

Heilbroner's "Analysis and Vision in the History of Modern Economic Thought":

A Necessary Addendum

By Günther Schmitt

In his brilliant "Analysis and Vision in the History of Modern Economic Thought", *Heilbroner* 1990, „wishes to review and interpret the manner in which modern development have been perceived by economists" (p. 1097). He also inquires "into the successes and failures of economic thought in anticipating the mark of actual events" (ibid). Therefore, in explaining that "in all 'periods' of capitalist development a few voices attain commanding presence ...", *Heilbroner* hopes "that my selection of voices will carry a defensible rationale" (p. 1098). However, he confines himself "almost entirely to Anglo-American opinion", because of "lacking to expertise to speak about European or Japanese or Third World views of socialism and capitalism" (ibid).

Although *Heilbroner's* "analysis" is restricted to "Anglo-American opinion", in part II of his article dealing with the "Late Depression Views", he discusses the well-known "Keynes-Hansen Assessment" (p. 1098) but also the "Expectations for Socialism: The Mises-Lange Debate" (pp. 1100 - 1101). Both controversies are, therefore, seen and analyzed by Heilbroner with respect to and in direct coherence with "the prospects of the outlook for capitalism at the end of the 1930s" which, in fact, were "couched in apprehensive terms, even by its supporters" as he maintains (p. 1101).

Such an assessment, in fact, is only true with respect to the controversy between Keynes and Hansen, but is irrelevant with respect to the "Mises-Lange Debate". Actually, this debate has already been started in 1920 by *von Mises'* article "Die Wirtschaftsordnung im sozialistischen Gemeinwesen" published in "Archiv für Sozialwissenschaften". This article was stimulated by Lenin's New Economic Policy inaugurated in order to prevent the total collapse of the Soviet economy after the economic chaos during the period of "war-communism" (1917 - 1921). That article of *Mises* was, of course, the basis of his book „Die Gemeinwirtschaft. Untersuchungen über den Sozialismus" published in 1932, whereas his original article has been translated in English and published not before 1935 in a book on "Collectivist Economic Planning" which has been edited by von Hayek. Heilbroner

is referring to this article in Hayek's book by mentioning Oskar Lange's articles of 1937 which "were written in response to a number of attacks on the feasibility of socialism, including ... Mises' 'Economic Calculation on the Socialist Commonwealth' (1935)" (p. 1100).

By such an "confinement to Anglo-American opinion" or, more precisely, on relevant publications in English, Heilbroner not only misses the origin and the historical and economic background of the "Mises-Lange Debate", he also fails the theoretical, methodological, and intellectual as well as the philosophical roots of the Mises-Lange debate which only can be detected in the context of the German Historical schools which, of course, have been almost entirely outside of the Anglo-American areas of discussion on the problem of economic order. It follows, furthermore, that by neglecting these important foundations of the "History of Economic Thought", a main and historically most important "outcome" of the discussion within the context of the German historical schools has also been neglected by Heilbroner, namely the "ordo-liberalism" mainly founded by Eucken and its impact on the "Soziale Marktwirtschaft" (social market economy) established in West German after the end of the second world war.

It seems, therefore, to be necessary to complete *Heilbroner's* "analysis and vision" as far as Germany is concerned at least with respect to "the climate of economic thought through spokesmen whose outlook" he seeks "to justify representing the most significant views for the time span in question" (p. 1098). As might be well-known, at the turn to this century, economic "thoughts" in Germany have been mainly influenced and shaped by the "Older" and, lateron, by the "Younger Historical School" as "a specifically German phenomenon that grew out of specifically German roots and displayed typically German strengths and weakness" as *Schumpeter* 1954 (p. 819) certainly influenced by these Schools has observed. In the context of Heilbroner's "Analysis and Vision" or, more precisely, the socialism-capitalism controversy in economics, as his main subject, *Sombart* (1863 - 1941) and his "Modern Capitalism" especially in its second revised and much enlarged edition (1926 - 1927) has to be mentioned as an outcome of the "Younger" Historical School according again to *Schumpeter* (p. 815). *Sombart's* "Capitalism", of course, was basically shaped by the main subject of scientific interests of the elder as well as the younger historical school, namely by the "Leitidee" of (all) sciences during the 19th century, the idea of (economic) development and the laws governing that development as *Eucken* has put it 1939; 1947 (p. 63).

