Contextual Economics and Its Beginnings

The Ideas of Gustav Schmoller and His Institutional Approach of Historico-Ethical Political Economy

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"[The economic organization is] a phase of the modern cultural situation; and its survival and the direction of its further growth are therefore conditioned by the exigencies of the modern cultural situation. What this modern cultural situation is and what are the forces, essentially psychological, which shape the further growth of the situation, no one is better fitted to discuss than Professor Schmoller."

— Thorstein Veblen

"[Schmoller] was oppressed by the mystery of the creative human spirit that moved behind the interlacing tangle of economic and social changes. Frequently at meetings of his seminar, after he had made one of his exciting suggestive commentaries on some student's paper, he would end, with an interweaving motion of his hands, by saying: 'Aber, meine Herren, es ist alles so unendlich compliziert.'"

— Edwin Francis Gay

"Schmollers Persönlichkeit ist nicht immer richtig verstanden worden. In erster Linie war nämlich aufs Deutlichste erkennbar die unerhörte Geschäftsgewandtheit, die ihm innewohnte […]. Aber er war es nicht allein, […] denn ihn trieb vor allem sein historischer Sinn und sein menschenfreundliches Herz."

— Georg Friedrich Knapp

"Schmoller genießt heute eine merkwürdige Aktualität. Er lebt fort als Prototyp einer Richtung, die nicht scharf genug verurteilt werden kann. Anders als Klopstock in dem berühmten Lessing'schen Epigramm wird er nicht gelobt, vielmehr getadelt, aber ebenso wenig gelesen."

— Erwin von Beckerath

"Ich selbst vermag kaum mehr als einige Seiten der Schmoller'schen Bücher in einem Zuge zu lesen. Dann wirken die aus der Lektüre fließenden Anregungen so stark in mir, daß ich das Buch zuklappen und diese Eindrücke erst verarbeiten muss, ehe ich weiterlesen kann. Ich glaube, daß solche Bücher das Beste und Höchste leisten, was man von einem Buche verlangen kann."

— Heinrich Herkner

“Mein Glaube geht, wie schon öfter erwähnt, dahin, das Ziel der Geschichte sei, eine sukcessiv steigende Zahl von Menschen zu den höhern Gütern der Kultur heranzurufen, das Niveau, auf dem die untersten elendesten Mitglieder der Gesellschaft verharren müssen, sukcessiv zu erhöhen. Dieses Ziel erreicht die Gesellschaft nicht auf einfachem Wege.”

— Gustav Schmoller

Contents

List of Underlying Publications VI

List of Abbreviations VII

Acknowledgement VIII

1 Introduction 1

1.1 Gustav Schmoller and the Problems of Today 3.0 4

1.2 The Schmollerian Approach of Contextual Economics 7

1.2.1 Contextualizing Political Economy 9

1.2.2 Contextualizing the Human Mind 12

1.2.3 Studying the Economy in Context: Institutions Matter! 14

1.3 Why History of Economic Thought? 18

1.3.1 History of Political Economy and Contextual Economics: Better Together 19

1.3.2 On the Implementation of the History of Economic Thought in this Thesis 22

1.4 Structure of the Thesis and Personal Effort of the Author 25

2 Gustav Schmoller – A Socialist of the Chair 32

2.1 The German *Sonderweg* 33

2.2 The Headmaster of the Younger Historical School 35

2.3 A Preliminary Answer to the Labor Question 38

2.4 The *Verein* Makes the Case for Social Policy 41

2.5 The Ethical Integration of the Worker 45

2.6 A Disputatious Advocate of the Working Class 49

3 The Institutional Context of Entrepreneurship 51

3.1 The Agenda of Entrepreneurship in Schmoller's Work 54

3.2 The Nature of the Enterprise as a Social Organization and Irenic Institution 60

3.2.1 The Macroscopic Dimension 63

3.2.2 The Microscopic Dimension 64

3.2.3 The Metascopic Dimension 66

3.3 The Nature of the Entrepreneur 68

3.3.1 The Classic Doer (External) 69

3.3.2 The Creative Organizer (Internal) 71

3.3.3 The Leading Figure (Psychological-Ethical) 72

3.4 The Beginnings of Entrepreneurship Research – Contextual by Nature 73

4 A Precursor to Ordoliberalism and the Idea of a Social Market Economy 77
4.1 The Beginnings of Contextual Economics 79
4.2 Bridging the Essence of Ordoliberalism and the Schmoller Program 83
4.2.1 The Contextual Approach to Political Economy 84
4.2.2 The Need for Institutional Framing of the Economic Order 86
4.2.3 The Indispensability of a Strong and Assertive State 88
4.2.4 The Cultural Ideal of a Humane Liberalism 91
4.2.5 The Importance of Social Policy 93
4.2.6 The Consideration of Value Judgments 95
4.3 "Social Irenicism" and the Idea of an Ethical Market Economy 98
4.3.1 Reconciling Economic Efficiency and Social Interests 99
4.3.2 A Social Idea to Unite Different Worldviews 101
4.4 Reflecting on the Past to Prepare for the Future 106

5 Bringing Schmoller to America 110
5.1 First Inquiries from Chicago 110
5.2 Edmund James and Leo S. Rowe Publish the "The Idea of Justice" 113
5.3 William J. Ashley and the (Failed) Attempt for Further Schmoller Translations 115
5.4 Reasons for Schmoller's Ephemeral Appearance in the English-Speaking Literature 118

6 Contextual Liberalism 122
6.1 The Philosophical Foundations of Ordoliberalism: A Liberalism without Liberal Roots? 123
6.1.1 A Reverse Perspective on Liberalism: Order First, Followed by Individual Freedom 124
6.1.2 Liberalism as a Cultural Ideal 126
6.2 The Fight for Freedom in Response to the Tyranny of the Nazi Dictatorship 128
6.3 Ordoliberalism as Contextual Liberalism 132
6.3.1 The Historical Foundations of Ordoliberalism's Contextual Approach 132
6.3.2 Contextual Liberalism and Constitutional Political Economy 136
6.4 Merging two "Thinking-in-Orders" Traditions: Both Better Together 139

References 142

List of Underlying Publications

Chapter 2:

Goldschmidt, Nils and Matthias Störring. 2019. "Gustav Schmoller – A Socialist of the Chair." In: *The Palgrave International Handbook of Workers' Participation at Plant Level*, edited by Stefan Berger, Ludger Pries, and Manfred Wannöffel, 91–111. New York: Palgrave Macmillan.

Chapter 3:

Störring, Matthias. 2023 [forthcoming]. "Gustav Schmoller and the Institutional Context of Entrepreneurship." *History of Political Economy*, to be published in Vol. 55(2).*

Chapter 4:

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Chapter 5:

McAdam, Mark and Matthias Störring. 2016. "Bringing Schmoller to America: Notes on the Translation of 'The Idea of Justice in Political Economy'." *Schmollers Jahrbuch – Journal of Contextual Economics* 136(4): 361–376.**

Chapter 6:

Fritz, Roland, Nils Goldschmidt, and Matthias Störring. 2021. "Contextual Liberalism: The Ordoliberal Approach to Private Vices and Public Benefits." Special Issue*, Public Choice*, Open Access: https://doi.org/10.1007/s11127-021-00879-w.***

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List of Abbreviations

AAPSS	American Academy of Political and Social Science
AEA	American Economic Association
CPE	Constitutional Political Economy
GStA PK	Geheimes Staatsarchiv Preußischer Kulturbesitz
VfS	Verein für Socialpolitik

Acknowledgement

For all of my career in academia, or at the very latest since I began to conceive of this thesis, I have been an advocate of the allegory of *The Dwarfs Standing on the Shoulders of Giants.* As a metaphor for conducting science, I find it equally helpful when in need of motivation, orientation, or realistic self-assessment. The very idea of studying the ideas and theories of the great thinkers of our own times and those past, of further developing their ideas, applying them to new contexts and drawing my own conclusions from them, was and is an enormous incentive for me; it is probably the reason why my academic passion is devoted to the history of economic thought. For me, however, the allegory does not merely describe the typical perspective of a historian of science, deliberately engaging with the specific viewpoint of a certain authority in their own discipline, but rather the work of every researcher – no matter what discipline. After all, it would be verging on the absurd to try to understand, let alone actually participate in, modern academia in a state of detachment from the findings of earlier generations. For my part, as an economist, I invariably find guidance in the words of the giants of our field when attempting to navigate the tangled wilds of scientific theory and the complex reality it attempts to describe. In the end, the allegory – the origin of which is often erroneously attributed to Sir Isaac Newton – is an excellent way of looking at one's own, by comparison doubtless dwarfish, contribution to scientific progress with the proper humility.[****] This is not meant, of course, to argue the case for exaggerated understatement. For Newton, too, whom the majority of people today would probably consider one of the most pre-eminent scientists of all time, was firmly of the opinion: "If I have seen further [than others,] it is by standing on the shoulders of Giants" (Newton 1675).

As much as I like this aphorism, especially with regard to my research into the history of economic thought, it leaves out one important fact: For a single dwarf, the shoulders of giants are not only an extremely lonely spot to spend any amount of time, but impossible to climb up to in the first place. With this in mind, I would like to thank the many "fellow dwarfs" – by which I of course mean no offence! – who have enabled, accompanied, and furthered my academic career so far, and who have also played a significant role in the completion of this thesis. First and foremost, I would like to mention my supervisor Nils Goldschmidt, without

[****] The extent to which I seem to have succumbed to the fundamental argument of this allegory – I hope I may be allowed this much self-irony at this point – is probably most clearly revealed in the fact that I cannot avoid arguing with references and footnotes even in my personal acknowledgements. QED: for the history of the allegory *On the Shoulders of Giants*, see Merton (1965/2001).

whose formative confidence in me as a research assistant at the Chair of *Contextual Economics and Economic Education* at the *University of Siegen* my path into academia would probably have remained closed. I thank him for his continued support by means of both advice and action in academic and professional issues, for always being open to the lesser and greater concerns of his doctoral students, for his wide-ranging support, and finally for his demanding standards in research, teaching, and academic (self-)administration. It was also Nils who – probably not without a healthy measure of self-interest – introduced me to Gustav Schmoller, the very giant on whose shoulders I have primarily resided for research purposes in recent years. For this, I would like to express my special thanks to him. Besides, as Adam Smith has put it so persuasively for us economists: "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect…"

There is no question that it was entirely, and from the very beginning, in my own interest to ask Michael Hüther to be the second assessor for my dissertation. I am thus all the happier that he has agreed to do so. His various publications on aspects of the Social Market Economy and on the neglected relationship between history and economics have confirmed my conviction of the necessity of a contextual economics. In particular by reference to Hüther (1992), in the introduction to my dissertation, did it once again become clear to me how I would like (my) research into the history of economic thought to be understood. Considering that the introduction is the last part of a thesis to be written, you might be thinking: and about time too! It may be due to the influence that (the Siegen School of) *Ordnungsökonomik* has had on me, but I think one would be surprised at how many cumulative dissertations only alight upon their definitive profile thanks to the orderly framework of their introduction.

