

*Ubi non est ordo, ibi est confusio.*

Kaspar Klock, 1651.

## **Ordoliberalism as a new synthesis of earlier German economic thought**

Contribution to Oxford Handbook of Ordoliberalism

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## 1. Ordoliberalism: A departure from classical liberalism, conservative traditions and historicism

Ordoliberalism was at the start an intellectual movement, simple in its principles of economic policy, but with a background in different disciplines. There were the 18th century liberal tradition and the modern neoclassical theory. There was the growth of a new methodology, based on the Austrian approach, refined by Max Weber and once more transformed by Walter Eucken himself (Lenel 1990). He had had a philosophical education - the Neokantianism of his father Rudolf Eucken - and an amazing historical erudition. Ordoliberalism arose in a German academic discourse, in which the humanities formed a second grand domain of scientific endeavour, which had claimed, since Dilthey, a standing not inferior to that of the natural sciences. Ordoliberalism was connected to this cultural tradition of the 19th and early 20th century, because the founding fathers, in particular Eucken, Röpke, Rüstow, and also Hayek and Müller-Armack, who represented separate strands of ordoliberalism, discussed their theories and policies with references to this past - glorious around the turn of the century, haunted by doubts and inspired by new ideas in the 1920ies and then perverted by Nazism. Ordoliberalism later had to keep up with the progress in economic theory and the techniques of applied work for economic policy and to argue with other economic schools so that these origins tended to fall into oblivion. Since it is my task to write about the history of ordoliberalism, I shall work my way backwards from the founders to the predecessors. In this perspective, ordoliberalism will appear as the outgrowth of a German tradition, which we can trace back to the time of the Reformation.

That there were different trends within ordoliberalism could be seen from the start. It has often been noted that Hayek pursued principles of competition policy close to those of Eucken around the time of the Second World War and later advocated principles of open markets which would function competitively in the long run even in the absence of monopoly control (Caldwell 2020). If this could be seen as a deviation to the right, Müller-Armack with his social market economy, the catchword that proved more popular, represented a deviation to the left, in which compromises with principles of the welfare state were part of the programme (Schefold 2017, pp. 353-370). Also, Müller-Armack's theory of history was different in that he continued to speak of economic styles, characterized by a specific economic spirit, while Eucken defined economic systems on the basis of economic models, that had, in modern language, microeconomic foundations; he avoided descriptive and collective notions such as "style". These different shades of ordoliberal thought are discussed elsewhere in this book in relation to actual trends and policies, whereas I shall here try to relate them to the traditions of German economic thought. This implies that we must first turn to the founding stone of German ordoliberalism, to Eucken's *Grundlagen* (Eucken 1940). He wished to prove that an economic order, in which people are free to organize production and consumption in an efficient manner, requires a strong state to safeguard the rules of the competitive process

without interfering in it otherwise. It is not obvious to the modern reader that the proof of this necessity required the solution of the so-called “antinomy” of theory and history, therefore the acceptance of a metatheoretical and metahistorical principle, which had never been expressed clearly in the German historical school. The solution of the antinomy allowed to describe the historical choice open to modern man, the choice of the order, in which one wants to live, with centralized or decentralized institutions of allocation, authoritarian or free. Evolution could be influenced, historical choices could be made, development did not simply follow a linear trajectory determined by material conditions. At the same time, there were trends in history that could lead into undesirable outcomes, if they were not avoided from the start, such as interventionism that could lead cumulatively to inefficiency and loss of freedom.

## **2. Ordoliberalism, the public sphere and the social market economy**

The French philosopher Foucault saw the political significance of the new historical departure in the fact that the economy became a legitimizing power for the state. The state was to guarantee the economic order, in particular the functioning of the monetary system and the maintenance of competition. In fulfilment of this task, public law was created according to the requirements of the functioning of the economy. (Foucault 2017, pp. 123-124) An economic rationality was to be defined, which would allow transcending the economic irrationality of capitalism. A good organisation of the monetary system and the capital markets would curb speculation and channel savings into a flow, which would facilitate development, steady and with little turbulence. Workers should be given the opportunity also to produce for themselves in gardens and should not live in the squalor of overgrown cities. Economic power should be curtailed, and the democratic state, able to work in this direction, would gain authority. This side of ordoliberalism was emphasized by Röpke in particular (Schefold 2017, pp. 37-394). The Western success in the economic race against the Soviet challenge confirmed the legitimizing power of the ordoliberal conception. Its origin had been the opposition to the corporatist organization of the fascist and nazist states in Europe, first of all in Italy and Germany. The ordoliberals saw the danger of totalitarianism in all deviations from their basic strategy. Röpke dared to write during the war that the Beveridge Plan contained such dangers and told the British that they should not adopt measures in their fight against Germany and Nazism, which might lead to the emergence of totalitarian structures in their own country. Essentially, all modern alternatives to liberalism consisted in alternative forms of totalitarianism. (Foucault 2017, pp. 160-161)

It had to be proved that the alternatives were bad. It had to be shown that dangerous speculative forces would develop, where the monetary order was being disturbed, in particular by too aggressive monetary stimulation. Similarly, the dangers of imperfect competition had to be demonstrated. The existence of monopolies was not so much due to

increasing returns to scale and production - although the existence of natural monopolies could not be denied - but to concentration, mergers and the build-up of economic power. Social policy was to rest on the use of the principle of insurance rather than on a paternalistic state; bureaucracy was to be avoided and the individual kept responsible. Mere laissez-faire would not be adequate. Röpke would speak of "positive liberalism" after the international Lippmann-conference in Paris of 1938, where the liberals had gathered during the economic and political crisis of the time.

