could be turned into a powerful tool of both criticism and advocacy (see especially Schmoller 1870: v–xiii; Levasseur 1903, I: xiii–xiv; Levasseur 1907: viii).

An insight into the symbiosis established between history and political economy is offered by Ashley. He reverently thanked Schmoller for teaching him 'how to carry the historical spirit into the work of the economist, and the economic interest into the work of the historian'. Significantly enough, Ashley's own interest in history lies in the fact that 'it is not yet ended': this means not only that historiography is ultimately shaped by the questions at issue at the time the historian writes, but also that history (in conjunction with political economy) can definitely account for those questions (Ashley 1899: 23, 30, and the book dedication).<sup>5</sup> To put it plainly, historical experience could provide economists with fundamental insights. This was recognized, with reference to a pivotal issue, by Marshall himself: 'even in matters of detail there is scarcely a single regulation of the unions

to which a parallel cannot be found in the history of guilds' (Marshall and Marshall 1879: 189).

It is a fact that the protagonists of the historical movement never ceased to define themselves as 'economists', strongly opposing anyone attempting to circumscribe the meaning of their writings to the sphere of history.<sup>6</sup> We accept these claims: our authors were genuinely engaged in establishing a new form of economic science, even if few of them were exclusive in their preferences. Nevertheless, the phenomena of historical economics would have been unthinkable unless the peculiar status of political economy in mid-century is considered. It simply was the only social science available; as such, it provided a vocabulary for the discussion of a wide range of issues, economic as well as political, demographic, or generally social. Its prestige, comprehensiveness, and flexibility made political economy carry a very heavy burden throughout the nineteenth century, and the historical challenge represents anything but the final episode of that story (Collini *et al.* 1983).

In order to show historical political economy in action, a short summary of the contents and inner logic of a representative example of the literature will now be provided. We have chosen Schmoller's *Zur Geschichte der deutschen Kleingewerbe im 19. Jahrhundert* (1870). This study of the history of small trades in the nineteenth century was motivated by Schmoller's wish to test his beliefs about the effects of liberalizing commercial reforms on the economic and social life of a specific section of the German economy, namely the handicrafts. Exposure to the historical record, a critical evaluation of the relevant statistics, and extensive field investigation forced Schmoller to modify his earlier deductive hypotheses and optimism regarding the benefits of commercial freedoms with the insight that economic transformation and material progress had also brought with them deeply-rooted economic injustices. The benefits of commercial reforms had clearly been uneven; in the case of the handicrafts an important component of the middle class was being threatened. Moreover, what brought about an economic transition from handicrafts to the factory system in a particular region was not economic rationalization alone but other factors, among them credit conditions, the quality of schooling and technical education, the organization of the sales market, the level of support from officials for technical and commercial change, as well as folk customs, habits and class conditions. Those who believed that the market alone produced harmony, order and equality were thus mistaken (Schmoller 1870: 660–2). In concluding his monograph, Schmoller argued that his investigations had led him to the view that the level of tolerance of socio-economic inequality was historically relative and apt to be socially defined, but that recent historical change had made it less tolerable:



Property is no absolute; the value of property is increasingly the result of society, more than the desert of the individual; every individual is so many thousand times responsible to society and the state that his property is only conceivable with responsibilities and burdens toward the whole (Schmoller 1870: 686).

Schmoller's historical investigation had therefore both modified the belief in the justice of economic rationalization and called into question the social status quo.

In Schmoller's book, economic history is inextricably linked to economics and policy issues. But a historical dimension could also contribute to shaping the perspective of economists who did not carry out substantial historical research themselves. Cliffe Leslie is an outstanding example (even if not all of his work can be subsumed under the category of interest here). Maine's vision and method proved essential to Leslie; equally important was his perception of the historical roots of the Irish Question, as an Irishman a subject of the utmost concern to him, figuring prominently in his first collection of essays. In 1866–7, he first put forward the argument that the principles of political economy could not be applied to Ireland in view of the 'violent interference' that had shaped the structure of landed property over the past centuries (Cliffe Leslie 1870a).<sup>7</sup>

Our wealth is historical wealth, has been made what it is by historical causes, and preserves visible traces of its history. How long a history lies behind the feelings with which land is regarded, and its price in the market, as well as behind its existing distribution! Our whole national economy is a historical structure, and in no other manner to be explained or accounted for (Cliffe Leslie 1876: 178–9).

Cliffe Leslie came to believe that the character traits of British agriculture were due to long-established oligarchical oppression, and that the aristocracy still held a disproportionate sway over economic policies. Ricardian economics should be seen as the main intellectual bulwark of the status quo. In Leslie's case, the historical perspective opened up an economic world entirely different from the Ricardian one, where institutions, uncertainty, and national peculiarities counted.

Like Cliffe Leslie, Eugen von Philippovich was himself no historian, and methodologically he was closer to the other Austrians than to German historical economists. Yet his research for the *Verein für Sozialpolitik* had convinced him of the value of history as an empirical tool for the study of the social question, most notably for the investigation of patterns of emigration (Philippovich 1892). Indeed, Philippovich remained, throughout his career at Vienna, a staunch advocate of the empirical, historical-statistical methods used and normative approach to the social question taken within the *Verein*.<sup>8</sup>

Let us turn now to the attitude towards economic theory and analysis. Recent scholarship agrees in regarding the notion that historical economists

dismissed theory as little more than a legend.<sup>9</sup> Further evidence can easily be brought forth. Far from being viewed as useless and deceptive, economic analysis was actually advocated in methodological statements and applied in the practice of historical research. According to Cunningham, the hypothetical method of isolation is a 'necessary' and 'admirable' instrument of scientific investigation, and the adoption of 'mathematical expedients' should not be ruled out either (Cunningham 1892a: 29; Cunningham 1962: 106–7). Some historical economists, like Brentano, Bücher, Cohn, Knapp, Philippovich, Schanz, Schönberg, Rogers, de Laveleye, and Levasseur, wrote more or less traditional treatises. There were also those who applied bits of the marginalist technique, namely Cliffe Leslie, de Laveleye, von Philippovich and even Schmoller.<sup>10</sup> Others, such as Bücher, Schulze-Gaevernitz and Spiethoff were not themselves hostile to Austrian marginalism, though they did not apply it *per se* in their own work.

