Schmollers Jahrbuch 126 (2006), 197 – 224
Duncker & Humblot, Berlin

Gustav Schmoller, His Heirs and the Foundation of Today's Social Policy

By Gerold Blümle and Nils Goldschmidt

Abstract

Three elements make up the heart of Gustav Schmoller's conception of social policy: 1. Schmoller's comprehensive view regarding social policy issues; 2. Schmoller's distinction between the internal and external effects of socio-political measures and finally, 3. the importance Schmoller places on education. For Schmoller, social policy represents far more than the setting up of individual welfare measures; instead, social policy is always linked to the encompassing and dynamic societal conditions. In this way, social policy – as understood by Schmoller – mainly aims at ensuring that individuals take part in social progress. In the wake of Schmoller, two different development lines can be distinguished today: on the one hand, the attempt to better reach Schmoller's social policy objective by using a modern economic theory, which, however, leads to the dissociation of (economic) means and (social) objectives. On the other hand, the conviction that social policy must be understood as a central element of societal policy. The latter position does justice to Schmoller's integrative perspective, yet the implementation in terms of economic policy remains problematic. Integrating these two lines might be feasible by using an ordoliberal approach that balances economic policy and social policy on the constitutional level. The inclusion of every individual into society is also a top priority of ordoliberal social policy. The return to Schmoller's social political concern using the ordoliberal research method could offer vital impulses in the ongoing debate about the welfare state.

JEL Classification: B31, B52, I30

Received: June 27, 2006
Accepted: July 17, 2006

1. Introduction

In the two decades since the 150th anniversary of Gustav Schmoller's birth (1838 – 1917), there has been a gradual rediscovery of his work in the discipline of economics. This rebirth – which has come to be called the "Schmoller Renaissance" (see Peukert, 2001 for a detailed survey of the relevant literature) – was brought about in part through a process of self-questioning in economic theory, a critical reexamining of the discipline's own foundations.

Furthermore, the passage of time now makes it possible to examine the strengths and weaknesses of the German Historical School with a degree of historical distance and without ideological prejudice.

As always in the history of economic thought, the origins and reasons for the emergence of a new "movement" are not unambiguous: thus, even the German Historical School emerged in the continuation of the tradition of cameralism and romanticism in economics, but also, at the same time, as a countermovement, opposed both to an economic science focused on isolated practical issues (cameralism) and to the unitary, idealistic views of romanticism; hence, the Historical School can be characterized by a "thirst for facts" (Eucken, 1940, 470) and an optimistic, forward-looking conception of long-term economic development. After Schmoller's death, however, and even more after World War II, economics turned away again from the German Historical School, leading to a mathematical and largely ahistorical understanding of the discipline.

The end of the Cold War, the transformation processes in Central and Eastern Europe, and the wide-ranging processes of social and economic change summarily described as "globalization" have brought with them new directions in global economic development and new branches of economic theory. These developments clearly reveal that economists must do more than simply point out the economic benefits of free trade using models of international economics. As Hennis noted (2003, 66), Max Weber's inaugural lecture in Freiburg on May 13, 1895 seems as relevant today as it was then: "the global economic community is also just another form of struggle between nations ... (it) has not rendered the battle for each nation to assert its own culture easier but more difficult, setting up barriers against the nation's material interests as enemies of its own future." What Weber means here is that, on the one hand, globalization makes it easier for nations to pursue their material interests, but on the other, it increases their drive for self-assertion. Weber's statement also highlights the relevance of Schmoller's critique of the *"Volkswirtschaftslehre"* of the 18th century in the context of current developments: "to understand their nature, the scientific study of the state, society and national economy in the 18th century started from the belief in the natural equality of men. It sought to understand the character of general, abstract human nature and to explain social institutions from within. Still today, the more abstract considerations of economics are based on ... the assumption that all civilized western peoples are much the same in character" (Schmoller 1908, 140 f.). The fact that economics has recently rediscovered, or been forced to rediscover, the significance of "differences in character", that is, differing paths of economic development, and differing cultural and historical patterns relating to current questions of economic policy, may be at the root of the "Schmoller Renaissance" and of history's more prominent position in the science of economics (cf. e.g. Hodgson, 2001).

Yet, it seems that there is a "Schmoller Renaissance" on another level as well, albeit a far less noticeable one. Due in part to the challenges of globalization, economic systems are undergoing rapid change and the welfare state is in crisis, which is currently the subject of intense public debate. How can social security be sustained in the future? Can the welfare state be justified today? Does the unpredictability of a globalized future require even better and more comprehensive social welfare systems, or does global competition require radical change and far-reaching cutbacks in welfare systems? "If the principle of justice ... is one of the strongest ideal powers of life" (Schmoller, 1908, 74), economists must also deal with justice as a principle underlying the welfare state in order to successfully advise policy-makers. By defining this ethical dimension of the social question, Schmoller simultaneously challenged both economic theory and political systems, making a central contribution to the emergence of social policy in Germany.[1] In the face of the huge questions surrounding future social policy, a "Schmoller Renaissance" might help the discipline of economics go beyond merely asking how to finance social security systems and instead lead it to grapple with the central ethical questions and develop useful criteria for answering these questions.

The following sections illustrate what is meant by social policy in Schmoller's sense of the phrase, why social policy took a different direction in the post-Schmoller era, and what an updated version of Schmoller's ideas for the 21st century might look like. What is at stake here is not a particular interpretation of the history of economic thought, but rather, a demonstration of the importance of economic and social policy going hand in hand, and of an understanding of economic policy as more than just a benevolent welfare state. Knut Borchardt (2001, 210) is right in stating that the increasingly urgent problems of social policy underline the importance of taking a renewed, closer look at the work of the Historical School and at Schmoller's work in particular, "to find out how much those strongly criticized then can give to us today".[2]

2. The Origins of Social Policy

The emergence of Germany's socio-political tenets during the age of industrialization can only be understood by considering three specific trends: firstly, the German system of numerous petty states (*"Kleinstaaterei"*), which led to

[1] On this point, Grimmer-Solem's recent book (2003) offers a comprehensive and impressive overview of the historical development and the scientific debates of that time. Our emphasis here is a different one, however: we aim to present a *systematic* view of Schmoller's assessment and an overview of key developments in the post-Schmoller era.

[2] With regard to popular opinion, Schmoller had lost the first *"Methodenstreit"*. Borchardt writes: "This may also lead to a redistribution of the laurels."

a lasting influence of mercantilism and cameralism and their corresponding concepts of state administration. The state was assigned an explicit obligation towards society, which was coupled with the idea "that a variety of theories adapted to the factual social and economic possibilities have to be made available to the state as the constitutive and responsible authority, the means for sensible intervention" (Eisermann, 1998, 19). Secondly, German idealism developed a perspective that was different from the more individualist Scottish social philosophy that saw the state as the expression of individual interests. In contrast, in the Kantian tradition, an organic, historical and cultural understanding of the state, society and politics evolved. It was thus that the historical method gained prominence in the first half of the 19th century, especially through Leopold von Ranke (1795 – 1886) and Theodor Mommsen (1817 – 1903), and that the *"Historische Rechtsschule"* (the Historical School of Law) developed based on the works of Friedrich von Savigny (1779 – 1861) and Carl Friedrich Eichhorn (1781 – 1854). The first to apply these ideas systematically in economics was Wilhelm Georg Friedrich Roscher (1817 – 1894), who called for the application of historical methods along with the in many respects opposing ideas of individualism, utilitarianism, and determinism, to the field of economics, as well as a social and ethical approach when dealing with social issues. Thirdly, Germany's national unification was accompanied by a political and social reorganization, which brought the social question of an "inner foundation of the *Reich*" into the spotlight of public interest. When giving his inaugural lecture in Freiburg, Gustav Schönberg (1839 – 1908), whose teaching reflected his commitment to the Historical School, "asked for each and every member of the German people to aim at a higher cultural existence" once national unity had been achieved (Schönberg, 1871, 42; cf. Müssigang, 1968, 141). In retrospect, Schmoller (1897, 1402) also confirmed that Germany had undergone a unique development, "as in Germany, more than elsewhere, the great national impetus and the urgency of political and economic reorganization and social reforms have roused people's spirits, enabling them to carry out reconstruction."

