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## German Historical School

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The German historical school is very closely connected to Romanticism and the rise of nationalism in Germany; it is considered a reaction to English enlightenment and classical economics. This reaction to English classical economics manifested itself in two different ways; by developing different methods and by seeking alternative aims in economic research.

The classical school's deductive method is criticized as being too abstract. The German historical school puts the emphasis on the inductive method. Historians point out that economic development is unique, so there can be no 'natural laws' in economics. The economist can only try to show patterns of development common to different economies. Instead of searching for generally applicable laws, the historical school therefore tried to describe the particulars of each era, society and economy. A rational approach to human behaviour is criticized as being unable to show correctly the amplitude of human motives – these being influenced by non-economic principles, even where economics are concerned.

The aims of economic research were put differently: research for research's sake must be abandoned, it must be seen as a means of achieving sensible economic policy, useful for society. This leads to another aspect of the German historical school: ethics. One of the reasons for the rise of the historical school was the social question, namely the problems arising in Germany in the middle of the 19th century. These led to the belief that free trade was unable to solve problems of industrialization in a country totally different from England. From the ethical point of view the German historians demanded that the state had an important role to play in economic affairs. The historical school can be considered as the beginning of the end of liberal economic policy in Germany.

Friedrich List, considered as a forerunner of the historical school, criticized 'free trade' and put forward the idea that it was the duty of the state to protect the still young German industry from the competition presented by a much further developed English industry. He also suggested that the state should protect the socially weak sections of the population. These ideas arose from the phenomenon of 'Pauperismus' in Germany in the 1830s and 1840s – the poverty of millions of people who were no longer able to find work in agriculture nor in slowly developing industry.

The ever-widening rift between economic theories and experienced reality set off a new direction in economic research. With industrialization

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progressing in countries, whose social conditions and economic basis were totally different from those in 18th-century England, it seemed necessary to adapt economic research to changing reality.

An attempt to bridge this rift was made in two ways: on the one hand there was the attempt to find a totally new theory which would be more comprehensive than classical theory; on the other hand there was a tendency to dismiss theory and try to see the depiction of reality, in a historical perspective, as the only sensible aim of economic research. For these reasons the historical school is characterized by the development of statistics and economic history.

It is difficult to discover the general opinions of all the economists of the historical school. Few of their ideas were formulated in a clear, non-ambiguous way. The general ideas common to all of them must be filtered out from their works, and this leads to a subjective interpretation. Generally it can be said that all the economists of the German historical school put forward criticisms of the methods of classical economy, especially of deductive methods – even if some of them used such methods in their own works.

Another point common to them all is their criticism of the classical belief in harmony that results from the individual's knowledge and rational following of his economic advantages. German historians emphasized the non-rational influences which lead to human actions, and they also stressed the fact that the individual is part of a socially unique context, which differs in time and space (e.g. differences between the industrialization of England and Germany in the 19th century).

The German historical school has been divided into two epochs, the older and the younger. The older historical school can be attributed to the 1840s–1870s.

The beginning of the historical school is dated 1843 because the first representative of the school, Wilhelm Roscher, then published his book *Grundriss zu Vorlesungen über die Staatswirtschaft nach geschichtlicher Methode*. In view of this he is seen as the founder of the Historical School. He tried to illustrate classical theory with historical examples and his goal was

to use the classical theory as a basis for practical economic policy. He confronted the universal claim of the classical theory with the individuality of each single national economy. Economics as a science should try to find out the interactions between ethical, political and economic phenomena. The most important result of Roscher's work was to put forward the non-economic factors which influence economic life. He tried to find laws of development in economies using the method of comparative induction and comparing different times, peoples, countries and cultures.

The second representative of the German historical school is Bruno Hildebrand. He had a more ambitious programme of research than Roscher. His main, uncompleted work is *Die Nationalökonomie der Gegenwart und Zukunft* (1848). He stresses much more sharply than Roscher the differences between the German historical school and classical economics. For Hildebrand, history is a means of renewing economic research and thought. He tried to show the differences between the economies of different times, people and states. He especially tried to find out the laws of economic development (*Lehre der Entwicklungsgesetze der Völker*) with the help of statistical data. In order to help this research he founded the journal *Jahrbücher für Nationalökonomie und Statistik*, which still exists.