In addition to these influences and Nils' direct supervision, I benefited immensely from the structures he created around the chair in Siegen (and far beyond), which allowed me to undertake my doctorate in an environment that was both stimulating and collegial. My thanks go first to Julian Dörr and Yvette Keipke, who, as my first colleagues at the *Zentrum für ökonomische Bildung in Siegen*, took me in and made my comparatively late entry into everyday working life at university as easy as conceivably possible. In the early days, I also benefited in particular from our internal research colloquia, which were initially organized, and above all moderated, by Alexander Lenger. From his detailed feedback on my and other presentations, I was able to gain many helpful insights. Of course, I would not like to neglect this opportunity to thank the entire chair team, changed as it has over the years, for their immense cooperation and support of various kinds.

However, I would like to highlight two people from this growing circle, which is already too large to be listed in full here: Roland Fritz and Mark McAdam. On the one hand, I have an association with both esteemed colleagues via the thematic proximity of our research interests, which in both cases has culminated in a joint publication, each of which is also part of my dissertation. On the other hand, Mark and Roland are, or have been, my two most enduring companions, with whom I have had the great good fortune to be able to experience the joys and sorrows of the doctoral process together. The shared experiences (be it in countless lunch breaks or at conferences at home and abroad), the academic back-and-forth, and the friendly conversations with them were a great benefit for my thesis, for my work in Siegen, and for me personally. (Not to mention their endless assistance with my attempts to express myself adequately in their respective mother tongues.) Especially without Mark's help, the articles in my dissertation would undoubtedly be far less readable.

Of the many contacts (many through Nils) who made a positive contribution to my doctoral project beyond the microcosm of Siegen, I would like to mention Stefan Kolev in particular. Through his critical but constructive review of the key texts of my dissertation, they have most assuredly gained in quality. I am grateful more generally for Stefan's active and, for young academics, unfailingly helpful engagement in the field of the history of economic thought, from which I have frequently benefited.

Apart from the people in my direct academic environment, I would also like to thank some important people from my personal life. First and foremost, to my parents Gisela and Michael Störring, who have, for as long as I can remember, given me every opportunity to develop and have always, depending on the circumstances, either backed me up or – if it was too late for that – helped me back up. If I have been lucky enough to enjoy a successful path through life, it is only because I have been certain of their unconditional support.

I must, conversely, preface with an apology my thanks to my dear friend Matthias Köhler. In no one's presence – and that expressly includes the Siegen student body – have I begun more spontaneous monologues with the words "Well, Schmoller says..." over the course of the last few years than in his. I greatly appreciate the fact that he has not once objected to this; on the contrary, this frequent occurrence has been the prompt for many stimulating conversations on our numerous road trips, hiking tours, and moments spent together. His interest in, and his comments on, my research have shown me valuable perspectives outside the "economic bubble."

Of incalculable value, and therefore unfortunately not well-suited to being put into a handful of words within the limits of this acknowledgement, is the multifaceted support of my dear Laura. Her tireless adherence to structured daily and weekly routines has saved me time and time again from becoming permanently marooned, a hermit on the backs of various giants. In addition to the balance she maintains in the different spheres of my and our life, I am grateful also for her patient understanding of the adversities of the doctoral process – especially its effects on one's private life – and for the uplifting motivation I draw from her constant encouragement and, not least, from her own successes, academic and otherwise.

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1 Introduction

We live in a time when many things that were long considered self-evident are under threat. Whether it is the global financial crisis of 2007–2009, the European refugee crisis, Trumpism in the USA, the ever less subtle conflicts (trade or otherwise) with an emerging China, Brexit, the Covid-19 pandemic, the Russo-Ukrainian War, or the climate crisis that is forcing its way into the public consciousness with increasing urgency – the world, especially the Western world, has been in an ongoing crisis mode for fifteen years now. Tipping points seem omnipresent in social, political, economic, and ecological systems, and are threatening the very foundations of prosperity and social progress (Goldschmidt and Wolf 2021). Science and politics are under pressure from the public to find solutions to complex societal problems. In view of existing conflicts of interest, dynamic interdependencies, trade-offs, and genuine material constraints, this is a formidable challenge.

Economics is often ascribed a key function within this sociopolitical field of tension. However, since – at the very latest – the largely unforeseen financial and economic crisis of 2007–2009, the supposed "queen of the social sciences" has been struggling to deal with a loss of confidence on the part of the public – and with itself (e.g., Horn 2008, Krugman 2009; Schmidt and Moore 2009; Fischermann and Pinzler 2012; Hüther 2014; Plickert 2016; Horn 2021). Criticism centers, on the one hand, on the orthodoxy of the internationally dominant mainstream economics, which has committed itself to an "intellectual monoculture" of the neoclassical paradigm in research and teaching (Pausch 2016; Beckenbach 2019). On the other hand – albeit accompanying the former aspect – critics bemoan the methodological restriction in the focus of modern economics, which has largely retreated into an abstract theoretical world of formal mathematical and econometric approaches to both research and explication (Weintraub 2002a; Blaug 2003; Hodgson 2013).[1]

[1] Criticism of the status quo in economics has been raised by prominent voices: In the aftermath of the financial crises, Paul Krugman (2009) commented in *The New York Times*: "As I see it, the economics profession went astray because economists, as a group, mistook beauty, clad in impressive-looking mathematics, for truth." He considers the desire for an all-encompassing, intellectually elegant approach to be "the central cause of the profession's failure" (ibid.). Dani Rodrik is ploughing the same furrow when he writes: "[T]oo many economists fall in love with the math and forget its instrumental nature. Excessive formalisation – math for its own sake – is rampant in the discipline" (Rodrik 2015, 35). Similarly, Thomas Piketty believes that economists "are all too often preoccupied with petty mathematical problems of interest only to themselves. This obsession with mathematics is an easy way of acquiring the appearance of scientificity without having to answer the far more complex questions posed by the world we live in" (2014, 32).

The critique is not new. Rather, it is the latest chapter in a long developmental path in the history of economic thought – and its counter-movements – moving towards a scientific orientation of the discipline, which Goldschmidt et al. (2016) define as *isolating economics*. In other words: a theoretical approach which is predominantly concerned with the general processes operating *within* the economic system, largely separated from time, space, and its interrelations with other spheres of social life. This development is an integral part of the triumphant progress which gave birth to today's mainstream economics, leading from classical political economy, via neoclassical economics and Samuelson's neoclassical synthesis, to the current state of the art. While it is beyond doubt that isolating economics has brought about considerable scientific progress, it has advanced ultimately through an ever-greater outsourcing of the contextual issues into the neighboring disciplines like anthropology, history, law, political science, psychology, and most of all sociology.

There is nothing wrong, per se, with a concentration and deeper specialization of the discipline (Kolev et. al 2019, 648). However, it becomes problematic when the theoretical isolation of the object of interest – i.e., the economy and specific economic phenomena – obscures the view of the whole. In this way, economics runs the risk of losing its connection to reality (Mäki 2011). And indeed: this tendency can be observed in large parts of economic thought since the second half of the twentieth century. A tendency that seems all the more detrimental because the isolation of the object itself has been accompanied by an isolation of the discipline. In this context, Hans Albert spoke very tellingly of the "model Platonism" of a supposedly autonomous economics, which attempts "in a very strange way to combine sociological problems with relatively sociology-free solutions. It appears to be immune to the intrusion of sociological and social-psychological knowledge" (Albert 1998, 109).[2]

Against the backdrop of the new fragility of our time, the consequences of this development are now becoming clear: in view of the major crises of the last fifteen years, an economics of this kind has alarmingly little to say. This is, fundamentally, unsurprising: far-reaching shifts in the intertwined order of economy, politics, society, and ecology cannot be adequately analyzed – let alone explained or even predicted – by the instruments of an isolating economics that are based primarily on (partial) equilibrium modelling and *ceteris paribus* assumptions. Unlike earlier phases of economic disturbance that have occurred since the emergence of the relatively stable postwar order, this new fragility is characterized, both in its causes and in its effects, by a much higher level of interconnectedness between factors

[2] All quotations from German sources are translated by the author of this thesis.

that are economic, political, social, ecological, or even cultural and ideological (Kolev 2019, 646). Through digital networking and social media, these factors also possess an unprecedented reach and dynamism, in the confusion of which long-established left-right schemata no longer offer orientation. Even with regard to issues which are genuinely the purview of economics – such as the intellectual struggle for theoretical primacy during the Eurozone crisis – it has quickly become clear that, despite all economic expertise, a sense of history and politics is also required (Brunnermeier et al. 2016).

In view of the complexity of societal imbalances, this means that (economic) policy-makers must refocus on the pragmatic insight that often the best they can do is to muddle through without definitive answers (Colander 2003; Colander and Freedman 2019). For economic science, however, this state of affairs necessitates a (self-)critical examination of the relationship between the isolating and contextual economics that it practices. In contrast to isolating approaches, *contextual economics* is mostly concerned with the processes occurring at the interfaces between the economy and other societal orders. According to Goodwin (2010), the starting premise for contextual economics is that

> an economic system is embedded within a social context that includes ethics, norms and human motivations, and the culture that expresses them. It also includes politics – that is, the deployment of economic and other kinds of power – as well as institutions, and history. Equally important is the recognition that an economic system is embedded within a physical context that includes the built environment, as well as the natural world from which all the materials we use ultimately derive. The health of any economic system is absolutely dependent on the health of these embracing contexts. (Goodwin 2010, 21)

Based on this definition, I agree with Goodwin (2010), Goldschmidt et al. (2016), Kolev et al. (2019) and other – usually heterodox – authors that the current changes in economic and societal reality require a readjustment towards contextual approaches if economics is not to lose its relevance to reality.[3]

The thesis at hand aims to enhance the existing understanding of (1) contextual economics, (2) its position and particular path of development in the history of economic thought, and (3) its advantages and necessity in times of transformation and institutional change. I am explicitly not interested in a fruitless either/or debate about the superiority of one approach over the other, but in a productive balance between isolating and contextual approaches in

[3] Other works that argue for a stronger consideration of context in different areas of economic research are (without claiming to be exhaustive): Hodgson (2001) in terms of the historical context in economics; Altmann (2011) and Becker (2020) in terms of development economics; Baker and Welter (2020) and Wadhwani et al. (2020) in terms of entrepreneurship research.

economics. To this end, my thesis provides an alternative perspective on both (a) economics and its role as a social science, and (b) the economy in its complex entirety – that is, the economic order *and* the other societal orders (and each of their interdependent sub-orders), both intertwined and conceptually integrated.

1.1 Gustav Schmoller and the Problems of Today 3.0

The thesis focuses on the work and influence of Gustav Schmoller (1838–1917). Schmoller's research program, which is probably most accurately described as *historico-ethical political economy* (Nau 2000), can in many respects be understood as the prototype of an explicitly contextual approach. It marks the starting point of socio-economic research in the German-speaking world (McAdam et al. 2018) and, despite the sometimes-scathing criticism it has been subjected to, from the 1930s until today, is a valuable resource for understanding the interplay between people, culture, economy, state, and society – if one understands it for what, from today's perspective, I believe it is: the beginnings of contextual economics.