But, more importantly than all this, efforts were made to trigger analytical revisions directly from the historical reconstruction, that is, scientific testing of economic hypotheses. Thorold Roger's *The Economic Interpretation of History* and Georg von Schanz's 'Der Einkommensbegriff und die Einkommensteuergesetze' are cases in point. In dealing with the various possible causes of differential rent besides soil fertility, Rogers proudly remarked that he could claim a special advantage: 'I am the only person who has examined rents historically' through the study of the same estates 'in some cases for more than six centuries' (Thorold Rogers 1888: 161). Schanz's historical investigation of the transition from impersonal direct taxation to personal income taxes led him to a novel redefinition of fiscal income which was later incorporated into the 1920 German Income Tax Law (von Schanz 1896). Levasseur engaged in two major researches, both historical and statistical in character, with the aim of revising 'experimentally' the wage and population theories respectively. Neither, he wrote, lends itself to a reduction to brief formulas, related as these issues are to complex and even conflicting social forces (Levasseur 1889–92; Levasseur 1900). In agreement with most of his fellow historical economists, Levasseur in fact maintained that the historical method is called for as far as the knowledge of reality is concerned, in contrast with the 'simple notions' provided by abstract economics (like the theory of value) (Levasseur 1900: preface). Such an attitude was common. Even if the pedagogical utility of the marginalistic-mathematical method was widely acknowledged – by Schmoller, Cunningham, and Ashley for instance – it was also held that it could not answer the fundamental questions, which are historical and sociological in character (Cunningham 1894: 5–11; Ashley 1888: 201–2; Ashley 1908: 11–12; Schmoller 1911: 447). In comparison with the theories of value, exchange or money, social questions were still largely unsettled and much



more complex, Schmoller argued. And, above all, they were of momentous importance. So momentous, in fact, that they consumed the scholarly energies of German historical economists like no other single issue. Kurz argues that in Germany nothing less than social order and the integrity of the nation state was at stake, against which preoccupations with pure theory, especially one that claimed that social harmony was the outcome of unrestrained self interest was considered both dated and dangerous (Kurz 1995: 10). Therefore, it would seem that the contrast between the historical and the neoclassical economists is to a large extent attributable to a matter of priorities: the agenda of the former is different from that of the latter.

### 3. An empirical, fact-based science

Another feature of historical political economy on which our characterization rests is a markedly empirical method. Historical economists are defined by their attempt to establish the factual foundations on the raw material of history. Indeed, their skill as fact-collectors provided them with a claim of legitimacy for their policy proposals. This is not to imply that their inductivism marked them out from the deductive neoclassical economists: appeals to inductivism were made across the discipline, as Neville Keynes noted (Keynes 1904: 223ff). But it was not induction *per se* – both induction and deduction were poorly understood at the time (Schabas 1990: 54–79) – which was the distinctive characteristic of Schmoller or Ashley's approach, but rather it was their hope of establishing by means of history a richer and firmer empirical basis from which the task of theorizing could begin afresh. In Schmoller's words:

History provides economics with a material basis without equal, transforming the researcher from a beggar into a rich man regarding insights into the nature of the economy. This historical material, as all good observations and descriptions do, serves to illustrate and verify as well as establish the bounds within which truths are valid, and even more so, to gain new truths inductively (Schmoller 1911: 463).

What Schmoller had in mind was induction as a stepping stone to deduction, as a means of collecting empirical regularities and relationships which were to provide the raw material of a new economics. In fact, Schmoller's methodological writings reveal that he was, following from Kant and Whewell, a methodological pluralist, aware that all scientists applied both deduction and induction, and that one-sidedly emphasizing one method over the other had inherent pitfalls. The danger of excessive deduction was that theories became divorced from empirical testing and hence lost relevance to the real world. Worse, some deductivists had wrongly convinced themselves that their theories were valid independent of empirical

demonstration or testing (Schmoller 1867; Schmoller 1883; Schmoller 1911; for a comment, Hansen 1968).

Statistics, both as an aid to historical research and an instrument for devising regularities of collective behaviour, enters into the picture quite naturally, and the empiricism of historical economists was mirrored by their enthusiasm for statistics. For many of them, recognition of statistical regularity did provide the key to social science. On the Continent statistics had enjoyed numerous refinements since the 1850s, and in Germany Ernst Engel and others introduced a whole generation of historical economists to Quetelet's work. But in Germany these statistical tools were adapted to the prevailing historical method and in the process subjected to important criticisms and limitations. Most notably the scope for statistical law was restricted and statistical determinism through a 'true value' was rejected, with greater emphasis instead placed on variation (Held 1867; Knapp 1871; Schmoller 1871). Through the rejection of Quetelet's idea of universal statistical law and inherent propensities, German historical economists repudiated transcendental laws of society, materialism and atomistic individualism, while at the same time accepting statistical regularity on probabilistic grounds (Knapp 1869: 95–101). This rejection was aimed at rescuing a scope for free will, and by extension, political action and change. Yet statistics also provided historical political economy with an outstanding empirical tool for the study of society and the social question in its full causal complexity. By the time of the *Methodenstreit* with the Austrians, therefore, quantification was clearly on the side of the historical economists.<sup>11</sup>

Statistics was in great vogue in Italy in the decades which followed unification. In a situation where the basic characteristics of the many regional economies were still largely unknown to the new rulers, statistics was regarded by many as the most suitable means of closing the gap between the liberal principles which had inspired the *Risorgimento* and the harsh reality of a backward country. In fact Queteletian statistics soon became a favourite tool of reform, as reflected in the prevalently statistical rather than historical choice of most Italian economists of the age. Vito Cusumano, who practised both 'inductive methods', declared his preference for statistics in view of its superior grasp of the 'social question'. Yet Cusumano's criticism of the poor ethical and social content of classical political economy rested on his research on the Italian 'economists' of the Middle Ages (Cusumano 1876).<sup>12</sup> As for many other Italians, for Cusumano statistical data were vividly expressive of social evils and, above all, of immediate use to the state for reform purposes (Cusumano 1875: 154ff; on Italian statistics, see Romanelli 1980, and in particular Pazzagli 1980; and Patriarca 1996).

Some revealing light on the contrast between the historical and the neoclassical economists is shed by the relation of methods to social

complexity. This relation is twofold: there is, firstly, a sharp difference in the general attitude of each group of economists towards complexity; and, secondly, there are the divergent methodological approaches which resulted from those attitudes. However, the two aspects were inextricably interwoven. Basically, complexity was seen as a danger by the neoclassicals, whereas the historical economists regarded it as their *raison d'être*. The neo-classicals maintained that the more complex the problem at hand, the more necessary was the use of deduction. Following in Mill's footsteps, Neville Keynes made explicit that 'to attempt any exact correspondence with what has been called "the full empirical actuality" would be to sacrifice generality, and to involve ourselves afresh in those complexities of actual economic life from which it is the special object of the deductive method temporarily to escape' (Keynes 1904: 229). Menger, who also questioned the presumption of attempting to grasp 'the full empirical reality' via a 'realistic orientation of research', was nevertheless likely to be in agreement with most historical economists when writing that history has the task of addressing all sides of certain phenomena whereas 'exact' knowledge brings to light certain sides of all phenomena (Menger 1963: 790). As he tirelessly explained, empirical and 'exact' sciences are of different, non-complementary and non-comparable kinds.