In this respect, *Sombart* has not only to be mentioned because he turned from an admirer in his early works to a fundamental critic of Marx. However, his critique of Socialism was based on the same foundations as his critique of capitalism, namely the benefits of individual development and its

destructive potential whether organized by capitalism or socialism. Schumpeter's pessimistic "presentation of plausible capitalism" (Heilbroner, p. 1104), of course, has its roots in Sombart although he is only mentioned in *Schumpeter's* book 1950 (p. 37) in a footnote referring to (and refusing) Sombart's theory of original accumulation of capital through land rents. However, whereas Schumpeter's pessimism might be heavily influenced by Hitler's rise although Hitler is not mentioned in his book, Sombart 1934 welcomed the Nazis just having achieved political power in Germany in 1933, by advocating a cooperative state planning and interventionism and, thus, rejecting industrialization by government's control of technological development. However, his ideas have not been accepted by the Nazis.

Although Sombart's "Modern Capitalism" has been discussed very intensively by contemporary but mainly political and social scientists in Germany, with regard to economics, its influence was rather restricted. However, he also has to be mentioned within the context of Heilbroner's subject, because he stimulated very much Eucken (1891 - 1950) in his two masterpieces on "Die Grundlagen der Nationalökonomie" (1939) ("The Foundations of Economics", 1950) and "Grundsätze der Wirtschaftspolitik" (Principles of Economic Policy) published in 1952 after his death. Both books were influenced very much by the German historical schools and, above all, by Sombart, although criticizing basically Sombart and both Historical schools. Much more important, however, is the fact that Eucken was the founder and the head of the Freiburg School of German Neo-liberalism, although Ordoliberalism is the more adequate denotation because Eucken and his scholars were very much in favor of a strong state resisting interest groups and monopolization of markets. Eucken's concept of a liberal economic order had an overwhelming influence on the making of economic policy in West-Germany after the end of the second world war and its economic recovery and growth. However, Eucken cannot be understood and interpreted without his exposition with the Historical Schools and their basic methodologies.

With respect to Eucken's intellectual roots in the Historical Schools of German economics, in his "Grundlagen" mainly, he criticizes the search of these schools for different "stages", "types", "phases" or "styles" characterizing various periods of economic development or various countries subject to relevant, but quite specific and, therefore, different "theories". In contrast to those specific theories explaining different "stages" of economies and economic development, Eucken was convinced that economic development is subject to economic forces and factors which are to be explained by general economic theories independent of specific conditions and circumstances. In this respect, Eucken very often is seen as an economist who has led back German economic thinking to neoclassical theory. What really makes the differences with respect to the working of economies in Eucken's

view are different organizations of economic activities, in other words, institutional differences in the “Wirtschaftsordnung” (economic order) in which economic forces are working more or less efficient according to Eucken. Therefore, the main problem is to find and to construct a consistent economic order which not only makes economies working efficiently but also guarantees individual freedom. Such an economic order is, according to Eucken, a market economy which is framed by several “constituent” and “regulating” principles, such as private property rights, a stable currency, open markets, a constant economic policy, monopoly control and income redistribution. Therefore, Eucken is rejecting deterministic prophecies such as those by Marx or Schumpeter concerning the future of capitalism following “eternal laws” which are seen by Eucken as a hypostatization of some dark forces by neglecting completely the freedom of human beings vis-à-vis the course of history.

