

# The History of German Political Economy

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Two different conceptions of Political Economy now divide economists throughout Europe; of which, looking to their origin, one may be called English, the other German, though neither meets with universal acceptance in either England or Germany. English writers in general have treated Political Economy as a body of universal truths or natural laws; or at least as a science whose fundamental principles are all fully ascertained and indisputable, and which has nearly reached perfection. The view, on the other hand, now almost unanimously received at the universities, and gaining ground among practical politicians, in Germany, is that it is a branch of philosophy which has received various forms in different times and places from antecedent and surrounding conditions of thought, and is still at a stage of very imperfect development. Each of these conceptions has its appropriate method; the first proceeding by deduction from certain postulates or assumptions, the second by investigation of the actual course of history, or the historical method. In England it is usual to speak of induction as the method opposed to a priori deduction, but the inductive and historical methods are identical. Both aim at discovering the laws of succession and co-existence which have produced the present economic structure and condition of society. A subsidiary branch of historical investigation traces the progress of thought and philosophical theory, but this branch has the closest relation to the main body of economic history, since one of the chief conditions determining the subjects and forms of thought at each period has been the actual state of society; and ideas and theories, again, have powerfully influenced the actual phenomena and movement of the economic world. Dr. Wilhelm Roscher's 'History of Political Economy in Germany' (*Geschichte der National-Oekonomie in Deutschland*) is by far the most considerable contribution that has yet been made to this subsidiary branch of inquiry. It would be impossible in a few pages to review a book which ranges over several centuries, and discusses the doctrines of several hundred authors, besides drawing from numerous unnamed works. What is sought here is to indicate some of the leading features in the history of this department of German thought, with some observations suggested by Roscher's book, or by its subject.

An English historian cited by Roscher speaks as if the history of political economy had begun and almost ended with Adam Smith. Roscher himself begins with the Middle Ages, and ends with the conflicting doctrines of different schools and parties in Germany at the present day. The structure and phenomena of medieval society in Germany, as elsewhere, were far from suggesting an economic theory based on individual interest and exchange. Common property in land, common rights over land held in severalty; scanty wealth of any kind, and no inconsiderable part of it in mortmain, or otherwise intransferable; labour almost as immovable as the soil; production mainly for home consumption, not for the market; the division of labour in its infancy, and little circulation of money; the family, the commune, the corporation, the class, not individuals, the component units of society: such are some of the leading features of mediaeval economy. In the intellectual world the division of labour was even less advanced than in material production; philosophy was in the hands of an ecclesiastical order, antagonistic to both the individual liberty and the engrossing pursuit of wealth which modern political economy assumes. Roscher points to the Canon Law as embodying the earliest economic theory, and it is deeply tinged with both communism and asceticism; poverty is the state pleasing to God, superfluous wealth should be given to the Church and the poor, interest on money is unlawful, to buy in the cheapest and sell in the dearest market is a twofold wrong. Nor did the secular law harmonize better with modern economic assumptions. Every system of positive law, as Roscher observes, has a corresponding economic system as its background; and the economic system at the back of the secular law was based on status, not on contract duty and loyalty, not on individual interest. Thus whether we look to the actual economy of mediaeval Germany, to its moral philosophy, or to its positive law, we find a condition of things incompatible with the economic doctrines of modern times.

A new era opened with the Reformation, and Roscher divides the history of modern political economy in Germany into three periods, the first of which he calls a theological and humanistic one (*das theologisch-humanistische Zeitalter*), on account of the influence of both the doctrines of the Reformers and the literature of classical antiquity. But the economic movement of society itself