For the historical economists the perception of social complexity was paramount. Cliffe Leslie was a case in point, as he believed that economic life had moved from simplicity to complexity – that is 'from unbroken custom to change' – as a consequence of a world-wide division of labour, trade, and credit. The murkiness, asymmetry, and constant flux of the real world should in the first instance be fully acknowledged, to be dealt with thereafter through induction, statistics, and comprehensive and flexible theories (Cliffe Leslie 1879b).<sup>13</sup> It was 'the infinite diversity, and change, and incessant movement' of modern economies that had called for an inductive method (Cliffe Leslie 1881). Schmoller took up Mill's famous example of the impossibility of induction in the case of complex causes and effects: *general* studies had shown it to be inconclusive, Mill had claimed, whether or not protective tariffs increase welfare. While admitting that induction became more difficult as the observed objects grew in complexity, Schmoller nevertheless retorted that Mill was barking up the wrong tree, since a number of *specialized* case studies by Sering, Sombart and others had shown relatively conclusively in what specific instances tariffs could be welfare enhancing (Schmoller 1911: 480).

This contrast between Mill and Schmoller introduces a core feature of the historical economists' perspective. A recurring interpretative line notwithstanding, their concern with complexity did not entail a blind attempt to reproduce reality on a one to one scale; the necessity to isolate research

objects was commonly endorsed. But, for the Germans in particular, the acknowledgement of the need for isolation meant focusing on the causal dynamics of specific cases relevant to policy. The point of economics, in their minds, was to solve practical, special puzzles by empirical means so that some kind of specific empirical knowledge could be generated to meet the needs of the real world. In short, specific problems required specific knowledge. At the same time, it was the belief of the historical economists that through such specific investigation and practical puzzle-solving, knowledge generated from specific problems could eventually contribute to a general economic theory. Such a body of theory would then also be empirically-grounded and defensible as science.

On the foundation of either intuitive utilitarian psychology (Mill) or introspection (Menger), deductive economists put forward an economics of general laws which made a claim to adhering only in the general case. But this approach, the historical economists argued, proved unwarranted in the face of the complicated phenomena of the real world, which required empirical investigation and a willingness to modify hypotheses in accordance with the evidence.

#### 4. Theoretical relativity

As regards the proper dimension of theory, one fundamental criticism was shared by the historical economists, i.e. the unavoidable relativity in time and space of economic principles. Historical relativity as a concept was not new in the 1870s, and was not at all limited to the historical economists, having transformed historiography and the study of law in Germany and later providing the basic justifications for Friedrich List's infant industry arguments and Wilhelm Roscher's historical amendments of classical economics. It was also considered by Mill and later taken up by Bagehot. But, in the hands of the near totality of the economists we are dealing with, relativism acted as a liberating insight. Its potential destructiveness to Ricardian orthodoxy turned it into the element of differentiation, which made an effective challenge possible.

Progress in political economy, wrote Cunningham, has been determined by the emergence of 'new phenomena to which the old explanations were obviously irrelevant': the old doctrines have been refuted by the logic of events (Cunningham 1892b: 5). Hence classical economists' claims to universality were met with disruptive criticism, based on the findings of professional historical research. Basically, history served to demonstrate the variability of self-interest itself according to space and time – the point was clearly made by Schmoller in a number of works, as it was by Cohn, Held,



Schönberg, Ashley, Cunningham, and Cliffe Leslie, among others. Ashley's *Introduction to English Economic History and Theory* is dotted with polemical remarks about the inability of Ricardian economics to explain the medieval village economy (Ashley 1882–93).<sup>14</sup> Schmoller's historical investigations of Prussian administration and economic policy suggested that there was no absolute standard by which economic policy could be measured. Thus, classical economics and socialism were constrained by the knowledge and contingencies of the times in which they emerged and had no more claim to universal truth than had mercantilism in its own time (Schmoller 1884). One of the most ambitious attempts to contextualize economic and social thought was Adolf Held's *Zwei Bücher zur sozialen Geschichte Englands* (1881), in which the development of economic and social ideas in Britain since the mid-eighteenth century was continually related to discrete economic conditions and the economic interests of dominant and rival social classes. The history of the social question in England thus seemed to underscore that economic doctrines were nothing more than the political projections of dominant class interests always relative to a particular time, in turn giving way, as economic and social conditions changed, to new economic and social doctrines (Held 1881).

The conclusions of historical research had critical implications for the study of contemporary problems. In Cunningham's view, the method of isolation adopted by classical economists should be dismissed as new forms of state intervention together with 'the increasing development of combination for common ends', most notably the trade unions, take centre stage:

Modern economic science is formulated in terms which apply to the unfettered individual and the play of motives on him; the doctrines are all relative to this view of society. In so far as human conduct is determined by motives which evade the economic calculus and cannot be measured, in so far economic doctrine is irrelevant. In so far as transactions are undertaken by combinations where the play of motive is very different from that in the mind of an individual, modern economic doctrine is inapplicable. Wherever the State interferes to prevent the free play of individual bargaining, as by the Factory Acts, the sphere of phenomena which it can treat is restricted. These considerations are enough to show that modern economic doctrine, too, is relative, and relative to a condition of society that is no longer so generally dominant in this country as it was fifty years ago (Cunningham 1892b: 12; see also Cunningham 1882: 387–424).

Cliffe Leslie's critique of the economists' 'desire of wealth' is particularly thorough and penetrating. In it he mixes historical material with Jevons' consumption economics to demonstrate how diverse the motives behind the 'desire for wealth' had been. These motives depended on 'different states of society' and were subject to 'laws of social evolution'. Whereas the deductive economists' individual was a personification of two abstractions – the desire for wealth and the aversion for labour – what Cliffe Leslie

stressed was the role of 'the collective agency of the community' in its institutional and historical dimensions in moulding 'desires, aims, and pursuits' (Cliffe Leslie 1876).

Policies themselves came to be seen as shaped by circumstances, with the result that ample justice was done even to subjects like the guilds and the various mercantilist devices which were regarded as outrageous by an earlier generation (Brentano 1870; Schmoller 1884). In view of the importance given to relativism, the focus of interest could shift from the logical prowess exhibited by the marginalists to the management of the practical problems at hand. Indeed these problems were thought to shape political economy at a given point in time. In other words, the dismissal of claims to universality significantly helped to relieve economists of the obligation to provide general theories, both in the chronological and geographical senses; what was adopted in practice was a problem-oriented strategy. This approach implies, as Collini has noticed in reviewing the British case, that the focus of discussion became episodes of national history (Collini in Collini, Winch and Burrows 1983: 258ff). Not only economic conditions but also economic ideas, Cliffe Leslie contended, are the result of the course of national history and culture (Cliffe Leslie 1879a: v).