The new method of the historical school is theoretically best illustrated by Karl Knies. His book *Die politische Ökonomie vom Standpunkt der geschichtlichen Methode* (1853) is, from a theoretical point of view, more refined than the books of Hildebrand and Roscher. He also accentuates the need to find a new method in economic research. This new method is somewhat different from what Hildebrand and Roscher advocated. Knies was sceptical about the laws of economic development which Hildebrand tried to discover. For Knies, there are only analogies and not 'laws' of economic development in different peoples; economic thought develops alongside economic conditions.

Deciding which economists to attribute to the younger historical school is a point of controversy, since every German economist at the end of the 19th century was formed by this school.

The head of the younger school was surely Gustav Schmoller, who dominated German economics from the 1870s to the end of the 19th century.

Characteristic of Schmoller and his school is the fact that they do not specifically deny that ‘laws’ and regularities exist in economic and social life – in some ways they are themselves deterministic when they try to find out these regularities. They wrote a large number of monographs, which can be considered works of economic history. As well as this they found another area of research, the solving of practical problems of the day, especially in the social field.

In economic policies the work of the younger historical school can be characterized by its desire to eliminate the negative results of economic liberalism (especially after the ‘Gründerkrise’ of 1873), by demanding that the state intervene. Schmoller states that the classical theory is unable to solve the problems of the working classes. The discussion now arises around the question of *how* the state should intervene.

In the field of economic policy the younger historical school had its greatest practical success. The historians were called ‘Kathedersozialisten’ because most of them were professors. They asked for social laws, insurance against illness, accident, old age and unemployment and founded the ‘Verein für Socialpolitik’, a forum where these demands were put forward and discussed. The practical result of these demands were the social laws of the 1880s which gave German workers insurance against illness, accident and old age – then unique in Europe.

The younger historical school has found fame through a discussion of methods between Gustav Schmoller and Carl Menger. Menger published in 1883 *Untersuchungen über die Methoden der Sozialwissenschaften und der Politischen Ökonomie insbesondere*, to which Schmoller answered with his article *Zur Methodologie der Staats- und Sozialwissenschaften*.

The books of Menger and Schmoller gave rise to a very polemical discussion about the methods of economic research. Menger defended the deductive method against the historical research work of the historical school. In this fight over method all those aspects which had been brought

forward in the discussion of the older historical school arose again – although in a more refined way.

It is difficult to say which of the writers at the end of the 19th century can be counted among the economists of the younger historical school: it has been said that Albert Schäffle belonged to it. Schäffle believed in the compatibility of planned production with individual liberty to consume. These ideas were opposed by Lujó Brentano, also attributed to the younger historical school, who pointed out that it was impossible to have individual consumer freedom while there was a central production plan, because consumer demand was mostly irrational. Adolph Wagner has also been counted among the representatives of the younger historical school. His main works dealt with public finance and he gave the state an important role in directing the course of economy. Karl Bücher put forward the idea of stages of economic evolution, which had been discussed since the first half of the 19th century. Werner Sombart, whose major work *Der moderne Kapitalismus* describes the history of capitalism, was influenced by the younger historical school, but cannot be attributed to it, because he later put the accent on very different problems.

The German historical school cannot be understood without knowledge of the economic history of Germany in the 19th century. It is mostly the result of social problems arising from population growth at this time and those emerging with industrialization in Germany. It is also the result of increasing nationalistic feelings in a country divided into more than 39 sovereign states. For the younger historical school the economic crisis of the 1870s was an important departure point in demanding state intervention in economics.

The historical background leads to the fact that apart from many different ways in reacting to classical economics the economists of the historical school had many things in common, which justify their incorporation under the same heading. The main idea is that each economic phenomenon is a product of its social context, having grown historically as the result of a long process.

The historical school was typical for Germany in the 19th century, having little influence

elsewhere. Its view of human behaviour asked for research in the field of social psychology. In France this led to the development of sociology and social history. The younger historical school had some influence in the United States, where institutionalism can be seen as an epoch of American economic thought.

## See Also

- ▶ [Schmoller, Gustav von \(1838–1917\)](#)

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