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tended to awaken new ideas. The Reformation not only created considerable economic changes of a material kind, but was in fact the result of general social progress, one aspect of the economic side of which shows itself in the discovery of the new world, and the consequent revolution in prices. In Germany, too, though to a less extent than in England, something doubtless was visible of that change from status to contract, and from service for duty to service for personal gain, which struck the great English poet, who was himself among the productions of the new age.(1) We may take Erasmus and Luther as representatives of the economic influences of the new theology and classical literature in Germany. The saying of the mendicant friars with respect to theology is true also, Roscher observes, in the region of economics, that Erasmus laid the egg which Luther hatched. 'Erasmus, going back to the best age of classical antiquity as well as to pure Christianity, proclaimed that labour was honourable.' Luther preached the same doctrine, and moreover anticipated Adam Smith's proposition, that labour is the measure of value. Luther's enthusiasm for the increase of population illustrates the connexion of the economic ideas of the age with both its theology and its material condition, since it sprang on the one hand from antagonism to monastic celibacy, and on the other hand from the rapid increase in the means of subsistence. The chief economic influences of classical antiquity are classed by Roscher under five heads. Its literature, being that of a high state of civilization, furthered the rise of Germany to a higher social stage. The States from which this literature emanated were cities, whose example fostered the development of town life and economy. They were also highly centralized States, with the liveliest national spirit; and their history and ideas could not but promote the development of the modern State and of national unity, as opposed to the mediaeval division of each nation into innumerable petty groups and governments. They were also either monarchical or democratic States, the study of which tended to accelerate the decline of the feudal aristocracy. Lastly, types of life and thought so unlike those which the mediaeval world had bequeathed could not but nurture a critical and inquiring spirit, which made itself felt in the economic, as in other directions of the German mind. The only indications, however, of an independent economic literature in this period seem to have been the writings of Camerarius and Agricola on currency. Germany seems to have produced nothing so remarkable as the famous tract by W. S., once attributed to Shakespeare, which the revolution in prices and the contemporary economic changes gave birth to in England.(2) The period closes with the Thirty Years' War,' in connexion with which Roscher adverts to the influence on Germany, both for good and for evil, of its geographical position; including among its beneficial effects a disposition to learn from all sides, which is visible in the subsequent history of its economic ideas and literature.

The second period in the history of German political economy, which covers more than a century from the Thirty Years' War to the period of Frederick the Great, is called by Roscher *das polizeilichcameralistische Zeitalter*, as being cue of State regulation and fiscal science. The term 'cameralistic,' which makes a great figure in early German economics, originated (as Roscher mentions in another work) in the office or chamber (Cammer), which in each German State was charged with the supervision and administration of the Crown revenues. Hence the science called *cameralistische Wissenschaft*, which is perhaps best explained by reference to one of the two objects which Adam Smith, at the beginning of his account of the Mercantile system, says political economy, 'considered as a branch of the science of the statesman or legislator,' has in view. It proposes, he says, to provide a plentiful revenue both for the State and the people. Cameralistic science aimed at augmenting the revenue of the State or the sovereign, rather than the people. Roscher's second period might, more intelligibly to English readers, be distinguished as the Mercantile period, since one of its chief features was the Mercantile system, interwoven with the system of State regulation and finance. It is a modern error, which, as Roscher remarks, is not attributable to Adam Smith, to ascribe to the Mercantile school the notion that money is the only wealth. What that school really taught was that money, in Locke's words, was the most solid and substantial part of the moveable wealth of a country; that it had more extensive utility than any other kind of wealth, on account of its universal exchangeability abroad as well as at home; and that a considerable stock of the precious metals in the treasury of the State, or within its reach, was requisite as a provision for foreign wars. Money had really acquired great additional usefulness and importance by the change from the mediaeval to the modern economy, with the substitution of payments in coin for payments in kind, and the great increase in the division of labour, and in trade, both internal and foreign. And as the Mercantile system was thus connected on the economic side with the actual movement of society, so on the political side it was connected with the growth of monarchical States, increased activity and interference on the part of the central governments, and the maintenance of monarchical armies, and increased need for money in State finance. A circumstance not adverted to by Roscher, which doubtless contributed to the growth of the Mercantile system, was the revolution in prices, and in international trade, consequent on the influx

of American gold and silver, which really placed the countries with a small stock of money and a low range of prices at a disadvantage. They bought dear and sold cheap in the foreign market. The system was thus not so irrational in its objects as many modern writers have supposed; but its history is chiefly important, in the point of view with which we are concerned, as illustrative of the connexion between economic theories and surrounding phenomena and conditions of thought.