## 5. Models of development

Economic relativism did stimulate some theoretical efforts, namely in the field of development modelling. Most authors did not actually put forward any original 'law' of social and economic development, though many of them never stopped trying. Two notable exceptions were Karl Bücher and Schmoller. Bücher devised a theory of historical development establishing a 'law' of European economic evolution since medieval times based upon changing patterns of exchange. Basically, Bücher identified the household economy of antiquity, where no proper form of exchange intervened, the medieval town with its local market, and the modern national market economy (Bücher 1893).

In Schmoller's case, the importance of a model of development in his thought has perhaps been overlooked because it was rather tenuously and carefully posited. Nevertheless, a notion of stadial socio-economic progression underpinned almost all his major economic writings, most explicitly his *Grundriss*, where changes in the division of labour corresponding to different legal orders and social hierarchies exhibit stadial changes (i.e. slavery, serfdom, free labour) which span the whole of human history. In Schmoller's view it is the division of labour which is central to all social organization, moving forward the process of *Vergesellschaftung* – the ever



greater interdependence of social agents (Schmoller 1920, II: 346–96).<sup>15</sup> Indeed, the final chapter of the *Grundriss*, which summarizes the findings of the lifetime of scholarship contained in this work, is explicitly devoted to criticizing existing theories of development and positing his own model of stadial economic progress from prehistory to modern times. Nevertheless, his theory of stages was not inexorably progressive; history was open and progress was itself dependent upon numerous factors, above all the moral-ethical, intellectual and psychological vitality of particular civilizations. Schmoller was therefore at pains to qualify his position (Schmoller 1920, II: 760–75). In his view, following Whewell and Comte, in the absence of a comprehensive positive understanding of the world such ‘metaphysical’ views were an imperfect, albeit, inescapable substitute: some kind of orientation was essential if one sought to apply in some way the fragmentary, positive scientific knowledge to real world problems (Schmoller 1881: 2–6).

By emphasizing a series of stages in the evolution of economic systems, the theories of Bücher and Schmoller provided a foundation which was developed further by Sombart and culminated in Spiethoff’s conception of ‘economic styles’. With ever increasing awareness, the economic stage came to be seen as a set of variables which formed the connecting link between theoretical economic analysis and economic history as an empirical study (Spiethoff 1932; Hoselitz 1960).

Thorold Rogers, like Brentano and a handful of other historical economists, merely advocated viewing certain contemporary issues (notably agricultural reform, currency questions, trade unions and trade policy), in the light of history because of the enduring effects of past laws and regulations. Other authors referred to the established sequence of stages of industrial production: the household economy, the guild, domestic manufacture, and the plant. Cliffe Leslie does assert the workings of laws of social development, but, although scattered traces of a Comtean mood are recognizable, the substance of these laws was never put forward.

However comprehensive models of development were, their advocacy did not entail mechanical explanations of the present or predictions of the future. That history dealt with unique events and never repeated itself was a common assumption. In the course of history there were no regular uniformities, and even generalizations from many similar cases were tricky – historians facing series of events could only guess about the next in the series. But, cautious as historical economists were, it is undeniable that political bias occasionally surfaced in their writings. Schmoller’s eulogy of the Prussian monarchy and its bureaucracy as the agent of both past, present, and future reform was the most blatant example.

Leaving aside economic stages in the strict sense of the term, it turns out

that a definite model of historical development – however limited in range and scope – was shared in most of the writings of concern here. Explicitly or implicitly, the historical economists agreed that the labourer’s present independence of social bonds, in which the transition from serfdom to modern citizenship had culminated, was the source of the labour question of the day. The dissolution of the moral relations on which the former modes of economic life rested, these authors believed, brought about a world where the ‘cash nexus’ was the single bond between men. In their view, the social costs of the transition from a regulated economy to competition and individualism had been high; and classical political economy bore responsibility for preaching a gospel which, to say the least, was one-sided. That wealth had increased enormously but the share in it of the workers had not increased at the same pace was now a historical finding, i.e. a scientific fact, besides a battle cry of the labour movement. Toynbee elaborates on this with the utmost clarity, and the list of authors who subscribe to this view includes Ashley, Cunningham, Thorold Rogers, de Laveleye, Schmoller and the vast majority of the other German historical economists (with the possible exception of Inama-Sternegg). This view of history was especially typical of those who were active within the *Verein für Sozialpolitik*, and in Germany it had considerable currency beyond the ranks of historical economists. It is worth noting that the model of historical development just sketched, notwithstanding the recurrence of international comparisons, was inspired by national questions. Held made this explicit in the introduction to his social history of England, stating that he was writing a history of England for Germans, with implications for German problems.

A few writers, like Cunningham or de Laveleye, were clearly nostalgic about the humane values of the medieval economy. Some wistfulness for past times, however, was also implied in the theory of the *mark* and the related belief in the original common property of land.<sup>16</sup> Yet the ‘historical method’, Toynbee argued, shows us that the full independence of the labourer is a step forward, being ‘a necessary condition of the new and higher form of social union, which is based on the voluntary association of free men’ (Toynbee 1908b: 163; see also 192–218).<sup>17</sup> Thanks to ‘the vigour of private enterprise’, Cunningham admitted, England has experienced a ‘startling progress’ – the past neither can nor should be recalled:

It is easy . . . to turn from the miseries of the present in half despair, and dwell with delight on the excellences of an idealized but most unreal past. Our task has been to try and understand the past: we are not called upon to condemn it, and to regret it would be idle; it is enough if we can so far profit from bygone experience of success or failure as to make the most of the present, and do our best for the future of the English nation (Cunningham 1882: 386).