By interpreting Schmoller's approach in this thesis as one of contextual economics, many points of criticism directed against his wide-ranging oeuvre can be resolved, or at least put into perspective. For example, in the case of the notorious *methodological dispute* between him and Carl Menger, which was ultimately about the "scope of economic science" (Shionoya 1989, 61). The difference in their methods ultimately reflected the different scope of the topics.[4] With a view to the present day, Schmoller's teachings thus reveal a new, truly illuminating topicality. To name just a few examples:

- Economic activities do not just mean the trade of goods and the flow of capital, but invariably the interplay between economic, political, social, and ecological systems – whether this is as part of the global economy or within the family.
- A market economy operates based on prerequisites such as the ethical integrity and cohesion of society, which it cannot itself guarantee.
- Economic development can only be fostered if the economy is viewed in its historical and cultural context.
- Trade conflicts can ultimately only be understood if globalization and the world economy are regarded as part of a political system.

[4] In this light, there are certainly good reasons to re-evaluate the outcome of the methodological dispute and to consider Schmoller the winner in retrospect; see e.g., Hutchison (1994, 279); Richter (1996, 587).

- Societal challenges such as the social question or climate change can only be overcome if economic and social policy are considered together.
- Policy-making and political reform are only viable if they are linked to people's economic understanding and everyday actions, taking into account their values, norms, and moral sentiments.

Factors such as trust, responsibility, family, life satisfaction, and justice play almost no role in modern economics. In Schmoller's contextual economics, and especially in human reality, they do. The financial crisis of 2007–2009, for example, as well as the current discourse on climate change, reveal social tensions that result from the lack of consideration of these very factors.

The thesis contributes to reconstructing Schmoller's economic doctrine both (I) historically and (II) rationally, i.e., from the perspective of a modern contextual economics. In doing so, I aim for a better understanding and an accurate characterization of Schmoller's ideas and their impact in the history of economic thought (I). This is necessary since – despite an initial reassessment of Schmoller's research program in the late 1980s and 1990s, followed by a ostensible "Schmoller Renaissance" (Peukert 2001a) – there are still widespread misunderstandings that dominate Schmoller's reputation in economics and stand in the way of an adequate assessment of his work.[5] Equally, I show that relevant questions and answers can be derived from an appropriately oriented reinterpretation of Schmoller's research program, which reveal new relevance as part of the current discourse (II). In this context, the thesis is intended not only to revive and reinterpret – in the context of similar questions – earlier theories, which in my opinion have been, with misplaced haste, relegated to the "lumber room" of the history of ideas,[6] but above all to usefully expand the discourses conducted in science, politics, and society to include these questions. For example, with regard to the fields of economic and business ethics, organizational theory and industrial relations, institutional economics and economics of order [*Ordnungsökonomik*], development economics and socio-economic transformation studies – both in theory and in practice.

[5] Among the pioneers of this modern Schmoller research are Jürgen G. Backhaus, Reginald Hansen, Birger P. Priddat, and Betram Schefold. Internationally, Nicholas W. Balabkins and Yuichi Shionoya in particular have rendered outstanding services to a scientific re-evaluation of the Schmoller program.

[6] In his well-known book *The History of Economic Analysis* (1954), Joseph A. Schumpeter compares the history of ideas to a "lumber room" that is worth visiting, "provided we do not stay there too long" (Schumpeter 1954, 4).

In addition, starting points will be established so as to bring about a convergence in the approaches of contextual economics, as it began with Schmoller, and the isolating economics of modern mainstream – approaches which today are predominantly practiced separately from each other. The ideas of the early ordoliberals can be identified as a possible link here; as such, I will re-examine the influence Schmoller's work exerted upon them. A discussion of Schmoller's research program is also particularly suitable for the chosen focus of the thesis, in that it can be seen as an early prime example of the interdisciplinarity and diversity of methods in academic thinking that is so often called for today.

The discussion of the "Schmoller program", of its methods, perspectives, and insights against the backdrop of a changing present is, however, not new. Joseph A. Schumpeter already managed it with his essay *Gustav v. Schmoller and the Problems of Today* (1926).[7] Almost 70 years later, Jürgen G. Backhaus continued with Schumpeter's intentions and published, under the same title, an edited volume (1993) and a two-part special issue (1993/94) in the *History of Economic Ideas* with the collaboration of numerous authors.[8] And today, another thirty years later, an examination of Schmoller's work is again worthwhile. For one thing, it is inherent in economics as a social science that the discourse on the relationship between people, culture, economy, state, and society is never exhausted. Max Weber spoke in this regard of the "eternal youthfulness" of the discipline, which is to say that there can be no conclusive answers to social problems (Weber 1904, 79–80).[9] "Changing theories" in the social sciences, as addressed by Schmoller in his rectoral speech in Berlin in 1897, are thus not merely the consequence of scientific progress in the sense of a constant perfection of the theoretical canon, but also a reaction to changing historical contexts, which make it necessary to continually adapt theories to new circumstances (Häuser 1989, 46). Conversely, it is precisely this contextual perspective that marks the starting point and true core of Schmoller's approach to political economy, which gives its

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7 Unfortunately, this essay by Schumpeter, whose goal was to enshrine Schmoller alongside Alfred Marshall as the father of modern economic science, received little international attention. Only since 2018 has an English translation of the text been available; see Schumpeter (1926/2018) translated by McAdam, Kolev, and Dekker.

8 Taking into account duplications, the two publications comprise twenty-one articles by twenty-two authors on the complex of topics "Gustav Schmoller and the Problems of Today." As early as in 1989, a similar edited collection was published as part of the conference "Gustav Schmoller Today – The Fate of His Teachings in the Progress of Economic and Social Sciences and the State of the Problems of Today"; see Bock et al. (1989).

9 Weber's work can also be interpreted as contextual economics in the sense described above. As such, it represents a continuation of the "Schmoller program," notwithstanding the well-known, primarily personal differences between Weber and Schmoller (Goldschmidt et al. 2020).

essential focus, at least, that "eternal youthfulness." Schumpeter (1926/2018, 273–274) certainly saw in the analytical awareness of the contextuality of economic phenomena "the real strength" of Schmoller's research program. Furthermore, it is this reading which I employ in my thesis to investigate Schmoller's oeuvre and contributions – through the lens of contextual economics.

1.2 The Schmollerian Approach of Contextual Economics

Put simply, the thesis at hand creates a bridge between two overarching questions. At the end is the question of utilization: *Which aspects of Schmoller's ideas still be made useful within the framework of modern economics?* This is less about questions of methodology and more about a plausible perspective on the economy, on the self-conception of economics and its role as a social science.[10] First, however, there is the question of motivation – more or less *the* fundamental question when it comes to the history of thought: *Why should it even be worthwhile to re-examine the ideas of an economist who died more than a hundred years ago?* Especially since, in this specific case, the underlying research has long since been branded as misguided and outdated by prominent authorities (e.g., Eucken 1938; 1940) – Schmoller the economist as a "dead dog" (Kempenski 1964, 200).

For postwar economics, it seems to be a given that the head of the younger historical school contributed absolutely nothing to the formation of economic theory.[11] The few economists who are still familiar with Schmoller today rely – knowingly or not – primarily on the harsh judgement of Erich Schneider, namely that Schmoller, "for over three decades, fatally diverted German economic thinking from those theoretical tendencies which were developing with such intensity all over the world" (Schneider 1962, 295). And yet this assessment is not realistic. Even if Schmoller himself had had the personal influence to impose a specific direction upon economic research throughout Germany over a period of

[10] An explicitly methodological examination of Schmoller's research program cannot be adequately carried out within the confines of this thesis and is therefore not pursued. Such a discussion would not be very productive for its desideratum, especially since there is no lack of superficial analyses in the literature. What many of them have in common is that, in evaluating Schmoller's "historical-ethical method," they almost completely disregard the fact that Schmoller developed an economic approach that cultivates a different – namely a contextual – mode of thought (Priddat 1995, 18). However, this is where I intend to begin with the thesis at hand.

[11] With the German historical school, an approach to political economy was developed and established in German-speaking academia from the mid-nineteenth century onward, which in many respects saw itself as a counter-draft to (late) classical and neoclassical theory (Rieter 2002). In the literature, a distinction is usually made between an older (led by Bruno Hildebrand, Wilhelm Roscher, and Karl Knies), a younger (led by Gustav Schmoller), and a youngest historical school (led by Max Weber and Werner Sombart).

more than thirty years,[12] the accusation of a lack of theory in his research program would only then be understandable if one narrowed the concept of economic theory to the scientific perspective of an isolating economics.[13] But therein lies, so to speak, the *original sin* of Schmoller exegesis.[14]

Viewed through the lens of isolating economics, one simply cannot do justice to the leading German economist of the late nineteenth century. The fact is that Schmoller was not interested in isolating economics. At least, he refused to pursue such an approach with his own research. In his handbook article on "economy, political economy and its method" (1911) he leaves no doubt about this. Schmoller feared that the "isolating method," as he describes it here, would ultimately lead to a misguided "isolation of economic from social phenomena" (ibid., 449–451).[15] He did not, of course, deny the scientific value of the isolating analysis. He only pointed out that it was "usually much more difficult to apply in the humanities, especially in political economy" than in the natural sciences (ibid., 456). Following Wilhelm Lexis, Schmoller writes:

> The legitimate isolating method of naturalists who observe the consequence of one cause in isolation consists in eliminating the other causes by experiment; thus they definitively establish the consequence of the one isolated cause under investigation. The defenders of the method of isolation and deduction in political economy forget that they make this isolation only in thought, never in reality; all their conclusions, therefore, rest not on observation, but on conjecture, or on observations of the complicated effects of several causes. Their assumptions therefore always require correction; in any case, they cannot be equated with scientific observations. (Schmoller 1911, 471)

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12 There is no doubt that Schmoller represented political economy in Germany like almost no other in his time. Through his close relationship with Friedrich Althoff, who was Ministerial Director for Universities and Secondary Schools of the Prussian Ministry of Education from 1897 to 1907, he is also said to have played a certain "pivotal function" in filling relevant chairs in his later years at the University of Berlin (Herold 2019, 287–288).

13 With this thesis, I would like to refute the accusations of Schmoller's neglect of theory. Balabkins (1988); Dopfer (1988; 1993/94); Schefold (1989); Prisching (1993/94); Peukert (1995); Plumpe (1999), among others, have already performed similar work.