Although these three trends tend to be an oversimplification of the complexities of real historical developments, they reveal why social policy in Germany emerged mainly in the context of state administration and oversight and why it was driven mainly by practical considerations of how to solve the "social question". However antiquated the paternalistic ideas of the Historical School might seem to today's readers, the idea of state-run social policy seemed innovative and modern at that time, as noted astutely by Ha-Joon Chang (2002, 103) in a recent essay: "In fact, Germany was the pioneer in this area. It was the first country to introduce industrial accident insurance (1871), health insurance (1883) and state pensions (1889)." And he adds: "Germany's early welfare institutions were already very 'modern' in character (having, for example, universal coverage), and they were apparently greatly admired by the French

Left at the time. It is important to note that under the leadership of Gustav Schmoller, the scholars belonging to the German Historical School formed the influential *Verein für Socialpolitik* and pushed strongly for the introduction of social welfare legislation in Germany." (ibid.) Schmoller saw the state as "the only neutral party in the class struggle that can take the initiative to bring about major social legislative reform" (Mombert, 1927, 479) and monarchy as the driving force behind social development: "Already today, we can state that monarchy with its related bodies and the working class constituted the liveliest force in Germany" (Schmoller, 1920, 647)[3]. Schmoller himself saw the economist in the role of the "scientific mediator" (Grimmer-Solem / Romani, 1999, 348). This point of view was both pragmatic and state-oriented, although later on, Schmoller's position evolved in such a way that he acknowledged that economic theory had a certain role to play even in social policy[4]. It led to the undisguised animosity of later economists towards the Historical School; the young Schumpeter's defiant description of the Historical School as "economics without thinking" (quoted in Kurz, 1989, 13); and a view of Schmoller as "the corrupter of theory who severely harmed economic science in Germany" (quoted in Winkel, 1989, 116).

Yet these continually repeated criticisms of the Historical School do not grasp the central focus of Schmoller and the Historical School: social policy. According to them, solving social problems should be the economist's leitmotif and not simply a way of restricting research questions to create more rigorous models. Schmoller strongly criticized this tendency in economics in his inaugural speech as rector of the Berlin Royal Friedrich-Wilhelm University on October 15, 1897: "It does not investigate people, their actions or institutions; but rather demonstrates the magic of the technical-capitalistic production process using the magic tricks of dialectics and seemingly irrefutable mathematical formulae." (Schmoller, 1897, 1396)

Here Schmoller was criticizing the radical restriction of research questions – which has become typical in the 20th century (cf. Borchardt, 2001, 219) – and the description of a wide range of social phenomena simply as a *Datenkranz* ("set of data" exogenous to the economic explananda). He called instead for an empirical understanding of *social* reality. Schmoller emphasized the inductive method and demanded that "larger overall phenomena be constructed out of the individual over and over again" (Schmoller, 1897, 1392). This cannot, he says, be reduced to a mere conflict between the "empirical method" and "theory", or between "induction" and "deduction", but must be understood as scientific theory in which natural scientific methods are applied to

[3] The 11th edition of Johannes Conrad's *"Grundriß zum Studium der politischen Oekonomie"*, published in 1923 still considers social policy instruments as belonging solely in the hands of the state.

[4] On this, see for instance Schmidt (1997) and Prisching (1997).

social science.[5] Schmoller was fully aware that this was almost asking too much of scientists: "when conducting research, human understanding is confronted with the increasing impossibility of mastering the whole, the big questions, in strictly scientific terms." (ibid.)

In contrast to the later (neo-)classical economics in the seeming tradition of Alfred Marshall[6], not only did Schmoller see economics in a broader social context; he also saw personal attitudes toward these issues not just as a matter of individual motivation to do research but as an issue of scientific inquiry in and of itself. Schmoller was convinced that ethical norms are among the fundamental scientific "tools" of the economic discipline.

Schmoller's clear position in the second *Methodenstreit* – called the *Werturteilstreit* – was that the central object of economics is the setting of (social) targets (*Zwecksetzen*): "The sole guiding principle for an academic teacher of practical disciplines should be the well-being and interests of society as a whole" (Schmoller, 1897, 1407). This should thus also be the central object of science. Schmoller responded almost defiantly to the accusation according to which his position was extremely pro-worker and, thus, biased: "But it is a completely different question whether or not that was in accordance with justice and the general interest." (ibid.)

An academic's ability to set targets is thus a central issue as Schmoller rejects both Adam Smith's idea of "a natural harmoniously ordered system of individual egoistically acting forces arranged by a benign and omnipotent God in a way that they should just be left to their own resources to obtain favorable or even rapturous consequences", and his picture of a politician being an "insidious and crafty animal ... spoiling the harmonious clockwork of economy by clumsy unskilled interventions." (ibid.)

Schmoller's understanding of harmony differs in two ways from that of the classical liberals. On the one hand, for him, it is not restricted to individual relationships and, on the other hand, the creation of harmony is seen as an

---

[5] There is no need here to deal in greater depth with the continuing debate on and interpretation of the first *"Methodenstreit"* between Schmoller and Menger. In spite of numerous more recent works, discussion often takes the old course. Hansen's study (1968), which focuses on the context of scientific theory around 1900, has retained its importance to this day as a very impressive overview.

[6] Hodgson (2001) has shown that Schmoller and Marshall were closer than generally assumed, as revealed as well by a cursory glance at the first book of the "Principles". Yet, it was Schumpeter who called for establishing a connection between Marshall and Schmoller in the field of social politics, too: "The comparison with Marshall is evident ... he was both for us and for Schmoller a man of objective science and a teacher of positive accomplishments, and was initially motivated by his social sympathies and understood his work as serving a social purpose. The core of the 'Principles' and the 'Grundriß' contains ninety percent of what can be accomplished today and in the future." (Schumpeter, 1926, 387 f.)

economic task, as "the demand for positive reforms". (Schmoller, 1970, V) "It is the moral obligation of any individual to put the different aims of one's existence into their proper harmony and order; it is the moral obligation of the whole to bring the different aims of mankind into harmony and order by properly organizing society and creating an appropriate interaction among its members." (Schmoller, 1864 / 65, 415 f.)

The need to *create* and *design* social harmony in opposition to the "dogma of harmonizing all individual interests" (Schmoller, 1870, XI) and the "ideal of a pre-stabilized harmony of forces in the sense of Leibnitz" (Schmoller 1881 / 1904: 245), should be, according to Schmoller, the aim of well-thought-out economic and social policy. In order to use the ideas of the Historical School and Schmoller to the benefit of social policy today, without again getting lost in the positions of the two *Methodenstreite,* one has to inquire into Schmoller's *general demands* for such a social policy and ask what relevance these demands still have today.

3. Gustav Schmoller, the *"Arbeiterfrage"* and the Tenets of Social Policy

Schmoller's original demands for social policy were outlined in his three-part essay *"Die Arbeiterfrage"* (the labor problem), published in *"Preußische Jahrbücher"* in 1864 and 1865. In comparison to Schmoller's later works, the ideas expressed in *"Die Arbeiterfrage"* are distinctly more optimistic and liberal (cf. Kaufhold, 1988)[7], but also more programmatic in certain respects; their special significance lies not least in the fact that, as Schmoller himself said, this paper would later "come to serve as the program for the economists and social reformers who formed the *Verein für Sozialpolitik.*" (Schmoller, 1918 / 2006, 161) Later on the essay was called by Carl Brinkmann (1937, 67) "a 'visiting card' certainly not left unintentionally, heralding the arrival of new, free views on teaching ('*Lehramt*')."[8]

Schmoller's thoughts concerning the labor problem are linked to his comments on an argument between Lasalle and Schulze-Delitzsch, "the outcome of which long pointed the way forward in the German workers' movement; which is why it is among the most important milestones of social history in the 19th century along with the Communist Manifesto of Marx and Engels." (Albrecht, 1959, 4; cf. Lütge, 1930, 200) Thus, it is justified to attribute to this contribution "primary importance among those that paved the way for the idea of social reform and social politics" (Albrecht, 1959, 4). Not surprisingly,

[7] Schmoller (1894, 1327) himself categorized this paper as a youthful work: "young people have a desire to make professions of faith and compose programmatic papers."

[8] For more recent interpretation of this text, see Grimmer-Solem (2003, 136 ff.), albeit with a different aim than the one pursued here.

Schmoller's approach to the labor problem is firmly embedded in the specific historical context of his time, although the positive economic trends of the 1860s considerably influenced his optimistic views on future development (cf. Müssigang, 1968, 118 – 121).

Although Schmoller tackles other practical questions in *"Die Arbeiterfrage"* that are still relevant today – such as "profit sharing" as a basis for "more generous welfare provisions for workers" (Schmoller, 1864 / 65, 545) – the present essay focuses on three aspects in particular: 1. Schmoller's comprehensive view regarding social policy issues; 2. Schmoller's distinction between the internal and external effects of socio-political measures, 3. the importance Schmoller places on education.

1. Albrecht Müssigang (1968) clearly demonstrated in his commendable work that, following the concept of the Historical School and thus Schmoller's ideas, the practical means available to social policy "were no longer exclusively in the economic realm; rather, the social question was a question of education and culture" (Müssigang, 1968, 126). Schmoller writes: "real progress in economic life also depends on its being connected with the other spheres of life and purposes, on the culture of ethics as a whole, since no aim nor member can prosper indefinitely when the rest of the organism is suffering". (Schmoller, 1864 / 65, 63) What really matters is "not looking at the moment, but grasping everything, even economics, in the context of life as a whole" (Schmoller, 1864 / 65, 536) The fatal results of designing labor market policy independently of education and integration policy as we can observe it today are becoming evident here already. Furthermore, the question of how society should deal with personal risks and their relation to social security should not be answered separately for each individual policy area but from an integrated perspective. However, we will return to this point later.