German economists had begun to speak of the legal institutions that helped to control economic development in the 19th century and even earlier; they would speak of an economic constitution in the 20th century, long before ordoliberalism arose. The international dimension of this movement has been addressed by Heath Pearson (1997). The tradition of Roman law mattered. It was focused on private law (individual property, the legal forms of firms, contract law). We may ask with Knut Wolfgang Nörr (1998), when law faculties began to accept that there is also a public economic sphere, regulated by a specific legal framework. Nörr (1994) begins with Adolph Wagner's *Grundlegung der allgemeinen oder theoretischen Volkswirtschaftslehre* of 1876. Wagner there develops his famous thesis of the growth of state activity and extends the role of the state also backward. The economy is, first of all, the economy of a people and thus subject to a legal order. It is not a natural order, but the result of law-giving. Nörr shows that jurists were slow to accept *Volkswirtschaftslehre* as a category of legal thinking, which was, for German economists, the name of their trade. And yet it was a fact that the economy became increasingly organized in the last third of the 19th century, and the rules of organisation formed a legal framework, but jurists would not perceive it as a coherent whole.

Matters changed in the Weimar Republic. Nörr speaks of the first proclamation of the "economization" of the idea of the state as a result of the introduction of the economic councils, instituted by the German revolution. The constitution of the Weimar Republic itself contained principles on which attempts at a democratization of the economy might have been built. The decisive step, however, was taken by Franz Böhm, the leading jurist among the founders of ordoliberalism. He adopted the formula of the economic constitution in order to solidify the political decision for an economy based on the freedom of enterprise and of competition. This was in 1933, and Böhm was immediately criticized by those now in power. Böhm had to withdraw and began to work out the principles of ordoliberalism with Eucken in Freiburg under semi-clandestine conditions. (Nörr 1998, pp. 356-358)

Alfred Müller-Armack saw the origin of the social market economy in another perspective. "The actual domain of thinking on the social market economy was prepared by scientific analyses of the genesis of the modern industrial society since the 16th century. I mean the post-Marxist research into capitalism, which flowered magnificently in the time between 1900 and 1930. It is a remarkable fact that this phase of our discipline

now has almost fallen into oblivion." (Müller-Armack, 1974, p. 246, my transl.). This diagnosis is probably still true. Max Weber's work is seldom recognized as relevant for economics today. Müller-Armack mentions also Eberhard Gothein, Emil Lederer, Franz Oppenheimer, Adolf Löwe (later Adolph Lowe), he discusses Ludwig von Mises and a number of socialists. They attempted to overcome the Marxian notion of a capitalist mode of production. One now spoke of economic systems, economic styles, economic constitutions and the economic order. Werner Sombart and Max Weber had understood the importance of the religious influence on economic forms. Müller-Armack, after a brief temptation to follow the new regime in 1933, had spent most of his time afterwards and during the war to write a book on economic styles: "*Genealogie der Wirtschaftsstile*" (Genealogy of Economic Styles, Müller-Armack 1944[1941]), which traced the changing economic forms from the beginnings down to the 18th century, always laying stress, in the tradition of Max Weber, on the economic spirit, on the forms in which economic phenomena become conscious in different eras, on economic attitudes, expressions of behaviour and on religion. The book and related writings contain quite masterly sketches on the dividing lines that separate different economic traditions in Europe, in particular between West and East. Müller-Armack would extend his concept of the economic style to the social market economy itself, by emphasizing that it represented a compromise between two principles, of efficiency and redistribution, and the democratic consensus would have to define how the compromise was to be struck. This seemed problematic to the ordoliberalists of the Freiburg school, who were looking for principles of lasting validity, but Müller-Armack would pursue his policies in a liberal spirit as the Secretary of State of the Minister of Economics Ludwig Erhard, who is commonly regarded as the true architect of the German economic miracle.

### **3. Eucken's *Grundlagen der Nationalökonomie***

As mentioned, the founding stone of the ordoliberalism of the Freiburg school was the book *Grundlagen der Nationalökonomie* by Walter Eucken (1940). It was an attempt first to order the ideas before an ordering of the state and of the economy could be conceived and undertaken. Roman Köster (2011) has provided us with an account of the manifold rivalling schools in Germany at the time of the Weimar Republic, which were largely silenced thereafter by the Nazi authorities. The main representatives emigrated to the United States, to England, to Turkey, to Switzerland and to other places, where many of them were able to start fruitful new careers (Hagemann and Krohn 1999). Some of those who remained made attempts to develop the discipline of economics in a direction compatible with the ideology of the Nazi state (Janssen 2009).