14 As the following statements suggest, Schmoller's works were being readily misunderstood even by his contemporaries. For example, the young Max Weber states with surprise that, having read some of Schmoller's essays, he "liked them all the more, since I had always believed – I do not know why – that Schmoller was a strong state socialist and one-sided protectionist" (Weber 1883, 51). Heinrich Herkner confesses that "I had formed a completely false picture of Schmoller. The lively personal exchange of ideas that now began gave me the certainty that [...] he was neither as conservative nor as one-sidedly interested in history as I had assumed [...]" (Herkner 1924, 106). Alfred Marshall, who had sporadic exchanges with Schmoller, also stated: "My own experience has been, for instance, that, the more I knew of the work of [...] the late Professor Schmoller, the warmer became my regard" (Marshall 1919, IV).

15 In his dispute with Menger, he warned the latter against indulging in "shadowy phantoms" and "dream-like Robinsonades" resulting from misguided abstraction (Schmoller 1883, 980).

Schmoller explicitly argues for a scientific division of labor in political economy in the form of subject-specific and methodological differentiation (Schmoller 1911, 475), but emphasizes the value of embedding of *the* economic in a holistic context – i.e., historically, culturally, socially, and ethically. It is precisely at this point that Schmoller begins his own research program. Its orientation as a historico-ethical political economy, he declares, "was often all that gave the proper complement to the isolating abstraction, by teaching that its results be again treated as partial elements of a coherent whole; thus, what had previously been pale abstraction and lifeless formula was given blood and life again" (ibid., 465).

"Blood and life" – biologistic analogies like these may feel like an irritant in the formal, mathematical corset of modern economics, and in any case anachronistic. In the wording typical of the nineteenth century, and especially of Schmoller, they are an expression of the idea of a political economy that sees itself emphatically as a science of human beings. This insight is of utmost importance for an understanding of Schmoller's work and thus for the thesis at hand, and will therefore be elaborated upon. Both aspects, (1) the self-conception to conduct political economy and (2) the view that it is first and foremost a science of human beings, are the starting point of contextual economics; and – as Hennis (1987, 30–41) has impressively expanded upon with reference to Max Weber – deeply anchored in the tradition of the German historical school.

1.2.1 Contextualizing Political Economy

Schmoller considered "the term 'economics,' adopted by the Americans and partly by the English, instead of political economy [...] impractical, because it also seeks to eliminate the people, the society, the social side of the economic process by using the economy as a mere material process" (Schmoller 1911, 429). But what does it mean for a German economist of the nineteenth century to consider his science *political*? An assurance, delivered in nationalistic and imperialistic tones, that it should not be *un*political? Not at all – as Hennis (1987, 32) astutely argues: in the terminology of the contemporary time "the opposite to political is not 'unpolitical', but 'cosmopolitical'."[16] In other words, Schmoller understood his political economy as a counter-proposal to those economic approaches which seek to claim cosmopolitical – or perhaps even more precisely: universal – validity.

[16] See, e.g., the textbook of Friedrich List *The National System of Political Economy* ([1841] 1909), whose central concern is to distinguish the doctrines of a political economy from those of a cosmopolitical economy.

This train of thought, which is essential for contextual economics, is already found in the work of the representatives of the older historical school, by which they exerted an influence on Schmoller's economic thinking that should not be underestimated. Wilhelm Roscher, for example, concludes:

> Political economy [Staatswirthschaft] is not mere chrematistics, the art of becoming wealthy, but a political science, where it is important to appraise people [...]. Our objective is the representation of what peoples have thought, wanted, and felt in economic terms, what they have striven for and achieved, why they have striven for it, and why they have achieved it. Such a representation is only possible in the closest alliance with the other sciences of a people's life, especially legal, state and cultural history. (Roscher 1843, IV)

And Karl Knies ploughs the very same furrow when he writes:

> All the economic life of a people is so closely connected with the other expressions of its life that one is only able, when looking at it separately, to grasp it in the truth of empirical reality, if one keeps the connection with the whole in mind [...]. If political economy [Nationalökonomie] were to limit itself to the description of laws in the world of material goods, or if it were to seek to originate only a technical economic theory of business, it would have to renounce the name and character of a theory of a political economy [Volkswirthschaftslehre] and concede the place of its claims to a new independent discipline. But if it wishes truly to take the real facts of people and state as the basis of its observations and reasoning, if it wants to solve problems arising in the life of these people and this state, then it must not detach its field and task from life as a whole, but must treat both like a living member in a living body. [...] Because political economy [Nationalökonomie] has to take this connection into account, and in its own concerns has to participate in the moral and political task of the whole, so it must be appointed to join the ranks of the moral and political sciences. (Knies 1883, 436–437)

Schmoller and his contemporaries associated the terms *Nationalökonomie* [national economy] and later *Volkswirtschaftslehre* [literally: doctrine of people's economy], which were common at German universities at the time, with a relativistic notion according to which economic phenomena must always be viewed in their specific historical and cultural context.[17] The epistemic scope of economic research – limited to the history and cultural space of a certain nation, a certain people – is already anchored in the very names of the discipline, so to speak. To prevent misunderstandings at this point: Schmoller by no means intended to conceal an ideologically motivated nationalism or even imperialism behind this concept, albeit the boundaries here are fluid, in the *zeitgeist* of the nineteenth century. Rather, it is an expression of the really quite modern view that standardized economic policy

[17] Relativism is here to be understood as the opposite of the absolutism of abstract and mechanistic theories, which were isolated from context.

prescriptions, reform packages à la *Washington Consensus*, are conceptually wrong in principle (see Rodrik 2006; 2008; Stiglitz 2008; Andrews 2013).

One thing is certain: for contextual economics, comparative studies of countries and cultures are an important instrument – then as now (e.g., Acemoğlu et al. 2003; Goldschmidt and Zweynert 2006; Spranz et al. 2012; Becker 2020). They go back to Friedrich List, who opposed the "cosmopolitan" explanatory pretensions of classical economic doctrine with comparative analyses of different national economies (List 1841/1909). As part of the historical school, List's fundamental idea finally matured into a research program which in this respect can be understood as a precursor of development economics (Drechsler 2016, 110).

The fact that this development is taking place at that time, and especially in Germany, is eminently explicable, as Schellschmidt (1997, 82–84) notes: Driven by the experience of social change and breaks in continuity, of the divergence between traditional structures and lived reality, there began to develop an increased awareness of and interest in historical processes, especially in countries such as Germany which were lagging behind economically and which found themselves in an accelerated process of catch-up development. The contradiction between a rapidly transforming social order and the classical economic doctrine, characterized by the dogma of harmony, made acute the need for a different perspective. Out of this need developed the demand for an economic approach that would arrive at a contextual understanding of the present through empirical and historical research, with an emphasis on the notion that the human world could only be grasped if the specifics of a culture, and the way in which they constantly change, were sufficiently taken into account methodologically.

Certainly, under Schmoller, detailed historical research was sometimes taken to extremes. However, this does not change the legitimacy and relevance of the underlying mode of thought. In view of the way economic phenomena today increasingly determine matters both social and cultural, there is a particular need for an economic science that is aware of the interconnectedness of culture and economy. And indeed, the influence of culture on economic phenomena (and vice versa) has been recognized more and more in recent economic research (e.g., Goldschmidt 2006; de Jong 2009; Beugelsdijk and Maseland 2011; Alesina and Giuliano 2015). In this sense, I agree with Priddat (1995, 168–175) that the reconstruction of Schmoller's approach is still a necessary and welcome addition to economic discourse.

1.2.2 Contextualizing the Human Mind, or the Schmollerian Approach to the Discovery of Intellectual Landscapes

In the light of what has been said so far, it is fitting that Schmoller understands the term "economy" to mean one thing above all: the people in their economic environment. He considered it not the least of his legacy's achievements that economists

> have again understood and looked at political economy in its correct context with the whole of the rest of culture, that it has identified the function and position of morality, custom, and law in the mechanism of society more correctly [...]. It turned away from a mere market and exchange theory, [...] instead of situating the world of goods and capital at the center, it again places the human being at the heart of science. (Schmoller 1897/2018, 225–226)

Schmoller is concerned with a science of and for human beings, which he typically expresses through the attributive *ethical* (i.e., ethical political economy). In using this term he did not want, as he himself put it, to give the results of his research a "higher, infallible 'dignity'," but rather to articulate his conviction "that in all economic life, as in all social and historical life, ethical value judgements about human actions and social institutions play a decisive role and account for a considerable part of all causation" (Schmoller 1911, 473).[18] Economic variables were not to be understood mechanistically as purely material facts. Instead, Schmoller addresses the ethical dimension of the economy, the economic actor as a social being. His socio-economic reflections are based on a genuinely contextual insight: all economic action is human action, but human action is by no means limited to economic action. Therefore, it would be absurd to want to explain human action merely in terms of economic categories or to limit it to an isolated economic sphere.

Schmoller rejects axiomatic approaches that understand the patterns of economic action as an anthropological constant, and thus detach them from their context. For him, economic action is always subject to cultural rootedness, the result, if you will, of enculturation (Tomasello 1999). In this respect, it can only be identified and consequently understood in its specific social and ethical context (Schroeter 2021, 16). Yet it would be mistaken to read Schmoller's conception of humanity and the derived behavioral assumptions as methodological holism. Equally, of course, it is not a strict individualistic approach assuming a rational *homo oeconomicus*. The starting point of his reasoning lies, in fact, in the psychological reality of the individual, but as a social being, embedded in the ethical

[18] Sometimes, however, Schmoller also deliberately used the moral connotation of the ambiguous term "ethical" to distinguish his own approach from a supposedly amoral theory of (neo-)classical economics (Herold 2019, 39). So, when it comes to misinterpretation, he can certainly be said to be somewhat complicit in generating some of the judgments which would later take hold.

frameworks of society.[19] In Schmoller's notion, the isolated individual becomes a personality. This perspective contributes to Schmoller's approach – in contrast to neoclassical theory – not remaining blind to social phenomena like power, or the influence of language, ideas, ideologies, dogmas, and myths.

The suggestions of Shiller (2019) and McCloskey (2021), for example, make an argument for it being reasonable to consider such very real spheres of influence on socio-cultural life in economic research, even if – or perhaps precisely because – they elude the standard instruments of modern mainstream economics. While Shiller proposes *Narrative Economics*, an approach that examines the effectiveness of the narratives that circulate in society and influence people's (economic) actions (see Störring 2020), McCloskey argues with her idea of *Humanomics* for an approach of economics with an awareness of humanity within historical and ethical frameworks. Both economists leave no doubt that they understand economics – quite as Schmoller would have – as a social and human science with a decidedly interdisciplinary orientation.[20]

Schmoller intended the perspective of political economy to be a "psychological-ethical consideration, with realistic assumptions about instincts [*Triebe*] and sentiments [*Gefühle*]" (Schmoller 1908/1978, 124). It is striking that he often uses the terms *psychological* and *ethical* as synonyms in his works. Yet, Schmoller is not concerned with philosophical precision in this context, but with what Müller-Armack will later refer to as the "discovery of intellectual landscapes" (Müller-Armack 1949/1981, 537). The inner motives of human action, not mechanistic processes, are the starting point of his mode of economic thought – or, expressed in his own succinct words: "Whoever [...] in discussing economic issues merely thinks only of how properly to split wood – he should rather write a philosophical treatise on splitting wood than on the relationship of philosophy and ethics to political economy" (Schmoller 1875a, 32–33).