2. Schmoller distinguishes between the "external" and "internal" effects of socio-political measures: "If reform is not reorganized from the inside, everything is pointless". (Schmoller, 1864 / 65, 421) Following Fichte[9], the "reorganization from the inside" (*"innere Umgestaltung"*) is represented for Schmoller by the worker's increasing positive feelings of personal dignity and responsibility. "For him, the future of culture seems to be guaranteed only if, in the moral connection between higher and lower classes, more and more members of the people can participate in the wealth of culture, if moral education of the lower classes by the higher classes leads to their rise 'always from the inside'." (Müssigang, 1968, 134)[10] This "reorganization from the inside" is hence the aim of social policy:

---

9 To the special significance of Fichte as starting point of Schmoller's thinking, see, in particular, Schmoller (1864 – 65 / 1888).

10 In this sense the state being in fact "the most wonderful moral institution for educating man" (Schmoller, 1872 / 1922, 92; cf. Prisching, 1997, 184) but this should not

"The workers have to be helped from the inside, not from the outside. Everything coming from the outside and is not in accordance with their customs, their knowledge, their way of thinking and living, it just helps for the moment, but not in the long term. There is a somewhat exaggerated but essentially true saying by an Englishman about the Irish: If you suddenly hand each of these poor lads a capital of 1000 pounds, a few years from now, Ireland will be in the same spot as today". (Schmoller, 1864/65, 46)[11]

Here, Schmoller touches on a practice that he also criticizes elsewhere with the intention of looking after the poor, in particular trying to solve problems in the short term by external financial means.[12] When considering the current debate – particularly the ideas behind the Hartz unemployment reforms in Germany – the belief does still appear to be reigning that every social problem can be solved by simply "throwing money at it". Here too social politics create an intellectual climate focused on financially oriented group interests, leading to financially oriented therapies, and, hence, strengthening a financially myopic and short-term approach. Schmoller, too, clearly recognized that here the relationship between self-help and public help must be continuously made the

---

weaken personal responsibility but rather, strengthen it. As Schmoller (1875/1904, 21) puts it in *"Über einige Grundfragen des Rechts und der Volkswirtschaft"*, one should point out that, regarding the worker's feeling of personal responsibility, "it can always be presumed to exist to the degree that every human being has an innate sense of justice and injustice that can be increased proportionately with individual training".

11 These urgent questions of "inner transformation" are later on described impressively by Schmoller (1915, 1632 f.) as being the core question of social reform: "How can millions of wage workers living nearly exclusively on this wage be given a wage, a way of living, moral thinking and institutions that will raise them, that will enable them to harmoniously integrate into the state, society and national economy without too much fighting, without revolutionary tendencies? ... How can one achieve the moral, spiritual and technical progress in these circles that is needed to bridge the gap between the middle and upper classes?"

12 The "enhancement of the working class" (*"Hebung der Arbeiterschaft"*) is for Schmoller the clear direction the cultural process should take (Schmoller, 1875/1904, 125 f.; cf. Lütge, 1938, 193 and, more recently, Pearson, 1997, 128 f.). The *"Einheitlichkeit der Kultur"* (uniformity of culture) is for Schmoller (1892, 466) also the argument for cultural development of all classes: "The wish to accomplish such aims is not only due to specific social evils, difficulties and increasing friction between social classes, but rather stems from the feeling of a uniform culture, from a feeling of solidarity among people. The atrophy of the lower classes and the degeneration of the higher classes threaten the nation's future. No people can withstand contrasts that are too great for any length of time without being ruined." In his late work *"Die soziale Frage"* (The social question), Schmoller misses this optimistic view, limiting himself for the most part to demanding a fairer wage policy: "There is no reason for believing that all these social effects could serve the purpose of introducing an ideal concept of justice, which people will never agree on, without considering demand and supply, productivity or existing class order. Not only a distant and abstract ideal should lead the hands and heads of reformers, but an understanding of what detrimental effects insufficient and unfair wages have. ... Widespread social poverty makes people stupid, negligent, lazy and criminal and ultimately harms employers most." (Schmoller, 1918, 310)

subject of discussion. By putting it in those terms, he created the foundations for concepts of subsidiarity:

> "Ultimately the state is always the supreme court to which a moral cultural life must appeal. The fact that this court may have abused its power does not deprive the general principle of its truth, as often argued by individualist politicians when fighting against the police state, even though it would often be better for the lower moral institutions of the family and community to decide since they are closer to the matter at hand." (Schmoller, 1864/65, 534)[13]

3. To Schmoller, social policy always means educational policy as well, which society must demand from the "socially uncultivated" discipline of economics: "Since all of economic life everywhere is based on a general moral worldview, on ethics and law, and is defined by them in every way since the various factors change only slowly and gradually, one has always thought that it is possible to abstract from them." (Schmoller, 1864/65, 418)

Schmoller is interested in the usability of "human capital": as "degrading machine work" (Schmoller, 1864/65, 402) it loses its significance, "ethically and technically educated workers" are needed (Schmoller, 1864/65, 535). Education is equally beneficial to individual development: "Education is the foundation for all moral improvement, for all the enjoyment derived from higher pleasures" (ibid.); here, Schmoller emphasizes the role of schooling for the prospects of moving up in society and, thus, for social mobility.[14] Education – in the sense of "moral improvement" (*"sittlicher Besserung"*), as hopelessly antiquated as this term might sound today – is for Schmoller the precondition for individual personal initiative. Looking at the socialists, he points out, "That scientific orientation, however, has also spread the pernicious view that man is not able to freely intervene into economic life, as if he and his moral culture mattered little or not at all, as if he always had only to play the miserable role of a lifeless cogwheel in the eternally self-regulating synchronized clockwork of the economy" (Schmoller, 1864/65, 414). He does not

---

[13] In this sense too, Schmoller's following statement (1881/1904, 258 f.) should be read: "The state is the centrepiece and heart of all institutions, the one all others lead and flow into. ... Being legislator and administrator, he has the largest indirect influence on moral and justice and all social institutions which makes all the difference." Schmoller continues nearly in the sense of a public-choice argument: "We do not demand that a few people on top act like omnipotent overseers, comparing, checking and assessing the quality and performance of millions of others and then fairly distributing wages ... Only by means of improved social institutions will the state have its main influence on a fairer distribution of income. ... The entirety of economic institutions will always be more important than the understanding and intentions of those governing the state at present, even if they are the greatest of men". Schmoller's idea of subsidiaritiy can already be found in his work *"Die Lehre vom Einkommen in ihrem Zusammenhang mit den Grundprincipien der Steuerlehre"* (Schmoller, 1863, cf. Schmidt, 1997a, 223).

[14] There is a succinct statement in the *"Grundriß"*: "A democratic school reform should be the final piece in the social reform" (Schmoller 1919, 640).

believe that "people will act morally simply because an external social and economic mechanism has been imposed on them, equipping them with virtues and forcing them to act according to pure motives." (Schmoller, 1864/65, 60) "The modern age as a whole and modern industry in particular are founded on a powerful and not too restricted development of individuality; if individuality develops correctly, justice and the state are not barriers or hindrances, especially in a constitutional state that does not set itself up in relation to society as a strange power with strange interests but rather grows out of the moral proximity to all people." (ibid.) Schmoller, however, also sees the limits of legal intervention: "Justice offers assistance in emergencies if free moral '*Volksgeist*', which is always preferable, does not suffice. Falling back on justice is always questionable as it is difficult to grasp with its strict rules and formulae and can sometimes violate what is individually justified." (Schmoller, 1864/65, 416) Education is both the precondition for social participation and a task to be fulfilled by the state.

As a result, Schmoller views unemployment as an issue of educational opportunities – quite a modern view in this respect: "What matters is to make life humane for everyone, but in particular for even the lowest classes, enabling them to have further occupational and educational opportunities." (Schmoller, 1864/65, 524) The high level of social capital still found in Germany to this day, evident in the degree of social peace and trust (cf. Blümle/Schoser, 2002), may indeed be a result of Schmoller's socio-political demands.

4. Gustav Schmoller and Schumpeter's Objections

We will now turn from the admittedly eclectic examination of Schmoller's basic ideas on social policy that focus on the three aspects described above – comprehensive social policy, internal and external effects of social policy, and social policy as education policy – to a *conceptual* examination of his positions. According to Schmoller, social policy has its value not in establishing those welfare measures that came about following the Historical School – Balababkins (1993) here refers to the "German School of Welfare Capitalism" – but in specifically looking at the social question: social policy is *"Gesellschaftspolitik"* (societal policy, i.e. a policy aimed at social conditions at large) and social policy is always economic policy as well.

Yet, perhaps somewhat tragically, in the following years the younger Historical School's *specific perspective* on social policy was not pursued. Rather, Schmoller's approach to social policy was criticized for the same reason than his general method: its alleged "lack of theory". Even if this assessment ("lack of theory") had to be looked at more distinctly with a view to the scientific and epistemological dimension (as argued above), socio-political discussion in Germany has in fact progressed precisely by distinguishing itself from the

(lacking) theoretical foundations of the Historical School. In the beginning it was not *social and political demands* that were raised against the Schmoller School, but rather the accusation of a lack of *scientific* foundations. Joseph Schumpeter's argumentation in his 1926 essay *"Gustav von Schmoller und die Probleme von heute"* (Gustav von Schmoller and today's problems) can be cited here as one example.