Eucken developed his conception of ordoliberalism out of his opposition to the lack of principle of these multiple currents and of the historical school. It was a passionate struggle to escape, which was mainly fought on the field of methodology. To use historical

examples corresponded to the fundamental question of the antinomy, and it had the added advantage of avoiding references to the conditions under the dictatorship. The organization of the estate of a monastery in the Middle Ages could stand for a discussion of planning. Eucken was too much historian himself to use history only as pretext; he simultaneously wanted to solve problems of economic history. He was too deeply influenced by Max Weber to project a modern way of thinking on the past, and yet he wanted to show that the theoretical principle of economizing could be applied to virtually all periods not only of European, but of universal history. How to reconcile the modernist reductionism of the postulate of a universal economic rationality with his cultural erudition? Last but not least: He saw intellectual rivals in the process of developing the teaching of the historical school in new directions. There was the towering figure of Werner Sombart who had opened the discourse on economic systems around the turn of the century, there were Heinrich Bechtel and Arthur Spiethoff who developed the concept of economic style, there were Edgar Salin and again Spiethoff, who proposed the opposition between "intuitive" and "rational" theory. These endeavours to understand economic forms seemed attractive as means to synthesize the researches of the historical school, but they were not conducive to the establishment of a firm grounding for liberal principles. Even Müller-Armack would write his main work on what the title says, a genealogy of economic styles, taking up what ethnology had taught about the economic mentality of tribal cultures and describing the change of economic forms in relation to religion from there down to the present. How was such historical relativism to be overcome?

One can observe Eucken's endeavour to free economic theory from historicist elements first in his introduction to his theory of capital, which basically develops Böhm-Bawerk's ideas (Eucken 1934). The introduction is written to separate theory from history. He argues against subjectivism; economic science must find truths, which can gain general recognition. The rationalists formulate hypothetical sentences about the necessary relationships between different conditions. The empiricists, by contrast, seek to represent the fullness of life in its details. They hope to order and classify the phenomena and thus arrive at an intuitive theory, a vision (*Anschauung*). The first possibility to order the phenomena is by defining stages. An empiricist thus formulates "categorical judgements" (Eucken 1934, p. 10) on what there is, but does not get a general rule. The sciences can do it, because they start from repetitive phenomena, but economics is confronted with a changeable history. There are repetitive phenomena in the economy, to be sure, for instance in the satisfaction of needs or in the yearly planning of the allocation of means of production in an agrarian society, but the economic cycle is volatile. Necessary truths are to be found only in the "sphere of the general" (p.19). The conditions to be set as assumptions should not be impossible. The pursuit of self-interest cannot be generally assumed. Instead, Eucken postulates rationality, with reference to Max Weber. The monks in the monastery provide alms for the poor; they can therefore not be called self-interested. But they finance their charity by means of efficient planning for their estate so

that they maximize their revenue. An author of the historical school might have objected that some monastic orders thought that charity should be spontaneous and not calculating. And Eucken did not anticipate that the future would bring economic models that formulate different types of rationality such as satisficing behaviour. His hope is to be realistic by using different assumptions in different combinations, so as to approximate a historical reality. This may not suffice, if new institutions are created, for instance irredeemable paper money (p. 27). Theory should be close to reality; otherwise, the theory is "suspended" (p. 28). The theory is not an immediate representation of reality, however, as the positivists and the young Schumpeter once had thought; it is an abstraction. He gives examples of instrumental uses of theory. The most topical concerns the payment of reparations, and Eucken is, in this book, quite confident that the application will succeed. The example was controversial at the time, and we shall see how it appeared in a different light for Edgar Salin as an adherent of intuitive theory. The modern reader, who is here inclined to read the text as an anticipation of Popper's methodology, misses a reflection on what may confirm, verify or falsify the theory; plausibility seems to be the main criterion. Instead, Eucken discusses the antinomy of theory and history, the former being general, the latter concerned with the individual; in the end, one needs both. Eucken conceded that it is a merit of the historical method to make classifications. However, these are often based on "personifications": "Capitalism ruins handicraft" or "capitalism is creative". If this is only an abbreviation, one cannot object, but one should not stylize capitalism as a consciously acting entity, for then empiricism becomes mysticism (p. 50).

Eucken's subsequent *Grundlagen* (1940) contain a more detailed solution to the critique of the historicist approach. He stresses that the economy always operates in an economic order that has grown, on which people act consciously over time; it does not arise from a unified plan that could be imposed at once. Even structures for planning must develop. Eucken borrows from contemporary historians such as Rostovtzeff, who had been impressed by economic planning in the Soviet Union and now discovered that a considerable amount of planning seems to have been carried out already in Ptolemaic Egypt. Eucken's concern here reflects older debates of the late 19th century, when Rudolf Stammler thought that a change of economic systems could be operated by means of law-giving, while Max Weber emphasized effective behaviour and the institutions actually in existence. What mattered was what people did, not the law - unless people followed it. Eucken adds that even legal frameworks that are actually valid offer chances for the development of diverse orders (p. 66). A generic term such as "capitalism" masks the manifold possibilities for different orders (p. 77).