The stereotypical image of Schmoller, interested exclusively in history – more an (economic) historian than an economist – is clearly inadequate. For example, he intended to elevate psychology, just beginning to emerge as an independent science, to the rank of an

[19] Schmoller's conception can best be described as a *homo psychologicus*, entailing a duplex notion of an individualistic and a socializing tendency (Peukert 2000, 110).

[20] What both approaches also have in common is that they aim for a viable expansion of economics, not a radical subversion of established economic methods, or of the economic paradigm itself.

indispensable auxiliary science of political economy, alongside history.[21] In a sense, he was anticipating to some extent what would only become established as behavioral economics in the canon of the economic mainstream in the early 2000s, thanks to the ground-breaking work of Amos Tversky, Daniel Kahneman, and Richard Thaler, among others (Heukelom 2015, 193). In doing so, Schmoller is not averse to reproaching his colleagues in the field who, "in fearful deference to the blinkers of the scientific division of labor, did not dare to turn to the source, i.e., to scientific psychology" (Schmoller 1883, 979). In fact, however, his own record in the field of scientific psychology falls far short of the claims he himself formulated (Herold 2019, 214–215). Although Schmoller refers to the work of well-known psychologists such as Gustav Theodor Fechner, Johann Friedrich Herbart, Moritz Lazarus, and also Wilhelm Wundt in his writings time and time again, the references remain superficial, his insights eclectic. Schmoller's scientific approach to the psychology and ethics of human action is ultimately a different one: the study of institutions.

1.2.3 Studying the Economy in Context: Institutions Matter!

At the very beginnings of his academic work – e.g., in his dissertation (Schmoller 1860) – Schmoller recognized in institutions the ideal object of interest for his contextual approach to political economy: They are simultaneously both the outcomes ("subjective springs") and the formative framing ("objective structures") of human interaction (Hodgson 2001, 8). They are the nexus between the cognitive systems of the individuals and their cultural environment. They are the social interface between the economic and the other societal orders. They are situated in time and space, and thus particularly accessible for empirical and historical research. And last but not least, through their formative influence on the economy and society, they are an effective starting point for effective policy-making.

In short, what is defined as "context" in this thesis corresponds to a large extent to the institutional structure of a society or is reflected in it.[22] The study of institutions is at the center of Schmoller's contextual research program. The nature of institutions and institutional change forms the core of his economic theory (Küssner 1995; Richter 1996;

[21] Schmoller was criticised for this view even by contemporaries who were scientifically close to him, as a letter from Weber to Lujo Brentano evinces: "In my opinion, 'marginal utility' has no more to do with 'psychology' than with astronomy, or indeed anything else. It is unwise to create the impression that it needs 'psychological' underpinning. In my opinion, this invites the typically Schmollerism which is used to work with 'psychology'" (Weber 1908, 72).

[22] "What are economic institutions but a product of human feelings and thought, of human actions, human customs and human laws?" (Schmoller 1894a, 718).

Plumpe 1999). The term *institution* is used by Schmoller in a rather broad context, which distinguishes it from the approaches of new institutional economics:

> Every institution is a collection of habits and rules of morality, custom, and law [...] which are connected to one another, form a system, have been subject to common practical and theoretical instruction, firmly rooted in communal life [...]. We understand the formation of organs [or organizations] to mean the personal side of the institution; marriage is the institution, family the organ. Social organs are the lasting forms of the relationship between people and goods for specific purposes. (Schmoller 1908/1978, 61–62)

In his understanding of institutions, Schmoller's theory is similar in some respects to the later work of Douglass C. North (e.g., North 1990; 2005; Denzau and North 1994). The differences, which exist above all with regard to their epistemological approach, their methodological and analytical instruments, and their modes of theoretical conceptualization, become apparent at second glance (see Küssner 1995, 76–77; Richter 1996, 581–582; Plumpe 1999, 255–256; Peukert 2001b). Still, Schmoller's approach does have its merits, for example through a sharper terminological differentiation between institutions and organizations (as a special type of institution).

Based on Dilthey's concept of the "objective spirit," institutions were understood in the German historical school as the objectification of human consciousness. Accordingly, political economy was seen as a science that must deal with these objectifications, which have their origin in cultural consciousness, in people's (shared) mental models, but which are at the same time part of the external world (Schellschmidt 1997, 134). In his work, Schmoller, like no economist before him, links the institutional structure of a society – i.e., the interplay between formal rules of law, informal rules of morality and custom, and the patterns with which they are both interpreted – to the shape and performance of its economy. His approach is a dynamic and evolutionary theory of institutions, inasmuch as it traces institutional change.[23] Of outstanding importance here is, on the one hand, the formative role of the state – in Schmoller's words: "The state is the center and the heart into which all institutions empty and unite" (Schmoller 1894a, 734). On the other hand, his idea of justice, which he elaborates specifically in his well-known essay *Die Gerechtigkeit in der Volkswirthschaft* (1881b).

[23] Schmoller's institutional theory is permeated by an idealistic belief in progress, which – quite typical of the scientific spirit of the time – is supported by an unshakable cultural optimism. As a reflection of such a view of technical, economic, and moral progress, Schmoller, like basically all representatives of the historical school, presents an idea of stages of socio-economic development [*Theorie der Wirtschaftsstufen*] (Rieter 2002, 147–148).

The concept of justice is crucial to an understanding of Schmoller's theory of institutional change. For him, the essential momentum for institutional change lies in the constant conflict of divergent moral ideals, and in particular of the prevailing ideas of justice here. In this context, there is indeed one anthropological constant that can be identified in the fundamental assumptions of Schmoller's theory, namely the subjective judgement by which people orient their actions (Schroeter 2021, 19). Schmoller is concerned with subjective value judgements as the object of interest of his institutional analysis. In doing so, he is primarily interested in illuminating the aspects of values which are incorporated in institutions – and not, as has often been insinuated since the value judgement controversy with Werner Sombart and Max Weber, in the formulation of normative value judgements as the result of his research (Backhaus 1989, 42–45; Herold 2019, 38–40).[24]

For Schmoller, the formation of a shared canon of values, which is reflected institutionally in existing customs and laws, forms an important link between the individual and society, and fulfils a coordinative function – not least with regard to economic action. And it does so both in the sense of "evolution and spontaneous order," as described by Hayek (1979/2003, 158), and in the context of conscious policy-making. Considering Germany's rapid transformation from a traditional to an industrial society, and the profound upheavals in the socio-cultural fabric associated with it, there is no doubt in Schmoller's mind that this development must be accompanied by a conscious shaping of the institutional framework, lest society itself break down as a result of these changes (e.g., Schmoller 1864a, 423; 1874, 336–337; 1875a, 20; 1881b, 50). Yet governmental legislation and reform policy must be guided by the prevailing ideas of justice in society: "No great social or economic reform can conquer the sluggish resistance which opposes it by merely showing its utility. Only when it can be made to appear that what is demanded is the demand of justice, does it inflame and move the masses" (Schmoller 1894a, 698). Schmoller often emphasizes that planned interventions in the established institutional order, top-down and without any consolidation of existing traditions, would endanger social cohesion, not serve it (Hansen 1993, 167).

Schmoller recognizes the special importance of institutions for explaining, forecasting, and shaping the economy and society. In this insight, his work has lost none of its relevance (Hodgson 2019). The economic interest in institutions can be found both in theoretical

[24] Even though Schmoller's work is certainly not free from normative value judgments, which is probably true of every social scientist in principle, these two fundamentally different aspects – the analysis of moral values in context of a generally positivist science on the one hand, and the formulation of value judgements as the result of a normative science on the other – have often been intermixed in the discussion of Schmoller's work.

studies (e.g., North 1990; Searle 2005; Hodgson 2006a; Guala 2016) and empirical studies (e.g., Ostrom 1990; Alston et al. 1996; Acemoglu and Robinson 2012). For Schumpeter, this seems to be Schmoller's key innovative contribution:

> And since there can be no doubt with social institutions that their *essence* changes historically, that each theory makes sense only with respect to the lifestyle of an era, this element of "historical conditionality" enters into the principles of pure economic theory, even where its own general foundations are not so conditioned. This "data theory" is not therefore some architectural addition to an old building that leaves everything as it once was. By the fact that Schmoller raised it to legitimacy, he not only opened up "interesting" new fields in exactly the way that he wished, nor did he simply foster understanding of individual situations, but instead changed this intellectual framework. (Schumpeter 1926/2018, 288)

On this basis, Schumpeter goes so far as to even call Schmoller the father of American institutionalism (ibid., 275). Although this assessment is probably exaggerated, there is ample evidence of the numerous visits of young US economists to German universities at the time, which in turn had a considerable influence on the gradually professionalizing discipline in the USA, and indicate a corresponding transfer of knowledge (e.g., Herbst 1965; Rutherford 1979, 59; Balabkins 1988, 86–110; Senn 1993; Schellschmidt 1997, 195–285; Tadajewski and Jones 2018). By contrast, Schmoller's work has gone unnoticed by the representatives of new institutional economics, whose work has, since the 1970s, contributed to the study of institutions also finding its way into mainstream economics, if only to a certain extent.[25]

But precisely because Schmoller is not a forerunner of new institutional economics, economic science is at risk of missing out on valuable insights if it focuses exclusively on the newest, state-of-the-art-publications. Despite the extensive literature, there are still fundamental blind spots in contemporary institutional economics. To date, there is still no comprehensive theory linking culture and individual socialization to institutional change (Becker 2020; 15). A reconstruction of Schmoller's teachings from the perspective of institutional economics would be a suitable starting point for the development of such a culturally specific theory of economics (Priddat 1995, 310). Another contribution Schmoller

[25] Ronald Coase, for example, admits to "know[ing] little about the German historical school" (1984, 229). All the more remarkable, therefore, is the almost verbatim agreement between him and Schmoller in their critique of the established economics of their respective times: "The objection essentially is that the theory floats in the air. It is as if one studied the circulation of the blood without having a body" (Coase 1984, 230) – compared to Schmoller (1908/1978, 64): "The study of organs [i.e., organisations] and institutions is to the knowledge of the social body what anatomy is to that of the physical [...]. The old [classical] economics, submerged in the analysis of prices and the phenomena of circulation, represents the attempt to provide an economic physiology of the juices of the body without anatomy."

can make, especially with regard to the political implications of institutional economics' insights, lies in highlighting the necessity of the population accepting and legitimizing economic institutions through their "moral value judgements." Lindenlaub (2018, 37–38) raises the valid question of whether the common institutions in the EU take sufficient account of this through – for instance – public education.

Yet, as Plumpe (1999, 264) has already noted, the literature is still limited on Schmoller's theoretical assumptions and the institutional economics derived from them. The answer to the question formulated at the beginning of this introduction – whether and with regard to which aspects the ideas of Gustav Schmoller can still be useful in modern economics – therefore requires, firstly, a contextual examination of the (economic) problems of today and, secondly and in particular, an undistorted examination of Schmoller's actual work, both through the lens of the history of economic thought.