## 6. Policy issues

It is now time to enter into the policy dimension, although the policy-oriented character of historical political economy might be said to be evident in most of the points already made. This characteristic can hardly be regarded as an exclusive feature, especially if viewed in the light of the fundamental role that the relationship between science and policy had played in classical economics. What was in question in the European-wide reaction to Ricardianism in the second half of the century was what Schumpeter termed the 'Ricardian vice', that is the willingness to deduce policy proposals from simplistic assumptions and tautological reasoning.<sup>18</sup> In Germany, the wage fund and the classical theory of rent were criticized for being an inadequate basis from which to advocate and devise social policy, a major early theme in the scholarly output of historical economists, most notably Schmoller (see Schmoller 1864–5, and also Schmoller 1874 and 1898). By the 1890s such ideas had become mainstream, and Ricardianism and classical economics often became the object of haughty (and superficial) ridicule (see for example Schmoller 1897). In Britain, the much lamented 'loss of prestige' of political economy was more generally ascribed, by the historical economists as well as the Marshallians, to the limited range of policy prescriptions that the analytical basis of Ricardianism was designed to support. But the universal criticism of the Ricardian vice entailed two opposite conclusions. On the one hand, there was the British-led revision of the previous pretence of dictating policies directly in the light of science.<sup>19</sup> Outside Britain, a similar approach is recognizable in Pantaleoni (in his first phase at least), Pareto, and Menger. We therefore argue that the advent of marginalist economics coincided with the emergence of more cautious approaches to the applicability of theories. On the other hand, equipped with a distinct agenda besides a different tool box, historical economists did not give up the mantle of science when advising the prince. Imagine Marshall shuddering as he recalled the age when 'any intelligent governess' could teach statesmen and merchants 'how to choose the right path in economic policy' (Marshall 1925a: 296). In the view of the historical economists, Ricardo's flaw was simply the limited basis of facts on which his policy conclusions rested. Once history and statistics had supplied the required observations, the historical economist felt himself entitled to give politicians scientific advice. Schmoller aptly coined the expression *wissenschaftlicher Vermittler*, scientific mediator, to define his role (quoted in Roversi 1984: 51). As a sympathetic observer pointed out, 'historical method' itself makes the separation between science and policy extremely difficult for 'it is impossible to study what men did in the past without wondering why they do not do the same any more' (Gide 1896a: 9). This

attitude places historical economists firmly in the tradition of nineteenth-century economic thought, in ultimate descent from Adam Smith.

The identification and discussion of policy issues seems to have provided not only the ultimate outcome of historical economics, but also the most important stimulus to its coming into being. Methodologically speaking, we are confronted with a practical, action-oriented model of knowledge.<sup>20</sup> These economists made clear that they were not looking for 'truth' in the sense of 'a number of neat abstract propositions, professing to explain large bodies of phenomena' (Ashley 1887: 11; see also Ashley 1893: 117, 121, 127–8, and Ashley's Toronto inaugural lecture, quoted in A. Ashley 1932: 50–1). Rather, as is explained at length in Cunningham's *Politics and Economics*, the historical method 'enables us to frame a scheme by which the arguments for and against some proposed plan may be conveniently exhibited, and fairly balanced' (Cunningham 1885: viii). For Schmoller, economic knowledge aims to grasp 'real facts' and 'precisely circumscribed effects'. In Cliffe Leslie's views, only an approach of this kind was capable of supplying predictions in the modern world, where people have the sense of being 'surrounded by the unknown' and where 'elements of disorder, difficulty, and recurring disaster' are the most typical features of economic life. The potential for prediction of orthodox economics had plunged because it was originally designed by Smith to represent 'an old stationary economy': now, regularities in the movements of variables are much more difficult to unfold (Cliffe Leslie 1879b; Cliffe Leslie 1881). There was also an awareness, in Schmoller for instance, that economic art usually precedes economic science and not the reverse (Schmoller 1870: preface). This was the lesson that historical research was gradually bringing to light. We always 'take a stand', commented the French economist Henri St. Marc, and we have to even when an established science is lacking; then, 'it is better to make decisions with the wisdom and reflection' offered by the study of economic policy (St. Marc 1892: 239).<sup>21</sup>

That the nature of certain practical problems required a historical and statistical treatment was conceded by economists of all tendencies. Taxation was one of these problems, and bimetallism was another. The issues stemming from relative underdevelopment represented a major concern on the Continent. In Germany – whether it was in inadequate commercial legislation (regulation of stock markets and trades), in the lack of factory legislation, legal protection of trade unions, the poor fiscal structure of the Reich, the lagging pace of agricultural reforms, railway construction, the condition of catching up industrially, or health reforms – awareness of the condition of backwardness was acute, especially as unflattering comparisons were made with Britain by historical economists (i.e. Cohn, Held, Brentano, Schulze-Gaevernitz). Historical economists' choice of historical subjects was



therefore strongly shaped by German economic and social backwardness and the social question, good examples of this being Brentano's study of the development of English trades unions, Cohn's examination of English railway policy, Held's investigation of the origins of the English industrial revolution and social development, Knapp's study of German agricultural reforms, or Schmoller's study of the German handicrafts (Brentano 1870; Schmoller 1870; Cohn 1874–75; Held 1881; Knapp 1887). In France, the awareness of the British economic and 'civic' supremacy motivated the historical enquiries of Leonce de Lavergne on the agricultural systems of the two countries (see especially Lavergne 1866). Levasseur's researches on the French working classes stemmed from a not dissimilar concern with the perpetual social unrest of his country. In Italy, the myth of the past greatness of Venice recurs in the writings of the post-*Risorgimento* economists (the so-called Lombardo-Veneti) as a stimulus to follow in its footsteps (see e.g., Errera 1874; Morpurgo 1879).<sup>22</sup> Again, it emerges that for historical economists it was usually a national policy context which historical investigations were to inform.

As regards Britain, Cliffe Leslie's economics took shape through a confrontation with the situation in Ireland. In focusing on the land question, Leslie joined a British tradition of reformist thought still flourishing at his time and of which Thorold Rogers was an outstanding representative. Cobdenite in his views on reform, Rogers can be included in a group of historical economists who kept faith with an updated version of classical liberalism. It is not true that making appeal to history invariably meant pleading for the extension of state intervention and protectionism. Besides Rogers, figures like Baudrillart, Levasseur, Bücher, Held, Nasse, Brentano, Schulze-Gaevernitz, and the Weber brothers make up that group.<sup>23</sup>

A crucial component of the policy side was social reform.<sup>24</sup> Toynbee went directly to the heart of the matter by saying that no other group of economists had given the lower classes 'scientific defence' before (Toynbee 1908a: 35). Good examples of this scientific defence of the working classes in Germany came from the early *Kathedersozialisten*, notably Brentano, Cohn, Schmoller, Schönberg and others, whose position was under attack from two sides, with Oppenheim, Prince-Smith and the economically-liberal *Kongress deutscher Volkswirte* on the one hand, and the elitist Berlin historian Heinrich von Treitschke on the other.<sup>25</sup> To measure the relevance of this new mood, it is worth recalling that in England it was only since the mid-1880s that the economics of marginal utility played a socially progressive role, being associated with a new-found concern for the working class. Wicksteed's 1884 article on Marx and Marshall's 1885 inaugural lecture marked an alliance between the new economics and social concerns which, after 1891, the *Economic Journal* encouraged (Marshall

1925b; Wicksteed 1930; see Jha 1963). Earlier, a progressive element could be seen in the British marginalists' attacks on the wage-fund theory, and in their related cautious acceptance of trade unions.<sup>26</sup> But it is important to consider, first, that their position was hardly innovative after Mill's recantation and, more generally, numerous critiques of the wage-fund theory produced both in Britain and abroad since the 1860s; and, second, that there were examples of Victorian callousness too. Jevons explained poverty along Malthusian lines and was a severe critic of trade unionism.<sup>27</sup> More blatantly, Edgeworth asserted the inferior 'capacity for pleasure' of the working classes and applied the 'mathematical method' to the defence of the status quo in Ireland (Edgeworth 1881: 77–8, 126–48).<sup>28</sup> Yet the social and political neutrality of this economic science was customarily asserted (see e.g., Keynes 1904: 35–47).