The first period in Roscher's division is, as already said, classed by him as theological and humanistic. In the second period German Political Economy in his view disengaged itself finally from both theology and jurisprudence, and became an independent science. It is, however, a fact of no small importance to a right understanding of economic history, and to a due appreciation of the authority of some of the economic doctrines of our own day, that economic philosophy was so far from emancipating itself in the seventeenth century completely and finally from theological and juridical theories, that the system not only of the French Physiocrats, but also of Adam Smith, whose 'Wealth of Nations' had a prodigious influence over Germany, was in great part built on an ancient juridical theory in a modern theological form, and penetrated by a theological spirit. Roscher's third period, which reaches down to the present day, begins with the introduction of the system of the Physiocrats into Germany, where, he says, it influenced only some individual minds, adding that in England it could gain almost no ground. But the influence of the 'Wealth of Nations,' both in Germany and elsewhere, was so great that 'the whole of political economy might be divided into two parts before and since Adam Smith the first part being a prelude, and the second a sequel (in the way either of continuation or opposition) to him.' The system of the Physiocrats had doubtless some peculiar features, traceable to its country and parentage, the study of which throws much light on the causes which have shaped economic ideas, and forms an instructive chapter in the general history of philosophy. Nevertheless its main foundation was essentially the same as that on which Adam Smith's political economy rested. Roscher himself, along with other eminent German economists, has drawn attention to the connexion between both systems and the idea of a Law of Nature, which eighteenth century philosophy had derived from Roman jurisprudence. What they seem to have overlooked is, that both with the Physiocrats and with Adam Smith the Law of Nature distinctly assumed a theological form. The simple, harmonious, and beneficent order of Nature which human laws should leave undisturbed and only protect, became of divine institution, and Nature in short became Providence. Dupont de Nemours, who invented the name Physiocratie, to signify the reign of natural law, says in the dedication of the system to the sovereigns of the world, 'Vous y reconnaitrez la source de vos droits, la base et l'étendue de votre autorité, qui n'a et ne peut avoir de borne que celle imposée par Dieu même.' In Adam Smith's lectures on moral philosophy, political economy formed one part of a course of which natural theology was another part, and the real ground of his confidence in the beneficial economy resulting from the undisturbed play of individual interest is expressly stated in the 'Wealth of Nations,' as well as in his 'Theory of Moral Sentiments,' to be the guidance of Providence. 'Every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. He intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention.'<sup>(3)</sup> The process of specialization, which has differentiated one branch of secular knowledge after another from theology, had not reached political economy in Adam Smith's age, nor with many of his successors. Scientifically regarded, the theory of Malthus was fatal to the assumption of a beneficent tendency of the natural desires of mankind, but it did not prevent Archbishop Whately from finding in political economy the strongest evidences of natural theology; and the harmony of a beneficent economy of Nature with the theism of modern times unquestionably contributed, though often by an unperceived connexion, to the success which the political economy of Adam Smith and the system of laissez faire met with in Germany as well as England.<sup>(4)</sup> The principal merit of Adam Smith's economic philosophy has been generally overlooked. He combines the historical method of Montesquieu with the theory of Natural Law; and although that theory, together with his theological system, gave a bias to his inductive study of the real order of social progress, he has a true title to be regarded as the founder of the historical method in political economy, in the sense at least of having been the first to apply it. In Germany, it is true, this method has been of indigenous and more recent growth, having been transferred from other branches of German historical science, especially in relation to law. And as Adam Smith's system has been generally associated only with that portion of it which is based on Natural Law, the historical school of German economists have for the most part assumed an attitude of antagonism to what they call Smithianism.

The last chapter of Roscher's history describes the tenets and methods of the different schools and