1.3 Why History of Economic Thought?

During the era of the historical school, economic theory, history, and – contextualizing the former with the latter – the history of economic thought were much more closely related than they are today (Schefold 2002, 125). The view espoused in the following by Julius Kautz, whose book *Die geschichtliche Entwicklung der National-Oekonomik und ihrer Literatur* (1860) is regarded by Schefold to be the first important work on the history of economic thought in the German-speaking world, was more or less to be considered a given: "The history of a science is a part of its essence, the foundations of its system; – the necessary aid to its further development, and a prerequisite to a deeper understanding of it." (Kautz 1860, IV)

Today – and this is no secret – the history of economic thought (also called the history of economic ideas or the history of political economy) is out of favor in most faculties, and not only at German universities. Within the curricula of economic academia, as in international journals, it ekes out a shadowy existence. It is a fact that has been criticized by representatives of this discipline for some time (e.g., Winch 1962; Boulding 1971; Backhaus 1983; Vaughn 1993; Blaug 2001; Weintraub 2002b; Kurz 2006; Schumacher 2019).

The internal marginalization of the scientific examination of its own genesis – i.e., the historical development of economics – ultimately coincides with the general neglect of history in economics (McCloskey 1974; Hodgson 2001). The long developmental path of the economic mainstream, from the classical political economy of Adam Smith to an

increasingly abstract and mathematically formalized economics, and thus to an isolating economics, was the result not least of the conviction that political economy is, or should be transformed into, a "hard science" (Blaug 2001, 146); something comparable to physics. It is from this perspective that we might be most able to understand Jean-Baptiste Say's assessment of the advances of political economy, stating as he does that the history of a science "becomes shorter and shorter the more the science develops" (Say 1830, 266). Behind this line of thought is – at least implicitly – a vertical understanding of scientific progress, according to which better or improved theories replace worse ones.

> If we have once fully understood political economy, the reveries of our predecessors would interest us little and we would have no reason to enumerate the missteps by which man has been led away from the truth. The task is not to acquaint ourselves with the errors, but to forget them. (Say 1830, 267)

This quote is obviously diametrically opposed to Kautz's statement above. Such a view may still find favor with many representatives of the field who consider it a "hard" natural science or a mathematical discipline, but it remains untenable if economics is thought of as a social science.[26] Knowledge accumulates in social sciences not only vertically, but also horizontally, with newer theories and doctrines explaining heretofore unaddressed aspects of social outcomes and changed contexts. Thus, new or adapted theories do not necessarily replace older ones; they bring in new dimensions that may be more relevant in some settings (Rodrik 2015, 67). Progress usually takes place through the recombination and further development of familiar concepts. In this sense, the social sciences in particular resemble an ongoing dialogue, a discourse between people who make reciprocal reference to each other in the further development of their ideas. Kurz (2006, 476) draws from this the conclusion that economics could not exist without its history, because "there is simply no idea put forward today that has no ancestors."

1.3.1 History of Political Economy and Contextual Economics – Better Together

The question of the meaning and purpose of the history of economic ideas is, of course, not exhaustively answered by merely defining economics as a social science. However, for a contextual economics – both as the approach this thesis itself advocates and the focus of its attention in its examination of Schmoller's work – it is the decisive argument. It is in the nature of things, if you will, that contextual economics, which deals with the processes at the interfaces between the economic order and the other societal orders, is especially

[26] With regard to the development of economic science, Say's statement implies a whole series of problematic assumptions – such as the existence of a perfect market for economic theories or a final state of knowledge – which cannot be dealt with in detail here; see Schumacher (2019, 195–199).

dependent on a reflexive examination of its own theoretical canon. For one thing, in light of the dynamic changes in the relationships between people, culture, economy, state and society, which contextual economics explicitly addresses, it would be quite absurd to try to grasp the changing challenges of our present day without reflection, using the same methods and approaches over and over again. The danger here is obvious: aspects that are not (or cannot be) captured by the current economic standard remain unnoticed. In this context, Krugman (1995, ix) has pointed out the "limiting nature" of economics' "intellectual style." With regard to development economics, he notes that areas of inquiry that cannot be properly modelled by the standard toolkit just "became blanks" (ibid., 1–6). Essentially with the same argument, Rodrik explains, twenty years later, the failure of economics to have foreseen the extent of the global financial crisis of 2007–2009 (Rodrik 2015, 147–159).

Furthermore, contextual economics, like any other science, does not need to constantly reinvent itself, assuming it were even capable of such a thing. However, the recourse to a proven spectrum of different approaches, methods, and perspectives, as well as a broad theoretical canon, ultimately only underline all the more the need for a reflexive awareness of one's own discipline and its problem-solving competency. In this sense, Hüther (1992) calls for a new fusion of economic history and the history of economics [*Neue Nationalökonomische Wissenschaftsgeschichte*]. What is meant is a genuine "science of economics" to provide orientation for economics necessitated by the "dual diversity" of the accelerated change in economic reality on the one hand and the continuing differentiation of an increasingly fragmented discipline on the other. According to Hüther, it requires systematic awareness of the contextual conditionality of economic theories through critical self-reflection, by studying the science's history. In this way, the discipline might also regain some of its lost forecasting competency (ibid., 127–130).

Ultimately, Hüther's call is intended to establish a new academic orientation of the history of economic thought, in order to fully implement its potential for the creation of knowledge in economic research.[27] In my view, however, an entirely new discipline does not seem to be necessary for this purpose, especially since such a proposal, when it comes to its implementation within mainstream economics, is unlikely to become more than wishful thinking for the foreseeable future. Today, thirty years later, at least the fundamental

[27] Hüther does not consider an orientation towards the traditional *Dogmengeschichte* [history of dogma] useful for this purpose: "The very designation 'Dogmengeschichte' is pre-scientific and outmoded" (Hüther 1992, 128).

contradiction to the prevailing self-conception of modern history of economic thought no longer exists.

All that being said, there are three main tasks which can generally be identified for historians of economic thought, following Kurz (2006, 474–476): (1) Knowledge of the historical origins and developments of economic ideas allows us to act as interpreters, in order to trace the diverse contexts in which certain theories were developed, what changes they underwent over time, and what they mean (or could mean) today. For, as also noted by Hüther, the theoretical content of a theory only becomes clear through an analysis of its history, academic and otherwise (Hüther 1992, 127). (2) An undogmatic awareness of the broad field of economic theories also makes it possible to act as a mediator and provider of ideas. This certainly applies internally, in academic discourse with the specialized fields within the discipline. But it also applies externally, in interdisciplinary cooperation with neighboring disciplines and in the context of economic education of students and non-experts. (3) The examination of the history of economic thought also engenders a certain reflexive distance and enables the discipline to be self-critical. Given the inherent role of the (constructive) critic in both past and present approaches, it is hardly surprising – albeit regrettable – that historians of economic thought today are almost without exception associated with the heterodox field of economics.

To varying degrees, the thesis at hand is motivated by all three of these tasks. In any case, I would like to use it to endorse Vaughn's impassioned plea (1993, 178) "that the history of economic thought is 'useful' not because it helps students to sharpen theoretical skills or because it gives them a little interdisciplinary breadth, but because it can affect how [we] understand economic theory itself, its potential accomplishments and its important limitations." Or, to quote Blaug and put it in a nutshell (2001, 157): "History of economic thought is not a specialization within economics. It *is* economics – sliced vertically against the horizontal axis of time."

It should have become clear from the discussion up to this point that the reappraisal of older and apparently superseded theoretical approaches is both justifiable in terms of scientific theory and advisable for material reasons. In view of the widely criticized deficits in contemporary economic discourse, an implementation of the scientific potential of forgotten or disregarded ideas offers some valuable – indeed, critical – potential for reviving current debates on the method and the object of interest of economics (Schellschmidt 1997, 389). As Kahlil notes:

> [The history of political economy] is the custodian of hoary ideas which have not yet had their chance for full exploration and reflection. These ideas and the service of the custodian become most needed when the reigning orthodoxy finds itself – or more accurately when young challengers find it – driving on a dead-end road [...]. The great importance of historiography stems from the possibility that hoary texts have potentials which have not been exhausted by Stigler's supposed efficient market of ideas. (Khalil 1995, 79)[28]

Indeed, it seems that the history of economic thought is particularly in demand in times of upheaval and crisis, and for understandable reasons: its comparative advantage is most clear in times of reorientation. The same applies to contextual economics (Goldschmidt 2016, 5). In this respect, an examination of Schmoller's oeuvre, which is still often misunderstood today, is doubly worthwhile. And since "there is progress in the history of economic thought just as there is in economics as a whole" (Blaug 2001, 152), I would like to make a contribution to both with my thesis.

1.3.2 On the Implementation of the History of Economic Thought in this Thesis

According to Richard Rorty, four genres of the historiography of philosophy can be distinguished: rational reconstruction, historical reconstruction, *Geistesgeschichte*,[29] and doxography (see Rorty 1984). Although this categorization is not uncontroversial, it offers a suitable framework to orient the methodological approach of works on the history of ideas, and has since been adopted by many historians of economic thought. It is also the case in the thesis at hand, whose line of argumentation is based primarily on the historical and rational reconstruction of the essential concepts of Schmoller's research program. As Rorty has already emphasized, it need not be a contradiction (ibid., 54). It is the aspiration of serious research into the history of economic thought to interpret the thinker, their writings and ideas, their theories and their intentions in their respective historical context. This is without doubt the greatest challenge. However, even when applying the greatest meticulousness, it must be stated that beyond a certain point "historical reconstructions are, strictly speaking, psychologically, intellectually and even logically impossible" (Blaug 2001, 151). Seen in this light, historical reconstruction always remains to some extent rational reconstruction, since it is ultimately always anchored in today's understanding of science and remains committed to its ideals. It is crucial for both approaches to remain aware of the tendency towards anachronism and – where appropriate – to point it out: as such, it should be

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28 In the last sentence, Khalil refers to George J. Stigler's critical essay: *Does Economics Have a Useful Past?* (1969).

29 Literally, history of thought or intellectual history; however, the German term is used untranslated by Rorty.

emphasized once again that Schmoller's research program was not intended to represent a form of contextual economics according to our current understanding of the concept. Nevertheless, interpreted as contextual economics – and this is what this thesis aims to elaborate – one comes comparatively close to the essence of Schmoller's work; moreover, in this light, his ideas reveal a new relevance.