It is not necessary to repeat here how Eucken arrives at the different types of allocation - centrally planned or competitive, etc. -, how he distinguishes different monetary systems and different forms of competition so that a large set of different combinations can be conceived, which describe alternative economic systems. On the basis of his theoretical

conceptions, he arrives at the historical distinction which would become the basis for the orientation in economic policy that is characteristic for ordoliberalism: "All economic development can express itself in two forms: In the transformation of the concrete economic order and in the transformation of the economic processes, that take place within this order" (p. 212). The order thus appears as a static given, relative to the process. The fundamental policy prescription would follow from here: to influence the economic order, not the process. Nonetheless, politics may operate on the cycle as a process and create opportunities in the upswing or mitigate the crisis. Eucken had the different degrees in view, to which European nations were exposed in the world depression. Röpke had distinguished between primary and secondary depressions in 1932 (Röpke, 1932, p. 90-92), the latter requiring a public investment programme, while the correction of the former, if it occurred in isolation, could be left to market forces. Eucken refrains in the *Grundlagen* from such a systematic. The cycle is influenced by general historical forces. The method of analysis proposed is the traditional one of variation: One envisages a static state and asks how it could be disturbed. It is really the classical concept of equilibrium, which he here uses. Economic power is one of the factors to be considered, besides the power of the state, and cartels are a manifest example. Eucken argues against cartels, while Schmoller had conceded that cartels could have a positive function under certain circumstances, e.g., by stabilizing markets or helping to establish standards for production.

Eucken then asks a fundamental question, which was perhaps not very relevant for ordoliberal policy making, but of fundamental importance for the understanding of Eucken's role in relation to historicism. "What effect has the diversity of man in history on the economy?" (p. 234). He recognizes cultural variety, but postulates one type of economic rationality. He attacks Sombart's distinction between a principle of satisfaction of needs as opposed to a principle of acquisition, which goes back to Aristotle and which Sombart had used to create a difference between pre-capitalist and capitalist formations. Eucken invokes long distance trade and the putting-out system to argue that the principle of acquisition was dominant also in the Middle Ages, but his concrete references are to Bruges and Antwerp around 1500, that is in early modernity, and he refers to centralized allocation by the great kings of antiquity or the Inca in Peru. Does not acquisition serve a need? "Always man wishes to use the money acquired." (p. 238).

Eucken's conception of theory, based on rational behaviour, therefore is essentially neoclassical, but more varied than the neoclassicism of Menger, Jevons and Walras, because additional theoretical tools have been created and new experiences have been made. That there can be different economic systems has become clear with the Soviet Revolution and the creation of the corporatist state by the fascists. Different monetary systems have been tried after the First World War, and the imperfect competition revolution has led to the study of different market forms. Modern model-building provides the theorist with many tools; they reflect an even greater variety of economic practices than we encounter in Eucken. He reckoned also with economic power. Given

this breadth, was anything lost in relation to the preceding teachings of the historical school?

#### 4. Historical School and Methodenstreit

It is customary to distinguish between an older and a younger historical school, the former principally represented by the founders Wilhelm Roscher, Bruno Hildebrand and Karl Knies, the latter by Gustav Schmoller and a fairly large number of similar personalities in German and foreign universities. We here have to begin with what is sometimes called the youngest historical school, the generation to which Sombart, Max Weber and, a little later, Salin and Spiethoff belong. We already have mentioned in passing that Eucken's work can be considered as a reaction to their writings. There was mutual esteem, not only controversy between them. Salin, for instance, wrote a very respectful obituary (Salin 1963[1950]) for Eucken.

Eucken's *Grundlagen* were important for German economics, not only because it provided the founding stone for ordoliberalism, but also because it helped to clarify the relation between theory and history and, in so doing, to get rid of the idea that theory could be a direct reflection of reality. Theory was shown to be a construct, it was possible to construct economic systems that reproduced features of real systems, but also of imaginary ones. Eucken did not yet see the full potential of the latter endeavour. Consider the opposition between the principle of the satisfaction of need and the principle of acquisition. Eucken denied the rationality of the former, but, as an example, we can make a model of a society directed at the satisfaction of need, which would be different from the neoclassical model in that traditionally minded agents would reject possibilities of acquisition, because they had a direct preference for the use of traditional methods of production. The technique used in neoclassical theory is chosen according to the criterion of profit maximization, and this is one of the conditions which allow to prove Pareto optimality, but a different result will be obtained, if techniques are, like consumption goods, chosen according to preferences, not profit maximisation (for instance, if the producer derives utility from using the spade rather than the tractor). History is full of examples of groups of producers who rejected new methods of production, because they felt that a change would upset their traditional modes of life, and even today, the distinction between utility maximizing households and profit maximizing firms is blurred, when stakeholders demand to have a say in the organization of the firm.