Whether or not Arthur Spiethoff, who was largely responsible for Schumpeter's appointment to the Bonn chair, urged him to write this essay remains speculation. (Hansen, 1993, 111, fn. 4)[15] Yet Schumpeter's article certainly led to considerable bewilderment in his discipline. Even though Carl Brinkmann, one of Schmoller's students, wrote about the "kind appraisal Schmoller was given" (Brinkmann, 1937, 119), the young theoreticians of the time felt belittled by Schumpeter: according to Alexander Rüstow, "certain flaws in character" were the "flip side of his genius", and Schumpeter "clearly did not realize" how "his essay would have an impact on the situation and the tactics of political science within the evolution of German economic theory"[16]. It is indeed surprising that Schumpeter, as opposed to his attempt to establish a connection between international economic theory and his critical assessment of the Historical School in his 1908 book *"Das Wesen und der Hauptinhalt der theoretischen Nationalökonomie"*, suddenly in his 1926 essay, expressed a positive opinion on Schmoller and his research program. He even underlines "how significant he and his message are for our times, what a living force his intellect is" (Schumpeter, 1926, 339).[17] There was much speculation on this apparent turn in Schumpeter's work[18]; what is important for us is that, on the

[15] Similar interpretation could be given to a letter written by Schumpeter to Spiethoff in September 1925, where Schumpeter apologizes for the delayed submission of the essay's manuscript; Schumpeter (2000, 103 f.).

[16] Rüstow in a letter to Walter Eucken dated May 2, 1929. Quote from Janssen (2000, 36).

[17] In his articles in *"Wirtschaftstheorie der Gegenwart in Deutschland"* (Contemporary Economic Theory in Germany), he states equally emotionally that "the works of Schmoller, Sombart, M. Weber ... are of such high quality as to make them unassailable to any objection, however appropriate the objection may be in isolation, given what they have added to the international repertoire of insights which will always remain". (Schumpeter, 1927, 4 f.) As Richard Swedberg (1995), in particular, showed, Schumpeter's program, with his 1911 *"Theorie der wirtschaftlichen Entwicklung"* (Theory of Economic Development), can already be described as a program of socio-economics.

[18] Of course, social economics remains Schumpeter's lifelong central theme, yet – following Swedberg's (1995) considerations – a shift in his argumentative direction occurs between the first (1911) and second (1926a) edition of *"Theory of Economic Development"*, published the same year as his essay on Schmoller. In 1911, his objective is to sketch a *"Gesamtbild der Volkswirtschaft"* (The Economy as a Whole) in its entire cultural spectrum (Peukert, 2002), later, however, he focuses on the specific field of economics and the use of other social sciences for economic analysis. As is stated in his *"History"*, his program aims at "(scientific) economics" (Schumpeter 1954, 21).

one hand, Schumpeter expressed an appreciation of Schmoller's work but on the other, particularly from the mid-1920s onwards, his main focus was on studying economic issues using well-elaborated economic tools.

It is in this context that we can interpret Schumpeter's essay on Schmoller – which is central to understanding the connections between Schmoller and the Historical School, as well as the problems that Schumpeter and the younger theoretical economists had with Schmoller. Schumpeter agrees with the *ends* of the Historical School, namely that social political measures should be strengthened, but he does not agree with the *means*. Instead of separate, discretionary, and increasingly governmental measures, Schumpeter prefers a systematic approach, establishing the economic-theoretical foundations of social policy. Although, as we have seen, Schmoller's theoretical basis for his socio-political considerations is sound, his social policy objectives – "dissatisfied with the prevailing social conditions, conscious of the necessity for reform" (Schmoller, 1872/1922, 95) – ultimately aim to foster elements and institutions of social transformation[19], whereas Schumpeter attempts to resolve the social issue through economic principles. Schumpeter writes:

> "The social ideal still remains beyond the reach of scientific judgment, except for the rational part of its justification. Yet thanks to science, the social will is growing more cohesive and unified every day, and soon it will be enough to determine objectives in any given situation. Already today, one can easily operate with the categories 'right' and 'wrong' in many areas. ... In all these issues, objection in principle is far less important than the degree of certainty one has in predicting the precise effects of the individual measures. And when science makes satisfactory progress in this regard, there will be no need of much worrying about this objection anymore." (Schumpeter, 1926, 351 f.)

And with Schmoller in mind, Schumpeter continues:

> "In this sense, too, Schmoller made his value judgments and set out his objectives. ... The only problem is that in those days, what would later become a technique was still an art form." (Schumpeter, 1926, 352)

It is true that Schumpeter emphasizes the future possibilities of a "cultured", almost consensus-based capitalism (Schumpeter, 1942), and this way, he certainly follows in Schmoller's footsteps (see Schellschmidt, 1997, 163).[20]

---

[19] Similarly, Birger Priddat (1989, 48) fully agrees when he writes: "Schmoller is not an apodictic theoretican of national economics. He is rather a protagonist of solving the social question by social means". To what extent Schmoller here had an interventionist understanding of the state, is an issue that will have to be explored further elsewhere; cf. for an overview, Engelhardt (1996).

[20] In *"Capitalism, Socialism and Democracy"*, Schumpeter (1942, 42) also refers to the significance of Schmoller as the guarantor of the insight according to which capitalist development will destroy the fundamentals of the capitalist society: "His Excellency

However, in promoting a technique for social policy (instead of Schmoller's "intuitive" art), he is closer to Max Weber – for whom the main element of socio-technological research should be an objective means analysis – than to the ideas of the younger Historical School. The lack of a theoretically based economic social technique is, therefore, the constant element of Schumpeter's criticism of Schmoller's program. Schumpeter writes that Schmoller and his American follower, Mitchell, were "wrong in underestimating the significance of the development of available conceptual instruments, of the device of theory" (Schumpeter, 1926, 368), theory being understood as a set of "instructions for problem-solving" (Schumpeter, 1926, 365). Schumpeter may consider himself as Schmoller's heir, who presented the "shoulder on which today's realistic research stands" (Schumpeter, 1926, 384); when it comes to social policy, however, he rejected this legacy and opted for an economic approach to social policy.

5. The Early Heirs: Finding a Better Therapy in a Better Theory

Schumpeter's conception of social policy, focusing on "theoretization" and "economization" on the one hand, and socio-economic orientation on the other, may be a reflection of the two-track development and discussion along these lines in Germany.

Track 1: Soon after Schmoller's death, there was already a demand for theoretical understanding of social policy, which had become characteristic of Schumpeter as well. The conference to celebrate the 50th anniversary of the *Verein für Socialpolitik* in 1922 can be seen as an early point of crystallization in the debate. Heinrich Herkner, Schmoller's successor to the Berlin chair, was applauded by the *Verein* when stating his program in his inaugural speech: "Should society decide to increase the scope of political activities, I would like to say here and now that today, isolation of social policy from economic policy seems less possible than ever. Under today's circumstances, a successful production and currency policy is by far the best social policy to be made." (Herkner, 1923, 93) While discussing Herkner's speech, Götz Briefs (1923, 136) recognized "a turning point in intellectual history", commenting that Herkner's statement was "a change of course that would have surprised Schmoller greatly if he had heard it." Emil Lederer (1923, 151) talked about the "distressing impression" of Herkner's speech and other speakers expressed the opinion that today, we can no longer "afford social policy that places no value on wealth and income, not considering economic laws." This change of perspective eventually made Lujo Brentano leave the *Verein* that he had co-

Professor Von Schmoller ... was not much of a revolutionary or much given to agitatorial gesticulations. But he quietly stated the same truth. The Why and How of it he likewise left unsaid."

founded, given that "it seems that the younger generation of national economists want to change the *Verein für Sozialpolitik* into a *Verein gegen Sozialpolitik*" (Brentano, 1923, 554). This "breakdown of the socialists of the chair (*Kathedersozialisten*)" (Tönnies, 1923, 659) can be widely explained by the contemporary historical situation after World War I, a breach in continuity that left Schmoller a representative of the former empire.[21]

Herkner's about-face towards a productivity-oriented social policy was embraced enthusiastically by a number of authors who preferred "to leave social policy alone nowadays, if only not to hamper economic productivity" – as Karl Pribam (1925, 262) put it. Thus, economization of social policy in its scientific distinctness is simultaneously connected to its rationalization: "It will remain the task of our social policy to check the enormous quantity of socio-political means under national economic points of view and find out whether they are feasible and useful." (A. Weber, 1925, 24) Suddenly there seemed to be a way out of the dilemma that social policy had created for itself at the beginning of the 20th century, when Max Weber called for freedom in value judgment on the one hand, and maintaining socio-paternalistic ideas within a historical-ethical tradition on the other. Socio-political thinking thus became acceptable again, integrated into economic science concepts and fulfilling the methodical claims of the modern age: it was value-free, rational, and scientific. A representative of the classical tradition, Franz Eulenburg (1924, 420 f.), put it this way:

> "There was a very lively discussion on the question (of value judgments, G.B. / N.G.) in Germany, considering in particular the position of social policy that resulted from Max Weber's approach. Today this question has been decided for the most part theoretically in favor of the value-free nature of scientific work: thus there can be no scientific social policy. This, however, does not exclude a double function. Only science can carry out objective investigations on the effects of measures leading to objective results. Furthermore, based on experiences and logical thinking, science can name those means leading to specific ends by revealing the complicated causal relationships. Science goes without naming the ends and ideals of social policy but takes them for granted. Scientific methods, however, can lead to solutions."