As illustrated earlier, historical economists believed that they were facing an epoch-making transformation as regards the dynamics of social classes, the most articulate document of this awareness being Schmoller's *Über einige Grundfragen des Rechtes und der Volkswirtschaft* (1874–5). Many points might be made about the historical economists' concern with social policy – their programmes ranging from isolated measures to the depiction of quasi-socialist new orders – but reasons of space restrict us to a very general remark. Historical economists took Mill's idea that distribution was man-made seriously, and extended it to all the functions of the economy. This meant that, as history showed, wages were determined by social agreement and institutions. The widespread interest in the history of medieval guilds originates from such a view: guilds exemplify at best the notion that welfare can be a comprehensive social and cultural arrangement. A perspective like this relegates the natural laws of abstract political economy to the footnotes. History served to stress, and document, the fact that any economy is a network of norms, laws, and institutions. Consequently, not only Schmoller, but even a liberal of the old school like Levasseur, pointed out that contemporary economic freedom was nothing but 'un système d'institutions'. In all ages and places, individual self-interest has been moulded by practical collective ethics (*Sitten, moeurs*) and its juridical expressions (Levasseur 1876: 333; Schmoller 1874–5). In Schmoller's and Cunningham's perspective, history tells the story of the ways in which self-interest was moulded, and society protected; Cliffe Leslie recognized the fundamental role of the political element and of its institutional expressions by re-reading Adam Smith; and de Laveleye stressed, again making appeal to Smith, that 'l'économie politique est affaire de législation' (Schmoller 1874–5: 97–124 and *passim*; Cliffe Leslie 1870b; Cliffe Leslie 1879c; Laveleye 1882: 2–3ff; Laveleye 1884: xlii–iii). Social policy issues must then be viewed within the framework of 'the life and movement of whole industries



and classes', relying on studies which are 'no longer individualist and psychological, but collectivist and institutional' (Ashley 1893: 121).

The role of contracts and institutions was a major bone of contention in those decades, a battlefield where different views of social progress clashed. The effectiveness of contracts as social bonds, maintained by Maine and Spencer, was downplayed by a host of various authors. The *Methodenstreit* between Menger and Schmoller, if interpreted as a dispute about the origin of institutions, can be regarded as an episode in that European-wide debate. As a matter of fact, both Schmoller and Menger believed that the origin and workings of institutions were the most important topic of political economy, a view echoed by Max Weber in *Roscher und Knies*.<sup>29</sup> One of the possible ways of interpreting Menger's *Untersuchungen* is to stress the contrast he depicted between the 'collectivism' of the Germans and his own individualist perspective. Menger took great care to refute the claim that for all scientific purposes 'national economy' could ever be treated as 'a special unit', different from 'the singular economies in the nation' (Menger 1963: 90–4, 193–6). The nation can be a proper economic subject only in a 'socialist state' (Menger 1963: 212–3). The long chapter 2 of book III, where it is argued that institutions are the product of unintentional individual actions, was meant to beat the Germans on their own ground (Menger 1963: 139–59). Although it was a fact that the individual's point of view was rarely adopted by historical economists, this did not entail any specific political stance. Obviously enough, the writing of history was not a plea for or against individualism even if largely collective agents were considered. In the historical economists' view, institutions serve to crystallize the ideas and aspirations of individuals in an interactive dynamic. 'All struggles within society are struggles for institutions', maintained Schmoller, who continued by contrasting the classical economists' ultra-individualism with the socialists' over-estimation of social institutions. In disagreement with both:

Historical economics and the modern philosophy of law have given [social institutions] their due position by showing us that the great epochs of economic progress are primarily connected with the reform of social institutions. The great messages of salvation to humanity were all aimed at the injustice of outworn institutions; by higher justice and better institutions humanity is educated up to higher forms of life (Schmoller 1894: 36–37).

In concluding this section, a few comments on the meaning and purposes of the above outline are appropriate. By replacing vague notions of a Historical School, our characterization provides a framework against which the contributions of individual economists can be evaluated. In addition to its potential for further research, our characterization points to the European cross-currents of historical political economy (see Grimmer-Solem and

Romani 1997). Our basic contention, on which all the above rests, is informed by common sense: in order to be considered a historical economist, history must somehow have entered the economist's tool box. We have depicted both the forms and the aims of that encounter. But, although we have drawn attention to a group of authors who to a certain extent shared inspiration, tools, and goals, historical political economists did not make up a 'school'. 'Schools' imply intellectual homogeneity and acknowledged leaders, not to mention common organizational structures, usually on a national basis – all characteristics that the protagonists of our story lacked. Furthermore, they are not immediately identifiable, as argued in the first section: only after the garden was weeded did our clump of authors emerge. Perhaps it would be appropriate, therefore, to revert to more refined categories. We are aware of the inherent multiplicity and complex connections exhibited by the economic thought of the period, and we refrain from ossifying our historical economists into rigid categories.

## 7. Concluding remarks

A 'Historical School', either in the strict sociological or purely German sense, or in the all-encompassing sense of a single alternative movement to marginalism, is untenable. Instead, we have tried to define and characterize a term which captures both the objective complexity and the European dimensions of historical economics as a distinct methodological and political commitment. This historical political economy, as we have defined it, was an important phase in the history of nineteenth-century European economics, particularly as it represented a major episode in the post-classical crisis between roughly 1870 and 1900. Historical political economy attempted to provide a historically-derived and empirically-grounded, inductive alternative to deductive-hypothetical classical economics. It was infused with the passions of the nineteenth century historical imagination, particularly by philosophies of history, the national past and the new secular religion of nationalism. Faced with social and historical complexity, historical political economy was closely linked to policy and created through historical empiricism. It was above all a pragmatic and operational form of knowledge: it was an attempt to combine history with a normative agenda and empirical economic analysis in order to meet the uncertainty and policy challenges posed by complex modern societies in a state of flux. Hence the advocacy of social reform and thereby also the test of the limits of state action.