Max Weber thought that one of the decisive historical steps enabling the spread of rationality in the emergence of modern capitalism consisted in the separation of the firm and the household. The traditional household was a producing entity, mostly in agriculture, where the entire family, women and children included, would have to help, not only to get the harvest, but also in winter, when the women were spinning and weaving. Is this but a social fact? The denomination of Max Weber as a sociologist masks

his insistence on the *economic* difference between a system in which households and firms are different and one in which they are identical. Workers in a firm are dismissed, if they do not work properly, while children who do not work properly cannot be dismissed, but must be educated. The entrepreneur can extract a surplus in order to make the firm grow. The head of a household must keep the family together. If one takes this just as a sociological consideration, economic effects will be overlooked. Max Weber associated the separation of household and firm (which he located in the late Middle Ages) with a sophisticated theoretical history of the emergence of capitalism, in which both materialist and idealist factors played a role.

If one uses the methods of formulating ideal types and models, following Eucken, and recognises that the models need not all be neoclassical, it becomes possible to reconstruct the visions of the Historical Schools as theories of different economic forms in modern terms. Schumpeter surprised his German colleagues in 1926 with this proposal: to reconcile the historical school and theory by "combining Schmoller and Edgeworth", and he expected that the future would do that automatically (Schumpeter 1954[1926]). We can see what he meant, a hundred years later: A variety of models allows in principle to represent the details of the process of formation of modern capitalism in its different aspects, and institutionalism teaches us to evaluate the progressive or retarding effects of the introduction of institutions on the process of development. We can locate the *Grundlagen* as a key contribution in this evolution of economic thought: Eucken's solution to the "antinomy" consists in this.

We realize that there are thus ways to theorise a complex historical reality and to model the opposition between capitalist and older and more traditional forms of economic life. The example of the sacrifice, for instance, had been discussed before Eucken took it up, and we describe it now more concretely: A Roman merchant, about to sail from Alexandria to Rome with a cargo of Egyptian wheat, sacrifices a ram. Max Weber had interpreted this as the expression of a traditional rationality. Von Mises had objected that the sacrifice represented a rational action in order to secure good weather for the voyage; the merchant only was wrong in the choice of his mean. As we have seen, Eucken adopts the 'Austrian' interpretation proposed by von Mises, and this may give satisfaction to an economist who wants to reassure himself that the theory is, as a language, sufficiently rich to deal with the phenomenon, but if we adopt Weber's sociological mode of expression, we are referred to a religious belief; to know it may be useful for understanding economically relevant attitudes, for instance readiness to work.

The conflict between theory and history that raged in the German speaking area in the late 19th century had culminated in the so-called dispute about methods (*Methodenstreit*), in which Schmoller and Menger opposed different philosophical interpretations of economics and debated them vehemently. Schmoller's preference for inductive methods and his scepticism as to the possibility of using deduction in economics had probably more to do with his personal gifts than with a rigorous methodological

analysis. Whether one likes his writings, in particular his monumental *Grundriß* (Schmoller 1978[1923, 1900]), is a matter of taste. Much material on contemporary institutions is rather technical and dated. In other passages, he unfolds a grand historical vision, for instance in his masterly exposition of how Britain rose from a protectionist island to international economic, political and military supremacy, and turned to free trade. Closer inspection shows that Schmoller did use some theory and borrowed from Menger, when he discussed the satisfaction of needs; there was no outright rejection of theory, it only played a minor role. Another masterly achievement was his discussion of more than a dozen different types of theories of evolution.

Menger had felt the importance of the drive of the historical school - he dedicated his work to its founder, Wilhelm Roscher. His theoretical achievement, as we now know, consisted mainly in a rigorous synthesis of the disparate attempts of the German economists in the early 19th century who tried to develop the Smithian theory by complementing the "objective" labour theory of value by a subjective element, quantifying value in use, indeed, increasingly identifying "value" with value in use. Menger freed these attempts by authors such as Karl Heinrich Rau and Hildebrand from more general interpretations of "value" as a social concept - what is the value of a landscape for a nation? -, so that his synthesis was to some extent reductionist, but it resulted in the neoclassical theory of value with certain specifically "Austrian" traits (Streissler 1997, Priddat 1997, Chipman 2014).

It must have seemed incomprehensible to Menger that Schmoller was not aware of how he was constantly groping towards theoretical notions without making them explicit. Instead of with models, the historical school worked with analogies. Instead of analysing the economic crisis in the year X by comparing the actual course of events with a scheme in which the different forces - we would speak of the economic aggregates - acted on each other, so as to identify the causes of the crises, the historical school would compare the crisis of the year X with other crises in the years Y and Z, and Roscher was capable of comparing one of the 10-year-crises in the middle of the 19th century in Great Britain with credit crises in ancient Rome. But did one not need hidden theoretical concepts in order to establish such analogies? We tend to underestimate implicit economic theorising (Schefold 2018).

Menger surely was right in this, but Schmoller could only shrug his shoulders, for the theory actually exposed by Menger was capable only of narrow applications. So, each was justified in his criticism of the other, and we can here see that Eucken had provided an answer: It is by means of a combinatorial use of different theoretical elements, which must be sufficiently varied so that they include, for instance, not only an analysis of perfect competition, but also of different forms of imperfect competition, that we arrive at a causal understanding of concrete economic developments.