To separate the ends and means from the tendency of linking social thinking to the idea of efficiency can, thus, be considered as one of the essential characteristic of German-speaking socio-political researchers in the 1920s. The hope, at that time, of using economic theory to solve social problems was, after all, the hope *to find a better therapy in a better theory* – a hope still driving the representatives of a largely neoclassically dominated social policy today.

---

21 To this assessment compare in particular Häuser (1994). In those years, maintaining distance from the state as a socio-political agent was manifested in heated discussion on the introduction of the eight-hour working day. Here again, it was Herkner (1923a) who started the ball rolling by his essay *"Sozialpolitische Wandlungen in der wissenschaftlichen Nationalökonomie"* (Socio-political changes in scientific economics).

Track 2: In this context, one facet of the discussion in the early 1920s is relevant, although it is a more conceptual, methodological one. In his widely acclaimed series of articles on the crisis in social policy in *"Soziale Praxis"* of 1923, Heinz Marr, at that time director of the Social Museum in Frankfurt and later on professor of social policy and sociology, saw the crisis of social policy as a chance to manage the "ever-growing divergence between social understanding and socio-political acting" (Marr, 1923, 571). Intellectually bridging this gap can be considered the main task of theoreticians of social policy at that time. With attention to necessary social reforms, Leopold von Wiese (1922, 1015) put it in the following terms as early as 1922: "For me, the task seems to be to proceed from unintentional sociological social policy to intentional methodologically organized scientific social policy". This leads to the second facet of the discussion in those years, the question of socio-economic foundations of social policy.

Though he was preceded by Werner Sombart and his considerations on the "ideals of social policy" as "measures of economic policy that aim at or result in the maintenance, enhancement or suppression of specific economic systems or their components" (Sombart, 1897, 8), it was mainly Otto von Zwiedineck-Südenhorst who, in the late Historical School, found another way out of the (seeming) contradiction between the paternalistic social state on the one hand and economic functionality and necessity, which were increasingly developing independently from the idea of a theoretic pervasive social policy, on the other hand. Zwiedineck-Südenhorst, rejecting the narrow focus on the labor problem, believed that the foundations of social policy were to be found in "a discussion about *what should be in social questions"* in order to "finally overcome the constrained thinking which follows from this deep-rooted dualism" (Zwiedineck-Südenhorst, 1911, III). For him, it was about determining an objective as well as the necessary rationale structures, that is "ideas of the socially correctly designed *politeia* and what must be done to reach it" (ibid.). Rather than *"welfare* policy", he argued for *social* policy that should be aligned with the social context:

> "We have come to see society as a result of mainly economic pursuits, but also as the precondition for reaching other objectives. This has infused society's economic and cultural objectives with new meaning. This moment is at the brink of taking priority in social policy, and should therefore find a place in the definition social policy, in other words: social policy must be policy *aimed at constantly ensuring that social aims can be reached."* (Zwiedineck-Südenhorst, 1911, 38)[22]

[22] Focussing on the social dimension of course has to be seen against the backdrop of the emerging differentiation between *community* and *society* (*Gemeinschaft* und *Gesellschaft*), described in its classical form by Tönnies (1887). Thus, there is no surprise that Zwiedineck-Südenhorst (1932) starts his textbook with the chapter "Association and Society" (*Vergesellschaftung und Gesellschaft*). It seems, however, that many social politicians and economists have not yet understood that this differentiation is due to modern social policy. Understanding the bastion of the "humane" or "moral" in so-

Here, Zwiedineck-Südenhorst examines the integration of economic and social policy, aiming at a general view of the prevailing national economy. Ideally, conflicts between economic and social policy can be avoided (by integration on the societal level). In case of conflict, it is up to social consideration to justify prevailing action in favor of or against social policy:

> "Thus, the pursuit of socio-political objectives is certainly not just about countering the economy, rather this pursuit is fully embedded in the broader system of objectives and means of implementation, system by which the national economy reveals itself to us. Only if the state limits productive power through socio-political measures in such a way that the social product is reduced will such a severe conflict arise between social policy and material production that it will come down to what the majority of people consider more valuable: the aim of social peace that social policy is aiming at, or the improvement of material life for the lower classes in particular." (Zwiedineck-Südenhorst, 1932, 248)

Thus, Zwiedineck-Südenhorst offers not an *economic theory* but a *socio-scientific approach* to the social question: through the alignment of an integrated economic and social policy with (the interests of) society.[23]

The further development of this "track" can only be mentioned here briefly: systematically developing a theory of social policy aligned with "societal purposes" in the post-World War II tradition of Zwiedineck-Südenhorst can be found in particular in Hans Achinger's widely acclaimed work *"Sozialpolitik als Gesellschaftspolitik – Von der Arbeiterfrage zum Wohlfahrtsstaat"* (Social policy as societal policy – From the labor problem to the welfare state) of 1958. Achinger's reflections are all the more valuable given that he does not consider social policy to be "some sort of appendix" or "ethical footnote" to modern society but – quite the reverse – an integral component thereof: "Creation of social policy is therefore firmly linked to modern discoveries and products, continuously increasing the productivity of a working hour, curing suffering and evils that were irreparable before, or at least lessening them through various modes of aid provision." (Achinger, 1958, 44) This point was taken up again later by Alexander Rüstow, who talked about the "national political necessity" (Rüstow, 1959 / 1971, 25) of social policy.

According to Achinger, this simultaneously raises the necessity for socio-political policy: "The lower the degree of self-sufficiency, the higher the normal demands for social security supported by state intervention." (Achinger, 1955 / 1971, 200) Not yet taking into account the problematic demand for "state intervention", Achinger's statement makes one thing clear in particular:

---

cial policy, thus the community, as a defense against the market and the faceless society, falls short in both respects. Social policy and economic policy develop as parallel phenomena in modern society.

[23] His thoughts, however, remained of course undifferentiated, still linked to the idea of class contrasts. Cf. here e. g. Zwiedineck-Südenhorst (1911, 16).

social policy is, according to this interpretation, a historical phenomenon that is also systematically closely linked to industrialization, to "new ways of life, a new society, namely the specific modern economic society, a new situation of interests." (Achinger, 1958, 18) From this, the following can be deduced: 1. The creation of a market economy (i.e. capitalism) is, in terms of logical development, linked to the creation of a systematic social policy; 2. Functional efficiency of market economies requires the complementarity of social policy; 3. As long as there are market economies, systematic social policy is imperative.

To sum up the main focus of this second track of social policy in the post-Schmoller era: Social policy is a dynamic process adapting itself to specific social structures. Social policy is, therefore, not simply "welfare for the poor" but is also aligned with the individual's particular position in society. Thus, the concrete design of socio-political measures must necessarily tackle the current situation and its historical conditions directly. Such a socio-economic perspective paves the way for a theory of social policy no longer based only on material conditions, but also on giving priority to fostering the integration of the individual into society: "The decisive question is not who are the poorest of the poor in the material sense but whose condition has changed most." (Achinger, 1958, 24) This also concerns the theoretical dimension of social policy: The need to successfully integrate the individual into the market and society, and to bridge the gap between economic and social policy cannot be fulfilled by economics alone: society must itself develop this framework.

The discussion so far should have made clear that the following lines can be traced in the German-speaking social policy tradition: 1. Although welfare *state* elements may have been given priority in Schmoller's thoughts, it is not possible to restrict his basic demand to the claim for monetary transfers by the state. Rather, his constant demand was to understand social policy as *individual* social policy that enables *the individual* to participate in market and social processes. The goal, according to Schmoller, is to have a comprehensive social policy judged by its external and internal outcomes, and differentiated in particular with respect to systematic educational policy. In this sense, Schmoller's social policy was *ethical* and *intuitive,* but not necessarily *inductive*. 2. Schmoller's views, which may have provoked paternalistic and arbitrary social policies, were criticized in the 1920s discussions on *rational* and *economic* social policy. The perspective thus shifted from the *aims* of the welfare state to the *instruments*. Economics increasingly considered itself less a socio-political advisor on questions of „*What* is to be done?" but more on such questions as „*How* should it be done?" The benefits of this reorientation – a more exact analysis of effects as (monetary) costs and (monetary) utility of socio-political measures and re-distribution – is paid for dearly by a loss of socio-political relevance. 3. A socio-political orientation in the tradition of

Zwiedineck-Südenhorst and Achinger may avoid such a loss of socio-political relevance, but it also risks marginalizing the economic dimension by claiming that, "social policy is *Gesellschaftspolitik* (societal policy)". Is there a way to link economic and social policy conceptually as well, or is there a need to "intervene" and then be satisfied with "a blurring of distinctions" – as described by Achinger (1963, 107)? A possible way of both creating links and making the distinctions part of an overall concept will be given in our closing remarks.