This makes it clear that the innovative potential for the creation of economic theories lies above all in conceiving of historical and rational reconstruction as two sides of the same coin. Nevertheless, the focus must not be too narrow. The investigation of a single idea, a single theory, a single thinker always runs the risk of falling foul of the abstract restrictions of isolating economics – without, however, being able to make use to the same extent of its advantages. Research on the history of economic thought is inherently contextual. This means that ideas, theories, and their thinkers must be taken seriously in their specific character and, by means of *Geistesgeschichte*, be placed in their intellectual, sociocultural, and historical environment. In doing so, the historiographical approach via *Geistesgeschichte* is not so much directed at the specific content in each case, but rather at the emergence of certain narratives and patterns of argumentation within the scholarly discourse of a particular time (Schumacher 2019, 188). This perspective not only makes it possible to figuratively transplant oneself back into the respective historical situation, but also to establish the contextual factors of influence which the actual thinkers themselves would not have been familiar with or conscious of in their full scope (Goldschmidt 2002, 30).

In fact, most recent discussions of Schmoller's work and contributions choose the approach of *Geistesgeschichte* (Schroeter 2021, 3); for example, when Schmoller's writings are interpreted in the context of his sociopolitical commitments and the political debates of the *Verein für Socialpolitik.* According to Rorty, *Geistesgeschichte* "works at the level of problematics rather than of solutions to problems. It spends more of its time asking 'Why should anyone have made the question of – central to his thought?' or 'Why did anyone take the problem of – seriously?'" (Rorty 1984, 57). In a way – and this is also the starting point of this thesis – by linking the oeuvre and the person back to the overarching *ideen-* and *zeitgeschichtlichen* context of the time, one first creates a reconstruction of the overarching problems and questions. It becomes clear that the method of *Geistesgeschichte*, like historical and rational reconstruction, is an ideal type that cannot be clearly distinguished from the others in their application.

In order to comprehensively grasp the problems and questions to which the Schmollerian research program is dedicated, this thesis does not focus on a selection of the best-known writings, but on Schmoller's entire oeuvre. It is the only way to do justice to a versatile thinker like Schmoller. With regard to his complete works, however, pursuing the approach of *Geistesgeschichte* is not without its pitfalls: in the 57-year period from the writing of his dissertation (1860) to the revision of the second volume of the *Grundriß* (1919/1978), on which he worked until his death in 1917, the *ideen-* and *zeitgeschichtliche* contexts proposed and understood by Schmoller also underwent considerable change. Yet these shifts in the course of Schmoller's academic work will be largely ignored here, which – it must be admitted – leads to a certain fuzziness in the analysis. In the specific case, however, this deficit can be put into perspective insofar as Schmoller's works show a high degree of coherence with regard to their basic theoretical framework. The rocky path one traverses in reading his entire oeuvre reveals that Schmoller essentially adhered throughout his career to the economic ideas and paradigmatic concepts he developed in the 1860s (Peukert 2001a, 91; Herold 2019, 289). In this respect, references from Schmoller's works cited as apparently contiguous in this thesis, but in fact far apart in time, are meant to emphasize this point.

However, the continuities between Schmoller's ideas and the economic and sociopolitical program of ordoliberalism identified in this thesis are not intended to suggest coherence in the strict sense. Although the line of argumentation is specifically aimed at tracing the parallels and linkages in the economic thought of Schmoller and the early ordoliberals, it should not give the impression of a doxographic treatise. Doxography is a controversial form of historiography that aims to place ideas of earlier thinkers in the theoretical canon of the current orthodoxy. Thus, doxography is concerned with an ahistorical listing of answers to questions of *one's own* interest (Goldschmidt 2002, 28): "What would economists A, B, and C say to my problem Y?" In doing so, the impression arises that the authorities of the discipline – from Adam Smith to Hans Werner Sinn – have always addressed the same questions and problems (Rorty 1984, 62–63). From the perspective of the present day, contemporary terminologies, methods, and insights are thus transposed to earlier approaches without taking into account the particularities in the *Geistesgeschichte* of the respective thinkers. With such an approach, it is tempting to evaluate older theories from the standpoint of today's economics, to examine them as rudimentary precursors of a linear scientific progress that has reached its temporary zenith

in the present day.[30] The question of how a particular problem actually arose within a particular intellectual style of economic thought, on the other hand, does not fall within the interest of doxography.

While such a form of historiography may possibly still have a pedagogical or encyclopedic use, within the history of economic thought – there is now a broad consensus – doxography is not an adequate approach (Schumacher 2019, 189). With regard to the continuities between Schmoller's ideas and the representatives of ordoliberalism discussed in this thesis, it means that they cannot or should not be generalized and interpreted as strict continuations and linear developments of their predecessors. Rather, the aim here is to establish the common profile of a contextual economics, one which is inherent in both approaches to political economy and as such can be utilized for contemporary economic discourse.

1.4 Structure of the Thesis and Personal Effort of the Author

In the course of the nineteenth century, political economy in Germany succeeded in establishing itself as a genuine science by – above all – understanding and developing itself as *Geisteswissenschaft* (Häuser 1994, 47). Socialized scientifically in this tradition, Schmoller's position was clear:

> Political economy can only be a science today if it expands to become a societal doctrine [*Gesellschaftslehre*], and it expands the extent to which it does so. Its entire starting point must no longer be the individual and one's technical production, but rather society and its historical development, its narratives must be inquiries into the societal manifestations of economic life. (Schmoller 1882, 1382)[31]

As such, it is fitting that Jean-Baptiste Say of all people – as described above – challenges, if not contests, the spirit and purpose of the scientific examination of the history of economic thought. For Schmoller, Say, along with David Ricardo, is emblematic of what he perceives as a misguided continuation of Adam Smith's classical teachings, whose "exquisite buds"

[30] This form of historiography is also called *whig history.* The term goes back to the historian Herbert Butterfield (1931/1968) and describes the tendency of historians to write narratives that lean in favour of progress and revolutions, i.e., presenting history as a journey from a terrible past to a glorious present.

[31] It is apparent that Schmoller's view was not appreciated by contemporary protagonists of mainstream isolating economics. The statement of William Stanley Jevons shows how great the discrepancy actually was at the time: "It is clear that economics, if it is to be a science at all, must be a mathematical science. [...] To me it seems that our science must be mathematical, simply because it deals with quantities. Wherever the things treated are capable of being greater or less, there the laws and relations must be mathematical in nature" (Jevons 1879, 3).

he sees as being "crushed" – figuratively speaking – by their "method of isolating abstraction" (Schmoller 1892a, 291). It is the isolating understanding of economics of the late classics and early neoclassics against which he sets his own research program of historico-ethical political economy. His intention is to give economic science a contextual perspective.

If we consider Schmoller's approach in this sense as a contribution to understanding the mutual rootedness of economic and social phenomena, then the dust of theoretical history is blown from his writings, and they begin to resemble a handbook for the socio-economic diagnosis of the present day. As was obligatory, at least with regard to Schmoller's contemporaries, this handbook contains lemmas on structural change in the economy and society, on morality and law as economic categories, on the influence of shared mental models and ideologies, on the conflict over culture and identity, on justice in political economy and cohesion of society, on the power of particular interests and the social imperative to reconcile them, on the exhaustion and crisis of liberalism, on entrepreneurial responsibility and the political necessity of shaping a functional and humane order – and the like.

The cumulative dissertation at hand consists of five parts dealing with these and related aspects in Schmoller's research program from a contextual economics perspective.[32] It is structured as follows:

Against the backdrop of the profound upheavals in the institutional structure of the economy and society of the nineteenth century, I first trace the context of the *Geistesgeschichte* of Gustav Schmoller's work and influence in *chapter two.* The *social question* is the defining issue of the time and constitutive for the development of political economy in Germany. This applies to the historical school in general (2.1) as well as to Gustav Schmoller's approach in particular (2.2). A look at his biography and early work shows that the issues of social cohesion and the moral integrity of society, understood as the bases of a functional and humane economic order, were the dominant leitmotif in his research (2.3). In this context, I establish and examine Schmoller's prominent position and his sociopolitical agenda in the *Verein für Socialpolitik* (2.4). Equally, I historically reconstruct his reform proposals in the area of co-determination (2.5), which from the perspective of his contemporaries can be considered decidedly progressive, and indeed –

[32] The following five chapters of the thesis correspond to five papers, each published – partly with collaboration of various co-authors – in different peer-reviewed journals, or in one case a handbook (see list of underlying publications on page V). For the sake of coherence, the papers have been slightly edited.

where they are to date yet to have been realized in custom and law – still seem desirable. In view of the renewed dynamism of the transformation of the world of work (Industrialization 4.0), Schmoller's reflections provide illuminating food for thought that absolutely can be applied to the structural changes in the post-industrial society of late modernity. Schmoller sees the key to a participatory and lastingly prosperous economy in the "moral elevation" of the workforce and thus in their personal dignity, self-reliance, and responsibility (both personal and social).

Schmoller is well aware that with the so-called "labor question" (1864a; 1864b; 1865) he is only looking at one side of the coin. On the other side of the coin, and as deeply interwoven throughout the institutional framework, he perceives entrepreneurship as essential to solving the social question. Against this backdrop, in *chapter three* I examine Schmoller's still underutilized research on the role and institutional development of entrepreneurship, which makes him one of the founding fathers of this field. By reconstructing his notion of entrepreneurship, I illustrate Schmoller's distinct contextual perspective (3.1). The most compelling notion is his emphasis on and accentuation of the modern enterprise as a special form of institution which can be characterized by three dimensions: the *macroscopic dimension* refers to the enterprise as a unitary corporate actor (3.2.1); the *microscopic dimension* encompasses the organizational structure of the enterprise (3.2.2); and the *metascopic dimension* describes the institutional link between the organization and society (3.2.3). These three dimensions also shape Schmoller's "psychological-ethical" idea of the entrepreneur as an economic *and* social actor (3.3). Especially the metascopic perspective appears characteristic of his contextual understanding of political economy. Through this lens, he posits entrepreneurship as an institution for balancing and mediating social interests, which counteracts the fragmentation of society. Transferred to the discourse on the expansion of remote work in many companies, which has achieved new relevancy thanks to the Covid-19 pandemic, counterarguments could be derived from Schmoller's works, focusing on the societal significance of the company as an important space of social encounter.

Through the systematic reconstruction of Schmoller's thoughts on entrepreneurship, which are widely scattered throughout his oeuvre, one thing becomes clear: given the growing call for the restoration of the place of entrepreneurship in economic theory, familiarity with his ideas would be a great asset for a better understanding of the nature of the enterprise and the role of entrepreneurs. From the perspective of rational reconstruction, in my view this is not just a rediscovery of forgotten or ignored ideas, but rather – as Blaug

(2001, 149) aptly puts it – a question of "embryonic ideas whose critical insights on current economic problems have not yet been adequately explored" – perhaps not even by Schmoller himself.[33]

The notion of "embryonic ideas" can also be applied to Schmoller's concept of an economic order that serves the people, which in essence can be seen as a kind of Social Market Economy *avant la lettre*. With this in mind, in *chapter four* I demonstrate that despite the trenchantly formulated attempts of early ordoliberals to distance themselves from the historical school and its headmaster, Schmoller's research program can be identified as an important intellectual influence on their economic and sociopolitical ideas. To this end, I dispel prominent misconceptions regarding Schmoller's work and explain why the most fitting understanding of his approach today is contextual economics (4.1). After that, I establish six characteristics (or programmatic principles) of ordoliberalism that were already essential in Schmoller's work, and which show great continuity in the tradition of German-speaking political economy (4.2). Furthermore, I argue that the fundamental concept of social irenicism is also the essential leitmotif in Schmoller's conception of an economic order, which I call – by analogy with Alfred Müller-Armack – a *Sittliche Marktwirtschaft* [an Ethical Market Economy] (4.3). For a better and more reflective self-understanding, a modern economics of order would be well advised to develop a heightened awareness of these intellectual roots. The reconstruction of Schmoller's contextual approach can provide useful impulses when it comes to the further development of the Social Market Economy – understood both as a normative guiding principle for a functional and humane order, as well as the actually existing economic order of the Federal Republic of Germany. For, as Müller-Armack writes with regard to the shaping of the economic order, "genuine historical reflection helps us to better orient ourselves with regard to the questions of the present" (Müller-Armack 1973a, 179).