Eucken noted Schmoller's focus on a Darwinian-Spencerian conception of development; Eucken called it social utilitarianism (Eucken 1940, p. 471); he held, with the scepticism of the 20th century, that Schmoller's hope for moral betterment had been ingenuous. He described in *Wissenschaft im Stile Schmollers* (Eucken 1940a), how the 1840s represented a turning point for the German intellectual movements. The grand period of the classical culture and of the romantic currents following it were over, a new generation turned to practical life in high respect for the classical ideals of the poets and philosophers, determined to lead the nation in a wider world towards a future, which would reap the fruits of not only technical, but also moral progress and aesthetic beauty. This optimism was not credible any more for Eucken's generation, and it certainly could not be backed scientifically.

It was characteristic for the historical school to reject "Manchester Liberalism". Schmoller's organ to reach a wider public by means of scientific investigations and debates to influence public policy was the *Verein für Socialpolitik*. One cannot deny that the *Verein* helped to realize social policies that were instrumental in overcoming mounting social conflicts. Of course, there was no systematic ethical foundation of these orientations, and there were lively political debates within the *Verein* and without. Only basic principles were widely shared, such as the belief in a constitutional monarchy and the superior efficiency of a market system, however regulated in detail. It became the historical mission of ordoliberalism to offer a framework to judge such interventions by giving a direction for action in some and to abstain in other cases. Ordoliberalism became influential in the *Verein für Socialpolitik* especially after the refoundation of the society in 1948.

When the optimist beliefs of the younger historical school were shattered, prior to the First World War, by intellectual currents reaching from Nietzscheanism to Marxism, afterwards by the political chaos that ensued, the idea of a value-free social science gained ground that had been propagated by Sombart and Weber. Again, ordoliberalism represented a compromise. The criticism of Manchesterism was shared, broad interventionism was feared, hence the passionate advocacy of a strong constitutional framework and abstention from the interference in the economic process.

Eucken confronted the historical school also on methodological grounds. The gulf between the combinatorial reconstruction of economic systems by using different models for the allocation of goods, the monetary subsystem, the financing of the state etc. and a descriptive recognition of the economy as a whole seems unbridgeable. However, by accepting that there is a multiplicity of economic forms in history, which require description, albeit in analytical terms, Eucken offered a solution to the antinomy of theory and history by providing analytical representations of specific historical constellations. The debate then centred on whether all attempts to understand economic phenomena should presuppose an economic rationality. The historical school took a long time to develop an alternative. As Eucken noted, description resulted in typologies, which could

be useful, but they were one-sided. The stage theories distinguished epochs by stressing single criteria like the extent of the market in Karl Bücher (village, town, nation, world) or means of exchange as in Hildebrand (natural economy, based on barter, monetary economy, credit economy), and we today still argue in terms of stages, when we speak of an age of fossil fuels, which will be followed by one based on nuclear energy or renewables.

Both sides overlooked that such stage theories, if they worked out well, as in Hildebrand, already were situated at a high level of abstraction. The historicists claimed that their stages were realistic. Eucken took them by their word and spoke of "real types", but they were - possibly clumsy - ideal types. An example: Eucken criticized Hildebrand for not realizing that the so-called natural economy of the Middle Ages still used monies, though not issued by one single authority, mixing the use of those monies with the barter of goods. Moreover, Eucken objected that this sequence of stages should not begin in the Middle Ages; a monetary and indeed a credit economy had existed earlier in Rome. But nobody knew this better than Hildebrand himself who had spent a considerable amount of time - unsuccessfully - on the task of properly characterizing the economies of ancient Greece and Rome. It is clear to us that Hildebrand's three "stages" are much more three ideal types in a logical ordering than actual descriptions of what happens in three phases of European development, from the early Middle Ages with indeed much barter, via the rise of the cities with their coinage to the early modern economy with the advent of banking. In the end, the abstract scheme was used to stress basic evolutionary tendencies; no stage was a complete image of a corresponding actual phase of development. There was more invention and abstract theoretical reasoning in the historical school than the main representatives themselves realised. In principle, the matter had been clarified already by Max Weber with his conception of the ideal type, for this could also be based on a counterfactual construction and used to describe what a historical configuration was not. Weber's grasped the political capitalism of antiquity with unfree labour and with the personal relationships between the entrepreneurs and their clients and with organs of the state by stating what it was not: modern competitive capitalism, based on paid labour.

Theorists of the economic styles like Spiethoff used methods of the then young history of art for their descriptions, which, in their beginnings, still centred around the task of explaining the European development from the Middle Ages to the Industrial Revolution, but they soon would begin to extend the horizon and to discuss varieties of capitalism. The example of Müller-Armack's characterization of different economic styles in Western and Eastern Europe has been mentioned; he differentiated between forms of economic behaviour by having recourse to religious differences between the Eastern and the Western Christian church.