6. From an "Everything Included" to an "Everyone Included" Social Policy: The Ordoliberal Approach

The Freiburg economist and founder of the Freiburg School Walter Eucken is known to have harshly criticized "Schmoller-style science" (Eucken, 1940). Although Eucken did make an effort to probe into Schmoller's theoretical construction, he clearly revealed its deficits on the political-economic level. With respect to Schmoller's optimistic attitudes towards social development and, thus, towards the governing powers, he accuses Schmoller of playing down economic power, citing the statement: "that is why we can therefore be proud of our cartelization" (quoted in Eucken, 1940, 489, see Schmoller, 1906, 254). According to Eucken, Schmoller's optimistic point of view also applies to the state and public servants and has lead "many contemporary economists to call for state intervention frequently and prematurely. ... Here again, belief in progress obscured historical reality". (Eucken, 1940, 490) Taking into consideration the economic forces and the excessive demands placed on state bodies, Eucken calls for "a suitable order for the whole economy and its segments" (Eucken, 1940, 491), and therefore also for social policy, in order to establish an appropriate framework for state action. According to Eucken and the early proponents of ordoliberalism – here in analogy to Schmoller – social policy is a comprehensive task that must be simultaneously integrated into an overall concept of economic and social policies on a constitutional level. To put this programmatically: "The economic system must be consciously shaped." (Eucken, 1940/1950, 314)

If, however, it is up to scientists to design this order, the question of value judgments has to be raised, as the creation of such an order cannot be achieved without a foundation of social and political premises. Eucken defends this task, criticizing Max Weber's stance in his late works where he rejected questions of properly organizing social realities because of the inherent necessity to take value-based positions. What is at stake for Eucken, however, is the organization of a *humane* and, thus, *morally responsible* order. The paradigm of the ordoliberal program is, according to the preface of the first *"ORDO-Jahrbuch"* (1948, XI):

> "... limited to the creation of an economic and social order ensuring both economic performance and humane conditions of existence. We support competition given that it can be used to achieve this end; indeed, this end is unattainable without it. But it is a means, not the ultimate end."

Thus, on the issue of value judgments, Eucken's stance is close to that of Schmoller's, according to whom value judgments are to be understood as ideals of action and declarations of obligation, and are in no way to be perceived as arbitrary subjective statements.

One could therefore link Schmoller's idea of a comprehensive economic and social policy, according to whom "welfare for the poor is an integrating element of our national economy" (Schmoller, 1902 / 1987, 817), with the ordoliberal call for an integrative economic and social policy. For Eucken, too, the social question can only be solved by recognizing that "coordination of all parts of economic and social policy among one another ... results from the link between the totality of economical events and factual necessities" (Eucken, 1949, 11). Hence the integration of economic and social policy on a constitutional level (i.e. on the level of social "rules"), where a decisive organizational task should be given priority, derived from the "interdependency of orders":

> "As a result of the general interdependence between all markets, the social question can only be resolved by means of an adequate overall system. And thus the social question becomes part of the major issue of consummating an adequate and free economic system. Social reasons, in particular, indicate that there is no alternative to free competition." (Eucken, 1948 / 1982, 275)

The focus of Eucken's thoughts is thus to seek general rules within the framework of an overall social order instead of selective measures and interventions. This guiding principle, however, can only be put into practice when "social policy is not seen as an appendix to the rest of economic policy but first and foremost a policy of the entire economic order" (Eucken, 1952 / 2004, 313). This is the only way to truly establish a modern social policy:

> "What is essential here is that actual social policy is totally different from the way it was understood then. To increase wages here, to avoid accidents in factories there or to establish welfare institutions etc., may be important but is not sufficient. This kind of selective dealing with problems has to be renounced as well, but not because the demands of social policy in the current sense have become outdated. The opposite is true. Being a matter of such urgency, it has to *co*-determine the entire train of thoughts on the economic order". (Eucken, 1952 / 2004, 313)

This point of view can be seen as the focus of the ordoliberal concept of social policy in conformity with competition, at the same time being comprehensive social policy in Schmoller's sense: social policy is neither *against* nor *in favor of* the market, but is to be understood as social policy *together* (i.e., *in accordance*) with the market. Such an understanding of an order of competition within a specific constitutional and legal framework would simul-

taneously fulfill "a social and ethical desire for order beyond mere economic necessity." (Eucken, 1952 / 2004, 370)

Yet, the idea of jointly investigating the internal and external effects of social policy following Schmoller can also be found sublated in a current concept that owes much to the Freiburg legacy: the idea that – despite the unlikelihood of "internal social transformation"– social measures should not only meet material and financial needs but enable individuals to be part of society according to their own conceptions (an idea found in both Schmoller and Eucken[24]). It seems, however, that this insight of Schmoller's was lost in the social policies that emerged in the hundred years from 1860 to 1960, a period that was materially oriented from the outset. Or to put it differently: there was such an urgent need for quantitative social policy when industrialization started and even more after World War II ended, that inclusion into society could be achieved solely by offering basic material safeguards, causing issues concerning the general quality of life to fade into the background.

Material wealth was the key that unlocked the achievements of modern industrialization. Since then, however, the key has changed. A minimum of material welfare may still be a precondition for social inclusion, but is largely guaranteed through the relatively stable levels of affluence and social security systems. Their development and required structural alterations are questions of economic wisdom (efficiency considerations), but not the task of a comprehensive socio-political theory.

There is, however, a shift in viewpoints when one favors a socio-political theory orientated toward social inclusion (as put forward in our second track). If the legal-constitutional level according to Eucken is the starting point for economic and social policy, the possibility to participate is the most urgent problem of modern social policy. Moreover, there has to be concrete answers to questions of political participation and personal life satisfaction, as well as concrete possibilities for educational policy – here, too, Schmoller has pointed the way in the right direction, enabling the individual to be integrated into society. The sole focus on the material aspects of life, as symbolized by the common travel agency slogan "everything included", must be replaced by an orientation toward social integration, whose leitmotif should be "everyone included". Without going into details here (cf. Goldschmidt, 2004), this is precisely the starting point for social policy in the sense of a modern *"Ordnungsökonomik"* (Vanberg, 1988 and 2005). At the core of modern social policy is the idea of rule enforcement and effectiveness of social action by the state, the conformity of economic and social (partial) orders, and the guiding principle of a privilege-free order as "basic axioms" of the welfare state. A *normative* theory of social policy should be oriented toward developing social political

[24] See here in details Goldschmidt (2005).

arrangements based on the criterion of individual voluntary agreement. Thus, social policy is the attempt to develop general solutions for the social political debate – in the sense of hypothetical imperatives – and to analyze their desirability for citizens, as well as to explain the connection between economic and social policy. "From this perspective, the question is not *how much* social policy the market economy can absorb, but *how to operate* social policy." (Vanberg, 2002, 252). Referring to the "internal" effects of social policy and the importance of education policy, Schmoller explained that the *conditions* under which individuals form specific ideas of social arrangements and that their desirability could differ depending on culture and time, and that these conditions ("preferences") are influenced by socio-political measures. Consequently, economists will have to get used to the fact that neither accepting the "Immaculate Conception of the indifference curve" (Boulding, 1969, 2) nor the criterion of individual approval alone will be sufficient for a modern theory of social policy. There is a need to explain the origins of morality and justice both as a basis for individual decisions and social political concepts (for details cf. Goldschmidt / Remmele, 2005).

To understand the relevance of Gustav Schmoller's contributions for social policy today, one should avoid getting lost in the discussions surrounding his various specific reform proposals. We would argue that it is much more valuable to reexamine the demands that Schmoller was dealing with. We have discussed these demands on the basis of his first socio-political work, *"Die Arbeiterfrage"*, where he discusses an issue that remained a constant throughout his career despite shifting positions on its content and policy: the idea that social policy is fundamental to societal policy and is the achievement of the modern state. Yet, this objective for social policy has significance far beyond its specific practical applications. The "enhancement of the working class" or – to put it in modern terms, integrating the individual into society – remains the central *scientific* objective of the modern program for social policy that began with Schmoller.

References

Achinger, H. (1958): Sozialpolitik als Gesellschaftspolitik. Von der Arbeiterfrage zum Wohlfahrtsstaat, Hamburg.

Achinger, H. (1955 / 1971): Zur Problematik der Einkommensumverteilung, reprinted in: B. Külp / W. Schreiber (eds.), Soziale Sicherheit, Köln / Berlin, 199 – 207.

Achinger, H. (1963): Sozialpolitik und Wissenschaft, Stuttgart.

Albrecht, G. (1959): Der junge Schmoller und die Arbeiterfrage, Schmollers Jahrbuch 79, 513 – 532.