parties which the economic and political condition of Germany on the one hand, and the progress of science on the other, have evolved during the last thirty years. Dr. Roscher does not exclude even socialism from a place in his history, his object being to portray all the principal phases of German thought on the subject of the production and distribution of wealth. Two conditions concurred to stimulate economic inquiry and discussion in Germany in recent years: the material progress of the country in population, production, trade, and means of communication, presenting new economic phenomena and raising new problems, especially in relation to the working classes; and the great contemporary progress of the sciences of observation, especially history. Political causes, too, have had a share in producing a diversity of economical creed. Roscher distinguishes five different groups, designated as free traders, socialists, reactionary conservative economists, officials, and the historical or 'realistic' school. Of these five groups, two, however (the 'reactionary' and the 'official' economists), may be left out of consideration here the former as insignificant in number, and the latter as distinguishable only in reference to the subjects on which they write, and the special knowledge they bring to bear on them. We need concern ourselves only with the free-trade schools sometimes called, by way of reproach, the Manchester party the socialists, or socialist-democrats (Socialdemokraten), and the realistic or historical school. The free traders, under the leadership of Prince Smith, Michaelis, and Julius Faucher, formed, some years ago, an association called the German Economic Congress (Volkswirtschaftlicher Congress), and all German economists are agreed that they rendered great service to Germany by their strenuous exertions for industrial and commercial liberty. Roscher, too, refuses to stigmatize them with the name 'Manchester party,' on account of their patriotism; but he objects to their economic theory, which was that of Bastiat and the old English laissez faire school, as too abstract, too optimistic, and too regardless of history and reality. But many of the younger members are broader in their creed, and by no means opposed to the historical or realistic method of economic inquiry. The socialists or social democrats, of whom Karl Marx and the late Ferdinand Lassalle may be taken as the exponents, aim both at political revolution and at the abolition of private property in land and capital; and Roscher points out that they are even more unhistorical in their method, and more given to misleading abstractions for example, the argument that capital is accumulated labour, and labour therefore should have all its produce than the extremest of the elder free traders. Signor Pozzoni signally errs in classing, in a recent article in this Review, the realistic German school with the socialists. The realistic school, which has its chief strength in the universities, is no other than the historical school, which Signor Pozzoni classes apart; and the Association for Social Politics (Verein für Social-politik) which its members have formed, and which, by a play on words, led to the nickname of Katheder-Socialisten, now includes some of the Economic Congress, or free-trade party, along with Government officials, merchants, and manufacturers, as well as professors and working men. The true meaning of the term 'realistic' is sufficiently explained by Roscher's words: 'The direction of the political economy now prevailing at our universities is with reason called realistic. It aims at taking men as they really are, influenced by various and withal other than economic motives, and belonging to a particular nation, state, and period of history.' Man, in the eyes of the historical or realistic school, is not merely 'an exchanging animal,' as Archbishop Whately defined him, with a single unvarying interest, removed from all the real conditions of time and place a personification of an abstraction; he is the actual human being such as history and surrounding circumstances have made him, with all his wants, passions, and infirmities. The economists of this school investigate the actual economy of society and its causes, and are not content to infer the distribution of wealth from the possible tendencies of undisturbed pecuniary interest. Such a practical investigation cannot be without practical fruit, but its chief aim is light. And it is needless to say what a boundless field of instruction the study of the economic progress and condition of society on this method opens up. Among the works which it has recently produced in Germany maybe mentioned Roscher's 'Nationalökonomik des Ackerbaues,' Schmoller's 'Geschichte der deutschen Kleingewerbe,' Brentano's 'Arbeitergilden der Gegenwart,' and Nasse's well-known 'Essay on the Agricultural Community of the Middle Ages in England.' Nor has the historical method been unproductive in England. A great part of the 'Wealth of Nations' belongs to it; and to it we owe Malthus' 'Treatise on Population,' Tooke's 'History of Prices,' and Thorold Rogers' 'History of Agriculture and Prices.' Sir Henry Maine's works on 'Ancient Law,' 'Village Communities in the East and West,' and the 'Early History of Institutions,' not only afford models of the historical method, but actually belong to economic as well as to legal history, and exemplify the nature and extent of the region of investigation which those English economists who are not content with barren abstraction have before them.

Nothing can be more unfounded than the imputation of socialist or destructive tendencies which the nickname of Katheder-Socialisten has linked with the historical school of German economists.

Historical philosophy has assuredly no revolutionary tendencies: it has been with more justice accused of tending to make its disciples distrustful of reforms which do not seem to be evolved by historical sequence and the spontaneous births of time. But, as a matter of fact, a great diversity of opinion is to be found among the economists of this school in Germany; some being conservative and others liberal in their politics; but no revolutionary or socialist schemes have emanated from its most advanced Liberal rank. Their principal practical aims would excite little terror in England. Some legislation after the model of the English Factory Laws, some system of arbitration for the adjustment of disputes about wages, and the legalization of trade-unions under certain conditions, are the main points in their practical programme; and they are supported by some of the warmest friends of the German throne and aristocracy.

It is impossible to praise too highly the extraordinary erudition, the immense industry, and the manysidedness of intellectual sympathy which distinguish Roscher's history of German political economy; but we venture to suggest to him a revision of the brief notice which it includes of the history of English political economy in the last thirty years. Generous in the extreme in his estimate of the earlier economic literature of this country, he is less than just in his criticism of it in recent years an injustice of which the present writer may speak without prejudice, being excepted along with Thornton and Thorold Rogers from Dr. Roscher's unfavourable judgment: one for which no other reasons are assigned than some defects in Mr. Mill's system, on the one hand, which are really attributable to Mr. Mill's predecessors, and the doctrines of a writer,<sup>(5)</sup> on the other hand, who represents no English School, and has no supporter among authors of economic works or professors of political economy in this country. In this single instance Dr. Roscher has deviated from the impartiality which is one of the great merits of his 'History.' Readers interested in the historical study of political economy will find an excellent companion to Dr. Roscher's 'History' in Dr. Karl Knies' highly philosophical treatise, 'Die Politische Oekonomie vom Standpunkte der geschichtlichen Methode.'

#### NOTES:

1. 'O good old man! how well in thee appears

The constant service of the antique world,

When service sweat for duty, not for meed !

Thou art not for the fashion of these times,

When none will sweat hut for promotion.'

As You Like It, act ii., sc. 3.

2. See an Essay by the present writer on the 'Distribution of the Precious Metals in the Sixteenth and Nineteenth Centuries,' reprinted in this volume.

3. Wealth of Nations, book iv. chap. ii.

4. American political economy to this day is theistical, and its principles drawn in great measure from assumptions respecting the method of Divine government.

5. Mr. H. D. Macleod.

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