Edgar Salin (1967) proposed to characterize such theorizing as "intuitive", as based on "vision" ("*Anschauung*" - a term important in Goethe's work), because it requires a synthesizing understanding of many different aspects of different realities, which are

comprehended as a complex of relationships, visible to a gifted and experienced person, like a style in the visual arts that one must learn to see. The style may be intentional - a conscious creation by a group of artists - as in the case of impressionism, or it develops spontaneously like the abstractions that increasingly were used after naturalism. Much experience is necessary to perceive such transformations, but also creativity, for it requires artful description, if one wants to convey the vision to others, as Jacob Burckhardt did with his book on the Renaissance, which provided a new vision of the period.

Here we again find that Eucken took a mediating position. When he discussed the problem of reparations in his book on capital theory, he treated it as technical. If reparations to be paid by some nation are transferred in gold, the circulation of money is diminished, prices and wage rates fall, exports become more competitive, and gold to pay for the next round can be acquired. Edgar Salin criticized the presentation as merely formal. Were the reparations to be paid by Germany not to be paid in a political context? Which trade union would readily accept the cutting of wages? What were the effects of the feelings of the vanquished? How would National Socialists and Marxists use the imposed payment of reparations for their political purposes? Did one not need a political vision to assess the political feasibility of paying reparations? Eucken in the *Grundlagen* took up such concerns but he refused to accept the formula of the proponents of intuitive theory, according to which rational theory should exist, but should remain subordinate to the intuition, which was wider.

I believe that this refusal can be explained with what had remained of the Neo-Kantianism of Eucken's father Rudolf Eucken. Kant once famously said that every scientific discipline contains as much science as it contains mathematics. He meant by this that, in order to be deductive, the fundamental concepts and the causal relationships of the scientific discourse should be definable prior to concrete experience so that it becomes possible, by varying the conditions, to derive the outcomes of alternative initial constellations. In modern terms: mathematics was given to us prior to physical experience as an *a priori*, hence laws of physics can be formulated hypothetically without reasoning in a circle, and then tested. Economics is not all mathematical and the basic concepts of economic theorizing cannot be defined prior to experience, but it suffices to begin with basic concepts that everybody understands, if one refers to simple daily facts and experiences in order to explain what money, price, profit is. Economics becomes accessible to model building from such elements. This is the domain of rational theorising in the sense of both Eucken and Salin, but what surrounds it? History, perhaps psychology and other disciplines, might Eucken's answer have been, but the youngest historical school sought to internalise the wider discourse within a wider understanding of economics. What to Eucken were collective notions like "capitalism" or its "spirit" or the "styles", hence unscientific terms, were objects of inquiry and means of description for the youngest historical school. To them, the hermeneutical circle was virtuous. A term such as "spirit of capitalism" was used to classify texts, the reading of which then would yield a

deeper meaning of the term. The hermeneutical understanding refers to another conception of science. It had been – too simply – denominated as "inductive" at the time of Schmoller. Eucken would accept induction only as a heuristic principle; he granted no scientific standing to such knowledge. But it takes decades of ascetic work to reach a rich vision of history. Not all ordoliberalism was confined to Eucken's admirably strict, but restrictive methodology - there is no room here to discuss the wider methodologies of Alexander Rüstow (1950) or Röpke (1942).

## 5. Older roots

One can see Eucken's book as a synthesis of the debate between Schmoller and Menger (Broyer, p. 327). The differences in method and in specific areas of economic policy contrast with other fields, in which the views converge. Schmoller's proposals to mitigate unemployment during crises were moderate (Schmoller 1978[1923, 1900], p. 287). He advocated compulsory insurance only in specific cases, like illness, accidents, widows and orphans (Schmoller 1978[1923, 1900], p. 382), based on decentralisation (Schmoller 1978[1923, 1900], pp. 346-7, 376). Measures to support the poor exist in all "civilised states", but the insurance system should be so organised that poor support by the state should become redundant (Schmoller 1978[1923, 1900], p. 335). Where insurance failed, poor support should be organised at the level of the communes; this was also Röpke's concern. Schmoller saw the unfettered liberalism of the past, the "unconstrained drive to acquisition", as the "satire of all moral" (Schmoller 1978[1923, 1900], p. 58). To control it, he had recourse to inherited morals, to ethical and religious tradition, the principles of which were to be developed with the legal institutions. Eucken also saw that the actual and the legal order could differ, but needed to be brought together. Given the similarity of the diagnoses of both economists, the therapies could – but would not always – result in analogous reform proposals.

The peculiarity of German liberalism has often been illustrated with the critical reception of Smithian liberalism in the dispute about the "Adam-Smith problem" concerning the interpretation of the contrast between the *Theory of Moral Sentiments* and *The Wealth of Nations*. The reception also led to the struggle to transform Smithian "value in use" into the subjectivist concept of value in the works of Rau, Hildebrand and others up to Gossen and Menger, and to the abandoned attempts to formulate theories of social value (Priddat 1997 - see above). The followers of Smith complained about his treatment of labour as productive only if it resulted in the production of commodities. German Smithians like Heinrich Friedrich von Storch (1997[1815]) regarded it as essential that work in education, academia and culture should also be recognised as productive. But the real difference - at least in relation to the origins of ordoliberalism - concerned the role of the state. Should it not be more active than Smith allowed, particularly in education?

Friedrich List demanded that the state should finance universities and technical schools to raise the "productive forces" (List 1909[1885,1841]).