Balababkins, N. W. (1993): Gustav Schmoller and the emergence of welfare capitalism, History of Economic Ideas 1, 27 – 42.

Blümle, G. / *Schoser,* Ch. (2002): Vertrauen als volkswirtschaftliche Rahmenbedingung und Determinante des Marktverhaltens: Ein deutsch-französischer Vergleich, in: Th. Würtenberger et al. (eds.), Wahrnehmungs- und Betätigungsformen des Vertrauens im deutsch-französischen Vergleich, Berlin, 263 – 282.

Boulding, K. E. (1969): Economics As A Moral Science, American Economic Review 59, 1 – 12.

Borchardt, K. (2001): Ein Jahrhundert wechselnder Einschätzungen von Rolle und Leistung der Volkswirtschaftslehre in Deutschland, in: R. Spree (ed.), Geschichte der deutschen Volkswirtschaft im 20. Jahrhundert, München.

Brentano, L. (1923): Der Ansturm gegen den Achtstundentag und die Koalitionsfreiheit der Arbeiter, Soziale Praxis und Archiv für Volkswohlfahrt 32, 419 – 424, 451 – 456, 499 – 505, 515 – 520, 551 – 554.

Briefs, G. (1923): [contribution to the discussion], in: Die Zukunft der Sozialpolitik. Die Not der geistigen Arbeiter. Jubiläumstagung des Vereins für Sozialpolitik in Eisenach (Schriften des Vereins für Sozialpolitik 163), München / Leipzig, 136 – 139.

Brinkmann, C. (1937): Gustav von Schmoller und die Volkswirtschaftslehre, Stuttgart.

Chang, H.-J. (2002): Kicking away the ladder. Development strategy in historical perspective, London.

Conrad, J. (1923): Grundriß zum Studium der politischen Oekonomie. 1. Teil: Nationalökonomie – Allgemeine Volkswirtschaftslehre, 11. ed., Jena.

Eisermann, G. (1998): Wirtschaft und Politik, in: E. W. Streissler (ed.), Studien zur Entwicklung der ökonomischen Theorie XVII: Die Umsetzung wirtschaftspolitischer Grundkonzeptionen in die kontinentaleuropäische Praxis des 19. und 20. Jahrhunderts. 2. Teil, Berlin, 11 – 47.

Engelhardt, W. W. (1996): Gustav von Schmollers Verständnis der Sozialpolitik und die Probleme von heute, Sozialer Fortschritt 45, 72 – 79.

Eucken, W. (1940): Wissenschaft im Stile Schmollers, Weltwirtschaftliches Archiv 52, 468 – 506.

Eucken, W. (1940 / 1950): The Foundations of Economics. History and Theory of Economic Reality, London.

Eucken, W. (1948 / 1982): The Social Question, in: Standard Text on the Social Market Economy, Stuttgart / New York, 267 – 275.

Eucken, W. (1949): Von der alten zur neuen Wirtschaftspolitik, Frankfurter Allgemeine Zeitung, December 31, 1949, 11.

Eucken, W. (1952 / 2004): Grundsätze der Wirtschaftspolitik, 7th ed., Tübingen.

Eulenburg, F. (1924): Krise der Sozialpolitik? Zeitschrift für Politik 13, 412 – 434.

Goldschmidt, N. (2004): Zur Theorie der Sozialpolitik. Implikationen aus ordnungsökonomischer Perspektive, in: N. Goldschmidt / M. Wohlgemuth (eds.), Die Zukunft der Sozialen Marktwirtschaft. Sozialethische und ordnungsökonomische Grundlagen, Tübingen, 63 – 95.

Goldschmidt, N. (2005): Die Rolle Walter Euckens im Widerstand: Freiheit, Ordnung und Wahrhaftigkeit als Handlungsmaximen, in: N. Goldschmidt (ed.), Wirtschaft, Politik und Freiheit. Freiburger Wirtschaftswissenschaftler und der Widerstand, Tübingen, 289 – 314.

Goldschmidt, N. / *Remmele,* B. (2005): Anthropology as the basic science of economic theory: towards a cultural theory of economics, Journal of Economic Methodology 12, 455 – 469.

Grimmer-Solem, E. (2003): The Rise of Historical Economics and Social Reform in Germany 1864 – 1894, Oxford.

Grimmer-Solem, E. / *Romani,* R. (1999): In search of full empirical reality: historical political economy, 1870 – 1900, European Journal of the History of Economic Thought 6, 333 – 364.

Hansen, R. (1968): Der Methodenstreit in den Sozialwissenschaften zwischen Gustav Schmoller und Karl Menger. Seine wissenschaftshistorische und wissenschaftstheoretische Bedeutung, in: A. Diemer (ed.), Beiträge zur Entwicklung der Wissenschaftstheorie im 19. Jahrhundert, Meisenheim am Glan, 137 – 173.

Hansen, R. (1993): Gustav von Schmoller und die Sozialpolitik von heute, in: J. G. Backhaus (ed.), Gustav Schmoller und die Probleme von heute, Berlin, 111 – 182.

Häuser, K. (1994): Das Ende der historischen Schule und die Ambiguität der deutschen Nationalökonomie in den zwanziger Jahren, in: K. Wolfgang Nörr / B. Schefold / F. Tenbruck (eds.), Geisteswissenschaften zwischen Kaiserreich und Republik. Zur Entwicklung von Nationalökonomie, Rechtswissenschaft und Sozialwissenschaft im 20. Jahrhundert, Stuttgart, 47 – 74.

Hennis, W. (2003): Max Weber und Thukydides, Tübingen.

Herkner, H. (1923): Eröffnung und Begrüßung, in: Die Zukunft der Sozialpolitik. Die Not der geistigen Arbeiter. Jubiläumstagung des Vereins für Sozialpolitik in Eisenach (Schriften des Vereins für Sozialpolitik 163), München / Leipzig, 75 – 99.

Herkner, H. (1923a): Sozialpolitische Wandlungen in der wissenschaftlichen Nationalökonomie, Der Arbeitgeber 13, 34 – 35.

Herkner, H. (1924): Unbestrittene und bestrittene Sozialpolitik, in: Schmollers Jahrbuch 48, 201 – 218.

Hodgson, G. M. (2001): How Economics Forgot History. The Problem of Historical Specifity in Social Science, London / New York.

Janssen, H. (2000): Nationalökonomie und Nationalsozialismus. Die deutsche Volkswirtschaftslehre in den dreißiger Jahren, 2. ed., Marburg.

Kaufhold, K. H. (1988): Gustav von Schmoller (1838 – 1917) als Historiker, Wirtschafts- und Sozialpolitiker und Nationalökonom, Vierteljahrschrift für Sozial- und Wirtschaftsgeschichte 75, 217 – 252.

Kurz, H. D. (1989): Die deutsche theoretische Nationalökonomie zu Beginn des 20. Jahrhunderts zwischen Klassik und Neoklassik, in: B. Schefold (ed.), Studien zur Entwicklung der ökonomischen Theorie VIII, Berlin, 11 – 61.

Lederer, E. (1923): [contribution to the discussion], in: Die Zukunft der Sozialpolitik. Die Not der geistigen Arbeiter. Jubiläumstagung des Vereins für Sozialpolitik in Eisenach (Schriften des Vereins für Sozialpolitik 163), München/Leipzig, 150–153.

Lütge, F. (1938): Gustav von Schmoller als Sozialpolitiker, in: A. Spiethoff (ed.), Gustav von Schmoller und die deutsche geschichtliche Volkswirtschaftslehre. Festgabe zur hundertsten Wiederkehr seines Geburtstages, 24. Juni 1938 (Schmollers Jahrbuch 62/II), 189–211.

Marr, H. (1923): Zur Krisis der Sozialpolitik, Soziale Praxis und Archiv für Volkswohlfahrt 32, 547–551, 563–571, 648–650, 666–668, 696–698, 710–713, 727–730, 757–760.

Mombert, P. (1927): Geschichte der Nationalökonomie (Grundrisse zum Studium der Nationalökonomie. Band 2), Jena.

Müssiggang, A. (1968): Die soziale Frage in der historischen Schule der deutschen Nationalökonomie, Tübingen.

Pearson, H. (1997): Origins of Law and Economics. The Economists' New Science of Law, 1830–1930, Cambridge.

Peukert, H. (2001): The Schmoller Renaissance, History of Political Economy 33, 71–116.

Peukert, H. (2002): Schumpeter's "Lost" Seventh Chapter: A Critical Overview, Industry and Innovation 9, 79–89.

Pribram, K. (1925): Die Wandlungen des Begriffs der Sozialpolitik, in: M. J. Bonn/M. Palyi (eds.), Die Wirtschaftswissenschaft nach dem Kriege. Festgabe für Lujo Brentano. 2. Band: Der Stand der Forschung, München/Leipzig, 225–267.

Priddat, B P. (1989): Schmoller on Ethics and Economics, International Journal of Social Economics 16, 47–68.