We use the past tense when referring to historical political economy deliberately because it is, as an economic discipline, without any doubt

dead. In our view historical political economy was a typical nineteenth century product: it addressed questions which went far beyond the domain of pure economics and dealt with policy questions directly. In many respects it was the final outgrowth of post-Smithian political economy, the twilight of political economy as a comprehensive normative social science. This is precisely why attempts to revive or salvage historical political economy have been so sterile and fraught with failure. To adapt Foucault's phrase to our subject, historical political economy 'exists in nineteenth-century thought like a fish in water: that is, it is unable to breathe anywhere else' (Foucault 1985: 262; Foucault is referring to Marxism).

Was historical political economy a failure, as it is commonly asserted? Viewed in its proper historical context, it appears that historical political economy did not fail at all. Menger's unbalanced attack is itself the best proof of historical political economy's successes. Incidentally, it might be mentioned that methodological drawbacks were not the hallmark of historical political economy alone, but instead equally marred the beginnings of marginalist economics: Jevons, Sidgwick, and Edgeworth were thorough-going utilitarians; Walras' model sought to portray a socialist utopia; Marshall's welfare economics was fraught with inconsistency and unwarranted conclusions; and Menger's 'exact science' was itself burdened with huge, conflicting tasks. Besides its intellectual performance, the other, more tangible contributions of historical political economy to economics should also not be ignored. Historical political economists aided the development of new disciplines such as economic sociology (Schmoller, Sombart and Weber) and must also be credited with establishing economic history as a separate discipline within the university (Ashley, Cunningham, Levasseur, Schmoller) (see Hasbach 1891; Koot 1987: 194–203; Coleman 1987: 37–62; Waszek 1988; Kadish 1989). They also gave important impulses to the development of business studies (Ashley, Bücher, Gothein) (see Tribe 1991; Tribe 1995b; Koot 1987: 102–21). Additionally, new journals were founded (see Sauermann 1978; Krawehl 1985; Hagemann 1991; Pénin 1996; Grimmer-Solem and Romani 1997) and modern modes of teaching and research were introduced to many universities (Oncken 1899; Seager 1892–3; Wickett 1898; Waszek 1988). In Germany a number of statistical bureaus and economic seminars were founded by historical economists (Lexis 1894; Seibt 1908; Oberschall 1965; Schäfer 1971; Lindenfeld 1997). In Britain, individuals sympathetic to historical political economy founded and developed the London School of Economics (the Webbs and Hewins). More substantial even than these legacies was the social reform advocated by historical political economists, which contributed to commercial reforms, factory legislation, tariff reform and the modern welfare state with universal schemes for medical and accident insurance, and disability and old-age pensions.

There is no contradiction in saying that, although historical political economy was a nineteenth-century creation, some of the issues it tackled are still with us. The just outlined legacies, while impressive enough, do not in and of themselves address what the lasting relevance of historical political economy might be to the modern reader. We feel that this relevance is to be found less in any particular physical legacy, historical insight or theoretical postulate (however useful or valid these may still be), and more in the fact that historical political economy helped to discover the complexity of economic action, and that today strikingly similar questions and challenges posed by this complexity continue to challenge the discipline. That economic inequality is not inevitable and follows no Iron Law or rigid dogmas was a liberating insight then as it is today. Dealing with social complexity requires value choices, yet a more radical acceptance of the values involved in economics would likely make the discipline a less hard and unified 'science', but perhaps a more effective one in dealing with practical issues. To conclude, it is not historical political economy *per se* but the set of problems it addressed that could provide inspiration to the modern reader.

Social Science Collegiate Division, The University of Chicago;  
King's College, Cambridge

## Notes

\* The present essay has been written as part of the Leverhulme Historical Political Economy Project at the centre for History and Economics of King's College, Cambridge. The authors have drawn substantial inspiration from the workshop on historical economics held on February 9, 1996, at King's College, Cambridge. In particular, the authors have benefited from many points made on that occasion by Nancy Cartwright, Istvan Hont, Emma Rothschild, Gareth Stedman Jones, Keith Tribe and Thomas Uebel. An earlier version of this paper was presented at a seminar at the London School of Economics on October 24, 1996. We wish to thank all the attendants, and particularly Mary Morgan and Marco Del Seta, for many valuable comments. Robert D. C. Black, Jordi Cat, Daniela Donnini Macciò, Avner Offer, and two anonymous referees provided useful criticisms of an earlier draft. Usual disclaimers apply.

- 1 Hutchison does not use the term 'school' for either the German or British case, always speaking instead of a 'historical movement'. See also Coats (1954).
- 2 Highly-fruitful recent lines of research have cast doubt on the notion of 'Historical School' (see Streissler 1990; Lindenfeld 1993; Tribe 1995a; Pearson 1997).
- 3 A delineation of the 'historical school' through an identification of 'the essential points of view' which it 'helped to establish generally' is in Schumpeter (1954: 175–80).
- 4 However, it is undeniable that in France and Italy the association of political economy with economic history did not become a widely shared research programme. This