However, the fundamental conception of ordoliberalism is not to encourage more state activity in specific areas such as the educational system but to shape the economic order, and I am not aware that the German Smithians were forerunners of ordoliberalism insofar. This could rather be said of their forerunners, the cameralists (Reinert 2019). There was probably not much direct influence of the cameralists on German ordoliberalism. An indirect influence via transmitted modes of thinking cannot easily be proved, so we must be content with stating the analogies. As Tribe (1995, p. 10) describes cameralism:

"Cameralism is principally concerned with the administration of a state; Oeconomie relates this activity of administration materially to the objective of happiness; and Polizei concerns itself with the general condition of order prevailing in the state. This neat separation is however only effective on the basis of modern conceptions of economy and policy, conceptions not yet current in the eighteenth century. Since, roughly speaking, the end of that century, concepts such as wealth, liberty, need, and happiness (that is, satisfaction) have become linked in a chain of meaning which is founded upon the economy as constitutive moment."

Hagen Krauth (1984) sees cameralism as the period, in which the semantics of modern economics originated, out of the need to administrate the territorial state and its finances. Categories were needed to distinguish different kinds of taxable income; first attempts were made to assess the incidence of taxes and it was understood that sage spending and parsimony were to the advantage of the ruler and his people in the long run. Late cameralists such as Justi (Schefold 2016, pp. 238-247) proposed to improve infrastructure and public education, technical education in particular, earlier cameralists had begun to focus on the monetary institutions (banking, bills of exchange, interest rates) and on competition. Their criticism of "monopolies" was in the main a criticism of bad government, for "monopolies" arose, if the prince conceded privileges.

Later writers such as Schumpeter doubted the systematic character of the cameralist endeavour, and surely many arguments remained muddled, especially in the early phase and with regard to usury, but the ambition to create a systematic order certainly was there. Since a coherent economic theory in the sense of the later classical or neoclassical authors did not yet exist, it had to be based on the one hand on the traditional notion of the economy as a household, on the other on the material description of production. As an example, I refer to Kaspar Klock's work *De aerario* of 1651, written during the troubles of the Thirty Years' War (Klock 2009[1651]). Klock describes the economy starting with agriculture, he goes on to mining, from there to money (for money is made of the precious metals), to handicraft and so on, up to the state, finance and taxation. Material production

therefore is the bond that allows to see the economic process as a whole, and different economic orderings of it come into view, because he describes foreign countries on all the known continents with their specific endowments (people, natural resources), specialisations in production and their financial systems. He would compare European and Oriental empires, such as the Ottoman empire, where slavery played an important role, or China, the country, which was the most "political", because the main revenues flew towards the emperor, who had to spend them again in order to keep the circular flow in motion; in so doing, he could influence the allocation, as Eucken would have put it. So, a deep affinity between the thought of a major early cameralist and ordoliberalism cannot be denied.

This is not the end of the story. Germany suffered terribly in the 17th century, hence Klock's insistence on a good ordering of the state. The 16th century, though not entirely peaceful, was a happier and economically prosperous phase. The economic expansion, pushed by the trading companies such as that of the Fugger, the worldly creations of the Renaissance and the spiritual challenge of the Reformation gave rise to economic debates, in which propositions were at stake that would come up again in ordoliberalism (Schefold 2016, pp. 103-127). The most striking example concerns competition. Towns and guilds felt that the trading companies were powerful monopolies and the *Reichstag* (the parliament of the empire) should take action against them. Conrad Peutinger, the secretary of state of the city of Augsburg, argued that, on the contrary, the guilds were inhibiting competition by restricting the number of journeymen and by manipulating prices. The trading companies could not monopolise trade and the mines, even if they wanted to - he had a kind of Hayekian idea of competition in view, in which new rivals would appear to challenge old power positions. Emperor Charles V made moves to liberalise markets and restrict the power of guilds, but the old order prevailed, and so it came to pass that both Eucken and Schmoller would look back at the cameralist period as an era of excessive regulation, without recognising the affinities, while a ray of liberalism had in fact lit up even earlier at the time of the Reformation.

## 6. Conclusion

As a rule, the historian of economic thought discovers more continuities than see the contemporaries, who welcome or reject a new intellectual movement such as ordoliberalism as revolutionary. Eucken's idea of resolving the antinomy of theory and history by combining different models and ideal types to describe different economic orders had precedents especially in Schumpeter and Max Weber. Müller-Armack's identification of the social market economy with an economic style rested on the post-Marxian researches on different form of capitalism and on the sociology of religion; it was related to the foundation of intuitive (visual) theorising in the generation of Salin and Spiethoff, of which Eucken was critical. The concept of an economic order can be traced

back quite far in the cameralist tradition. Röpke's positive liberalism had antecedents in the German reception of Adam Smith, when it was felt that the state should be active in education and the development of productive forces. Different conceptions of competition (Hayekian or more regulated) have been controversial in Germany from early modernity onwards. Nonetheless, the synthesis brought about by the founders of ordoliberalism was unique and has continued to inspire successive generations, because it challenges to choose the liberal order.

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