Prisching, M. (1997): Schmoller's Theory of Social Policy, in: J. G. Backhaus (ed.), Essays on Social Security and Taxation. Gustav von Schmoller and Adolph Wagner Reconsidered, Marburg, 203–216.

Rüstow, A. (1959/1971): Sozialpolitik diesseits und jenseits des Klassenkampfes, in: B. Külp/W. Schreiber (eds.), Soziale Sicherheit, Köln/Berlin, 17–26.

Schellschmidt, H. (1997): Ökonomische Institutionenanalyse und Sozialpolitik. Gustav Schmoller und John R. Commens als Vertreter einer sozialreformerisch ausgerichteten Institutionenökonomie, Marburg.

Schmidt, K.-H. (1997): Gustav von Schmoller und die Entwicklung einer sozialpolitischen Schule in Deutschland, in: E. W. Streissler (eds.), Studien zur Entwicklung der ökonomischen Theorie XVI: Die Umsetzung wirtschaftspolitischer Grundkonzeptionen in die kontinentaleuropäische Praxis des 19. und 20. Jahrhunderts. 1. Teil, 43–79.

Schmidt, K.-H. (1997a): Schmoller's Contribution to the Theory of the Welfare State, in: J. G. Backhaus (ed.), Essays on Social Security and Taxation. Gustav von Schmoller and Adolph Wagner Reconsidered, Marburg, 217–237.

Schmoller, G. (1863): Die Lehre vom Einkommen in ihrem Zusammenhang mit den Grundprincipien der Steuerlehre, Zeitschrift für die gesammte Staatswissenschaft 19, 1 – 86.

Schmoller, G. (1864 – 65 / 1888): Johann Gottlieb Fichte. Eine Studie aus dem Gebiete der Ethik und der Nationalökonomie, reprinted in: G. Schmoller, Zur Litteraturgeschichte der Staats- und Sozialwissenschaften, Leipzig, 28 – 101.

Schmoller, G. (1864 / 65): Die Arbeiterfrage, Preußische Jahrbücher 14, 393 – 424, 523 – 547 and Preußische Jahrbücher 15, 32 – 63.

Schmoller, G. (1870): Zur Geschichte der deutschen Kleingewerbe im 19. Jahrhundert. Statistische und nationalökonomische Untersuchungen, Halle.

Schmoller, G. (1872 / 1922): Rede zur Eröffnung der Besprechung über die sociale Frage in Eisenach, reprinted in: K. Diehl / P. Mombert (eds.), Ausgewählte Lesestücke zum Studium der politischen Ökonomie. 14. Band: Sozial-Politik, Karlsruhe, 85 – 95.

Schmoller, G. (1875 / 1904): Über einige Grundfragen des Rechts und der Volkswirtschaft. Ein offenes Sendschreiben an Herrn Professor Dr. Heinrich von Treitschke, reprinted in: G. Schmoller, Über einige Grundfragen der Sozialpolitik und der Volkswirtschaftslehre, Leipzig, 1 – 211.

Schmoller, G. (1881 / 1904): Die Gerechtigkeit in der Volkswirtschaft, reprinted in: G. Schmoller, Über einige Grundfragen der Sozialpolitik und der Volkswirtschaftslehre, Leipzig, 213 – 261.

Schmoller, G. (1892): Über die Entwicklung des Großbetriebes und die soziale Klassenbildung, Preußische Jahrbücher 69, 457 – 480.

Schmoller, G. (1894): Review on "Herkner, Heinrich (1894): Die Arbeiterfrage. Eine Einführung", Jahrbuch für Gesetzgebung, Verwaltung und Volkswirtschaft im Deutschen Reich 18, 1327 – 1328.

Schmoller, G. (1897): Wechselnde Theorien und feststehende Wahrheiten im Gebiete der Staats- und Socialwissenschaften, Jahrbuch für Gesetzgebung, Verwaltung und Volkswirtschaft im Deutschen Reich 21, 1387 – 1408.

Schmoller, G. (1902 / 1987): Entstehung, Wesen und Bedeutung der neueren Armenpflege, reprinted in: G. Schmoller, Kleinere Schriften zur Wirtschaftsgeschichte, Wirtschaftstheorie und Wirtschaftspolitik. W. Fiedler / R. Karl (eds.), Teil 6, Leipzig, 808 – 817.

Schmoller, G. (1906): Das Verhältnis der Kartelle zum Staate. Referat, gehalten auf der Mannheimer Generalversammlung des Vereins für Socialpolitik 1905, in: Schriften des Vereins für Socialpolitik. Band 116, Leipzig, 237 – 271.

Schmoller, G. (1908): Grundriß der allgemeinen Volkswirtschaftslehre. Erster Teil, Leipzig.

Schmoller, G. (1915): Die Entstehung der deutschen Volkswirtschaft und der deutschen Sozialreform, Jahrbuch für Gesetzgebung, Verwaltung und Volkswirtschaft im Deutschen Reich 39, 1609 – 1640.

Schmoller, G. (1918): Die soziale Frage. Klassenbildung, Arbeiterfrage, Klassenkampf, München, Leipzig.

Schmoller, G. (1918/2006): Meine Heilbronner Jugendjahre, in: Von schwäbischer Scholle. Kalender für schwäbische Literatur und Kunst, translated and reprinted in this volume, 144 – 162.

Schmoller, G. (1920): Grundriß der Allgemeinen Volkswirtschaftslehre. Zweiter Teil, 2. ed., München/Leipzig.

Schönberg, G. (1871). Arbeitsämter: eine Aufgabe des Deutschen Reichs, Berlin.

Schumpeter, J. A. (1908): Das Wesen und der Hauptinhalt der theoretischen Nationalökonomie, Berlin.

Schumpeter, J. A. (1911): Theorie der wirtschaftlichen Entwicklung, Leipzig.

Schumpeter, J. A. (1926): Gustav v. Schmoller und die Probleme von heute, Schmollers Jahrbuch 50, 337 – 388.

Schumpeter, J. A. (1926a): Theorie der wirtschaftlichen Entwicklung. Eine Untersuchung über Unternehmergewinn, Kapital, Kredit, Zins und den Konjunkturzyklus, 2. ed., München/Leipzig.

Schumpeter, J. A. (1927): Deutschland, in: F. Mayer/F. A. Fetter/R. Reisch (eds.), Die Wirtschaftstheorie der Gegenwart. Band 1: Gesamtbild der Forschung in den einzelnen Ländern, Wien, 1 – 30.

Schumpeter, J. A. (1942): Capitalism, Socialism and Democracy, New York/London.

Schumpeter, J. A. (1954). History of Economic Analysis, New York.

Schumpeter, J. A. (2000): Briefe/Letters. U. Hedtke/R. Swedberg (eds.), Tübingen.

Sombart, W. (1897): Ideale der Sozialpolitik, Archiv für soziale Gesetzgebung und Statistik 10, 1 – 48.

Swedberg, R. (1995): Schumpeter's Vision of Socioeconomics, Journal of Socioeconomics 24, 525 – 544.

Tönnies, F. (1887): Gemeinschaft und Gesellschaft: Abhandlung des Communismus und des Socialismus als empirischer Kulturformen, Leipzig.

Tönnies, F. (1923): Sozialreform ehedem und heute, Soziale Praxis und Archiv für Volkswohlfahrt 32, 659 – 666.

Vanberg, V. (1988): 'Ordnungstheorie' as Constitutional Economics. The German Conception of a 'Social Market Economy', ORDO 39, 17 – 31.

Vanberg, V. (2002): Soziale Sicherheit, Müller-Armacks 'Soziale Irenik' und die ordoliberale Perspektive, in: R. H. Hasse/F. Quaas (eds.), Wirtschaftsordnung und Gesellschaftskonzept, Bern, 227 – 260.

Vanberg, V. (2005): Market and state: the perspective of constitutional political economy, Journal of Institutional Economics 1, 23 – 49.

Weber, A. (1925): Der Anteil Deutschlands an der nationalökonomischen Forschung seit dem Weltkrieg, in: M. J. Bonn/M. Palyi (eds.), Die Wirtschaftswissenschaft nach dem Kriege. Festgabe für Lujo Brentano. 2. Band: Der Stand der Forschung, München/Leipzig, 3 – 29.

Wiese, L. von (1922): Die Soziologie im Aufgabenkreise des Vereins für Sozialpolitik, Soziale Praxis und Archiv für Volkswohlfahrt 31, 1014 – 1016.

Winkel, H. (1989): Gustav von Schmoller (1838 – 1917) in: J. Starbatty (ed.), Klassiker des ökonomischen Denkens, Vol. 2, München, 97 – 118.

Zwiedineck-Südenhorst, O. von (1911): Sozialpolitik und ihre Erscheinungsformen, reprinted in: O. von Zwiedineck-Südenhorst, Mensch und Wirtschaft. Aufsätze und Abhandlungen zur Wirtschaftstheorie und Wirtschaftspolitik. Erster Band, Berlin, 391 – 398.

Zwiedineck-Südenhorst, O. von (1932): Allgemeine Volkswirtschaftslehre, Berlin.