The main point to be made with respect to Heilbroner’s “analysis and vision” refers, however, to the fact that Eucken’s idea of a liberal economic order was extremely influential on German economic policy, especially after the end of the second world war when the fundamental decision has had to be made concerning exactly the economic order to be chosen. Of course, that decision has been made by Ludwig Erhard, the first West-German minister of economic affairs in Konrad Adenauer’s cabinet. But Erhard’s decision in favor of a market economy in 1948 after the monetary reform of the economy was based on Eucken’s and his school’s ideas and perceptions. This decision was made by Erhard much against not only the Social-Democrats but also the Western Allied Forces still controlling Germany at that time and despite the overall pessimistic perception of the future of capitalism. And, of course, the introduction of that Social Market Economy very much stimulated the economic recovery of Germany but also accelerated economic growth described very often as the German Economic Miracle, so that not only Japan but also West-Germany have emerged “as a centre of expansion” during the “subperiod from 1945 to the mid-1960s” as *Heilbroner* admits (p. 1101). Therefore, the “golden age of growth” of capitalism as observed by Heilbroner was very much inspired and stimulated by the German experience, thus countervailing the deep-rooted (Schumpeterian) pessimism concerning capitalism after the “traumatic Great Depression” still governing economic policies of capitalist countries and many economists in these countries. Furthermore, the social policy element of Erhard’s “Soziale Marktwirtschaft” in Germany which very much founded the acceptance of a market economy by the German constituency reflected in the reelections of the Adenauer government, very much stimulated the attractiveness of the reintroduction of a “capitalist” economic order, of course, also stimulated by the horrible experience of Hitler’s dictatorship and his economic “policy”.

But Eucken has to be mentioned also with respect to another aspect of Heilbroner's analysis. Referring to the "Lange-Mises case" already mentioned, Heilbroner finds "an analytical disagreement" insofar that "Lange maintained that if marketlike signals could be replicated within the working of a planned economy, it followed that socialism could work as well", whereas *Hayek* has declared "that the basis for such an outcome could never be achieved, owing to the fundamental differences in the manner in which prices are generated in the two systems" (p. 1111). According to Heilbroner, "behind the analytics of the Mises-Lange dispute lie two views of 'human nature'". It is, however, rather doubtful whether Eucken really would agree with such a view because Eucken very much stresses the fundamental interrelationship between (private) property rights and individual freedom on the one side and collective property and the omnipotence of the state, and the lack of individual freedom on the other side. On p. 138 of his "Grundsätze", *Eucken* explains that "as long as production factors are collectivized, peasants and dealers are vanishing ... Former farmers, craftsmen, and retailer are becoming workers and employees ... The social structure of a country is changing ... Depending on functioners, which are controlling the productive apparatus, the individual is without any influence ...". Therefore, not different "views of human nature" are "behind the analytics" as Heilbroner maintains but different views of the implications of different social and economic orders for human beings. Beside the fact that the very recent experiences with respect to socialistic economies are very much in favour of Eucken's view, *Heilbroner's* conclusion that "the relation between vision and prognosis does not permit such conclusions" concerning different views of "human nature" (p. 1111).

Finally, Eucken has to be mentioned also with respect to another aspect of *Heilbroner's* "analysis and vision". In the final section V of his article, Heilbroner is dealing with the question "why economic prognoses have so often been wide of the mark" (p. 1107). He comes finally to the conclusion that "behind scenarios lie visions ... The fundamental usefulness of these visions ... lies not in their power to illumine the future ... but in our own power to perceive that visionary preconceptions underlie analytic work itself. An awareness of these preconceptions force us to recognize that the world we analyse is not just unambiguously there, but displays the characteristics that we project into it" (p. 1113).

Eucken in his "Principles" (p. 208) comes to a similar conclusion by explaining: "In truth, we don't know specific laws followed by history. We should avoid 'to identify our own perspectives of history with the decisions of the world's history' because 'our visions are mainly reflexes of ourselves' (as Jacob Burckhardt has explained). But even if there would be such laws of historical development, and we would detect such laws governing the

past, we would not know whether those laws would govern the future. In history there are much unforeseeable changes ... Historians may discover certain tendencies in time and warn with respect to dangers linked to the future. But this does not mean that based on such tendencies prognoses can be constructed”.

Heilbroner’s attempt to “review and interpret the manner in which modern developments have been perceived by economists” has missed some, in my view, important aspects, roots, and foundations of the “History of Economic Thoughts” because his analysis and vision has been restricted almost entirely to “Anglo-American opinion” although within that restriction he has presented a brilliant overview and interpretation of that “opinion”.

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