- holds true even if influential figures like Levasseur were active and some works by both major and minor authors could be eventually rallied round the paradigm of historical political economy. On the relationship between history and political economy in Italy, see Spicciati (1988). Among the most recent reconstructions of the Italian battle of methods, see: G. Gozzi (1988); F. Tenbruck and P. Schiera, eds. (1989); M. Bock, H. Homann, and P. Schiera, eds., (1991). See also Romani (1994: 201–41). On the French case, see Breton (1991) and Pirou (1934).
- 5 Similar positions recur in Ashley's writings: see (1893: esp. 132–136), where he maintains that 'economic history is intimately bound up with modern discussions' through controversial issues like the belief in a primitive communism or the alleged golden age of the English workers in the fifteenth century. In Ashley (1883: 2, 221), the Flemish guilds are thought to have initiated 'the struggle for legal equality', which was the task of Ashley's age to complete by making that equality 'real'.
  - 6 Thorold Rogers, for instance, unconditionally defined himself a 'historical economist' although his greatest enterprise had been editing the medieval documents that make up his *A History of Agriculture and Prices in England* (1866–1902). As regards his self-definition, see Thorold Rogers (1888: x, and *passim*). De Laveleye, who wrote about almost everything, equally claimed to be an economist in (1874).
  - 7 Here and there Leslie demonstrates an uncommon potential as a historian; see for instance, with regard to Ireland, (1875).
  - 8 Geheimes Staatsarchiv Berlin (GStAB), 1 HA, Rep. 92, Nl. Schmoller, no 198, docs. 117–118, Philippovich to Schmoller, 9 August 1906.
  - 9 Heinz Kurz has recently reiterated that the 'younger Historical School' was not anti-theoretical, pointing out that Schmoller's theory of value was quite standard, combining as it did classical cost elements with aspects of marginal utility in book three of his *Grundriß der Allgemeinen Volkswirtschaftslehre*: (Kurz 1995: 9, note 4). Schmoller's analytical concern has been the focus of the Schmoller-Renaissance of recent years: see for instance, among many possible references, Schefold (1989); Gioia (1990); Backhaus, ed. (1993 and 1993–1994).
  - 10 A subjective approach, with echoes of Jevons' theory, is adopted by Cliffe Leslie; see for instance Cliffe Leslie (1876: 167–9, 171–2); as regards de Laveleye, see (1882: 28–32; de Laveleye 1884: 36–7). Cf. Howey (1960: 192–3), where a greater proximity of de Laveleye to marginalistic reasoning than we can detect is asserted. And see also Cunningham (1882: 246 note 1). As for Schmoller, see note 9. The Italian Vito Cusumano advocated both 'deduction' and 'induction' along more or less Millian lines (1875: 152–3).
  - 11 See Porter (1986: 177–92, 242–55); and also Porter (1987: 352), where he writes: 'they came to view statistics as the appropriate tool of social analysis precisely because its conclusions lacked necessity'. Porter focuses on Rümelin, Knapp, and Lexis. For a different interpretation, see Hacking (1987). British historical economists, on the other hand, were less concerned with statistics than their continental counterparts; see MacKenzie (1981); Stigler (1986: 265–361); and Horváth (1987). However, an evaluation of the potential of statistics for a new political economy is in Cliffe Leslie (1873: 155–62). For a French example, see Levasseur (1889–92, I: 1–73); for a comment see Etner (1987).
  - 12 Furthermore, Cusumano added a dose of political economy to the historical research which makes most of his (1887–92).
  - 13 Blaug's evaluation is that 'as far as applied problems were concerned, marginal utility was ... largely irrelevant' (Blaug 1972: 279).
  - 14 It is worth recalling that the relativism of past theories, especially Ricardo's, faced an opposite continuist argument put forward by Marshall and other neoclassical economists. The British debate is dealt with in Kadish (1982: 216ff); for the Austrian position, see E. Böhm-Bawerk (1890: 251ff). For Marshall's 'large vision of the uses of history', see Matthews and Supple (1991).
  - 15 It is notable that Schmoller himself made numerous references to Bücher's theory in this chapter.
  - 16 The *mark* was the free village-community regarded as the foundation of all Germanic societies; the Saxons had allegedly brought it with them to England. This theory became medievalists' bone of contention in the decades in question. Ashley strongly opposed it.
  - 17 An identical conclusion is drawn by Hewins (1892: 112), even if Hewins disputes Toynbee's notion of industrial revolution.
  - 18 Our view of classical political economy rests largely on Blaug (1958).
  - 19 Marshall's position of 1885 about the theoretical organon is well known; Sidgwick and Keynes went to great pains to distinguish between the descriptive and the normative sides; and Jevons and Foxwell regarded mathematics as the instrument which had made impossible 'to mistake the limits of theory and practice'. See Marshall (1925a); Sidgwick (1887: 13–27), Keynes (1904: 34–35ff); on Jevons' method, see Schabas (1990: 80–97); for Foxwell's position, see (1888: 88). For comments, see Winch (1972: 42ff), and Collini and Winch (1983).
  - 20 Our thanks to Nancy Cartwright for clarifying this point. Some of the methodological themes raised in the present article resurface, and not by chance, in a member of the *Verein für Sozialpolitik* who studied with Schmoller, Otto Neurath: see Cartwright, Cat, Fleck, and Uebel (1996).
  - 21 St. Marc, a university professor and the secretary of the *Revue d'économie politique*, was sympathetic to German economics and in particular to Brentano. See Gide (1896b).
  - 22 Another Italian, Giuseppe Toniolo, later to become an outstanding figure of Italian Catholicism, aimed to show how the prosperity of medieval Florence rested on a set of historical factors – geographical, ethnic, political, and moral. Here historical research serves to level a criticism at the modern organization of economic life, where 'traditions' are neglected: see Toniolo (1882). For a comment, see Spicciati (1988).
  - 23 Baudrillart is here listed as an historical economist because of his late work (1878–80); as regards Brentano, see especially (1931).
  - 24 On the relevance and meaning of social reform in both Europe and the United States, essential references are Dorfman (1961); Winch (1972); vom Bruch (1985); and Kloppenberg (1986).
  - 25 Very typical of this defence was Schmoller (1874–5). Cf. von Treitschke (1874).
  - 26 A main argument, first put forward in Jevons' *Theory of Political Economy*, was that combination introduced indeterminateness in the wage bargain. See Edgeworth (1881: esp. 43–5); Sidgwick (1887: 347–53). See also Marshall and Marshall (1879: 199–213).
  - 27 As regards Malthusian views, see Jevons (1962: 26–8). As regards trade unions, in 1868 Jevons' attack deployed the logic of the wage-fund theory: see Jevons (1883: 101–121); his later views are in (1882: 88–137). For a comment, see White (1994: 434–40). It is true that Jevons advocated profit-sharing policies, but their anti-unionist function is clear: 'There would then be no arbitrary rate of wages, no organized strikes, no long disputes rendering business uncertain and hazardous ... Zeal to produce the best and the cheapest and most abundant goods would take the place of zeal in obstructive organization' (Jevons 1882: 145). For an interpretation that



stresses the case for state intervention which Jevons unquestionably made, see Black (1981) and (1995: 181–201).

28 On Edgeworth's non-partisan editorship of the *Economic Journal*, and his regular requests for Marshall's advice, see Creedy (1990: 21).

29 This judgement is ubiquitous in Schmoller's writings; as regards Menger, see (1963: 146–7); as for Weber, see (1975: 80).

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## Abstract

The notion of a 'Historical School' is burdened with numerous vague associations and overlapping uses leaving it wanting as a useful rubric of more specific research. To overcome this state of affairs, the article seeks to define and characterize the specific attributes of a historical political economy which arose in Europe between roughly 1870 and 1900. Authors from four countries are considered: Germany, Britain, France and Italy. We focus specifically on the relationship and tension between empirical history and economic theory, thereby illustrating the resulting approach to policy. We contend that our characterization provides a useful illustration of the achievements and shortcomings of historical empiricism, inductivism, and pragmatism in economics.

## Keywords

Historical school of economics, historical political economy, economic history, economic methodology, social reform, Schmoller