Of central importance for Schmoller's approach, especially for understanding his theory of institutions and institutional change, is his idea of justice in political economy. The concept, by which he did not mean a definition of justice in an absolute sense, but an awareness of the regulative effectiveness of society's prevailing perceptions of justice, was

[33] In this context, Kurz makes an incisive comparison: "The economics of innovation teaches us that upon their discovery inventions frequently are not implemented because the environment into which they are born is not hospitable [...]. It is only after the environment has changed or after some complementary invention(s) in the same or some other industry has (have) seen the light of the day that the former invention is effectively applied. I see no reason why a similar mechanism should not be at work in the realm of economic ideas and conceptualisations" (Kurz 2006, 471–472).

developed by Schmoller on the basis of the bitter sociopolitical controversy between him and Heinrich von Treitschke (see Schmoller 1874a and 1875a). The theoretical reappraisal is particularly well-summarized in his "Justice" article (1881b), which Schmoller himself considered his most successful work. Given its importance, it is not surprising that it was the first of Schmoller's writings to be translated into English. *Chapter five* examines the historical background of the translation and subsequent publication in the *Annals of the American Academy of Political and Social Science*. I use archival correspondence – predominantly between Schmoller and one of the translators: Ernst von Halle – to reconstruct the proceedings leading to its appearance in February 1894 (5.1 and 5.2). The historical reconstruction sheds light on the *ideen- and zeitgeschichtlichen* context of Schmoller's most influential creative phase as a scholar, which was marked not least by an increased interest in his writings abroad. To this end, I highlight the role that the British economic historian William J. Ashley played in contributing to additional translations of Schmoller's work (5.3). Despite the international recognition, however, the list of translated Schmoller texts remains extremely limited to this day. As will be shown, the reasons for this are manifold. I engage in the debate as to why comparatively little of his work has been translated, and suggest that, in addition to historical dynamics related to World War One leading to the breakdown of academic ties between Germany and America, there were also very personal reasons involved (5.4).

Even if, as should have become clear from the foregoing discussion, Schmoller's ideas are revealed to have new relevance in the context of the new fragility of our time and can be re-implemented with the help of research into the history of economic thought, it might be naïve to expect that his texts will go on to become future best-sellers. The situation may be different with regard to contextual economics as such. *Chapter six* shows how the early ordoliberals also recognized the value and necessity of contextual economics for research and practice in economics. I demonstrate how ordoliberalism merges the idea of contextuality with the international project of neoliberalism into a social philosophy that meets the requirements of both economy and society (6.1). Considering their very own *Geistesgeschichte*, this must be seen in light of their concern for the reconstruction of Western societies after the end of the Nazi regime (6.2). Their profound experience of totalitarian oppression turned freedom into a very real project for them. The purpose of ordoliberalism has always been the "consciously shaped" economic order which manifests itself as both functional and humane. To achieve this aspiration, it must adopt a contextual approach; this remains true today. This insight is not only a bridge into the past to Schmoller

and the contextual economics of the historical school, but also across the Atlantic to constitutional political economy. To this end, I outline starting points on how these two – by now slightly outdated – traditions of "thinking-in-orders" could benefit from each other today and thus offer contextual economics a path into the future (6.3).

In view of the upheavals that can be observed in the intertwined order of the economy, politics, society, and ecology, economic science today is faced with the question of re-examining the potential for creating new knowledge held by contextual approaches that have largely been forced to the periphery. Schmoller's ideas can provide some shrewd answers here. It would be erroneous to deny that Schmoller actually wanted to achieve more with his approach than he genuinely did.[34] However, it would be another mistake to reject Schmoller's intentions and achievements as obsolete for contemporary economics. Schmoller wanted to tread his own path. He had his own ideas on the matter of political economy and the methods appropriate to it (Schellschmidt 1997, 106). I have tried to take this into account in my thesis and, in the process, I have also tried not to ignore the limits of the adaptability of Schmoller's thinking to today's economics.

The mainstream of (isolating) economics may object that contextual approaches are sociological considerations, and that it wishes to keep economics and sociology separate. However, the question then follows as to why anybody should consider such a strict separation useful, since it is obvious that in doing so not only sociological but also economic phenomena are overlooked. An appraisal of the history of economic thought shows that the great representatives of our profession have never exclusively practiced isolating economics, but always both isolating *and* contextual economics (Kolev et al. 2019, 648). Among others, Adam Smith, Alfred Marshall, Joseph Alois Schumpeter, John Maynard Keynes, and Friedrich August von Hayek are worth mentioning here.[35] They, like Schmoller, knew one thing: as economists, they could not ignore the interconnectedness of the economic order and the other spheres of social life. It may be that Schmoller's research program, taken on its own, was too strongly and too exclusively a contextual approach. However, it was never his intention to decouple it from other approaches and methods, and in view of the currently prevailing one-sidedness in favor of isolating economics, a counterbalance seems quite

[34] It can hardly be argued that Schmoller considered the development of his approach successful or even completed. On the contrary, at the end of his scientific career he admits, emotionally: "I lay down my pen [...] with the feeling of considerable imperfection" (Schmoller 1911, 497).

[35] The list of names makes it clear that contextual economics, the core essence of the historical school, is not an exclusively German phenomenon; see e.g., Pearson (1999; 2002).

advisable, in order to restore the proper balance. In this sense, the words of Keynes seem most apposite:

> The [...] master-economist must possess a rare combination of gifts. He must reach a high standard in several different directions and must combine talents not often found together. He must be mathematician, historian, statesman, philosopher in some degree. He must understand symbols and speak in words. He must contemplate the particular in terms of the general, and touch abstract and concrete in the same flight of thought. He must study the present in the light of the past for the purposes of the future. No part of man's nature or his institutions must lie entirely outside his regard. He must be purposeful and disinterested in a simultaneous mood; as aloof and incorruptible as an artist, yet sometimes as near the earth as a politician. (Keynes 1924, 322)

With this in mind, Schmoller need not fear comparison with his critics – then as now.

2 Gustav Schmoller – A Socialist of the Chair

Who was Gustav Schmoller? Today, this question would probably be left largely unanswered by the great majority of students of economics, even in Germany. Yet Gustav Schmoller was, towards the end of the nineteenth century, a highly respected and influential economist; indeed, he was the leading mind of an entire school of thought – the German Historical School of Political Economy. Throughout his academic career, Schmoller was an exceptionally productive writer. Besides the two volumes of his magnum opus *Grundriß der Allgemeinen Volkswirtschaftslehre* and numerous other monographs, just his six volumes of individual essays and reviews compiled in *Kleine Schriften zur Wirtschaftsgeschichte, Wirtschaftstheorie und Wirtschaftspolitik* (1985) span more than five thousand printed pages.[36] Although his academic legacy is often reduced to the two so-called *Methodenstreite* [methodological disputes] between him and the Austrian economist Carl Menger and between him and the German sociologist Max Weber, Schmoller spent his life in disputes over more than just methodological questions.

The social question – and the so-called labor question [*Arbeiterfrage*] in particular – shaped both his scientific and his political life's work. He expressed a reformist ambition to elevate the working man and woman, to integrate them ethically, and to enable them to participate in society and the economy to the advantage of all. Quick to recognize that trade unions represented one suitable way of approaching this objective, he nevertheless saw that institutions at plant level would be even more effective. Integration and participation by way of workers' committees were, in Schmoller's opinion, the key long-term condition for enabling employees and employers to find and realize common goals (Schmoller 1908/1978, 521). He aspired – in the same way that it is possible for the state – to "a peaceful, constitutional charter for each individual business […] where every man in his domain bears certain rights and honors certain duties" (ibid.).

Ultimately, in order to adequately assess Schmoller's ideas and accomplishments, we have to place them – quite in keeping with his own conception of (contextual) political economy – within the proper context of *Geistesgeschichte*; in particular the history of economic thought.

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[36] *Outline of General Political Economy* (1908/1978; 1919/1978) and *Short Writings on Economic History, Economic Theory and Economic Policy* (1985); own translation of titles.

2.1 The German *Sonderweg*

In the first half of the nineteenth century, beginning with the Swabian economist Friedrich List, the development of political economy in Germany began to take a unique path, or *Sonderweg* (Zweynert 2008, 172). List's thinking was typical for his time: for him, nationalism and liberalism were inseparably entwined. Unlike Karl Marx and Friedrich Engels, List assumed that industrialization would, in the medium term, promote the development of wealth throughout the entire population (Szporluk 1988, 103–104). At the same time, he was vehemently critical of the – in his opinion one-sided – individualistic doctrine adhered to in classical political economy and its extreme offshoot the Manchester liberalism. List's answer to this was an integrated perspective on the economy.

> As individual liberty is in general a good thing so long only as it does not run counter to the interests of society, so is it reasonable to hold that private industry can only lay claim to unrestricted action so long as the latter consists with the well-being of the nation. (List 1841/1909, 139)

List was not an opponent of economic liberalism per se, but he disagreed with the concept of universally applicable legitimacy, a concept to which the classical school of political economy – to which he dismissively referred simply as "the school" – was firmly wed:

> The school recognizes no distinction between nations which have attained a higher degree of economical development, and those which occupy a lower stage. Everywhere it seeks to exclude the action of the power of the State; everywhere, according to it, will the individual be so much better able to produce, the less the power of the State concerns itself for him. (List 1841/1909, 139)

Taking economic reality into account – that is, its context in place and time and thus in history – List voiced his opposition to the universal (or in his words: cosmopolitical) applicability of unconstrained economic liberalism. Nevertheless, he was fascinated by the economic development which had taken place in Great Britain, and he wanted to help Germany achieve the same status (Müssiggang 1968, 244). It was clear to him that England had reached a more developed stage of industrialization than its neighbors, surmising as a result that Germany would require an economic and political approach different from the British laissez-faire. With this policy of economic relativism, List was already articulating a great number of the issues which would later, beginning in the second half of the nineteenth century, become key elements of economic discourse for the German historical school.

The members of the so-called older historical school were unified in their desire to eliminate what they saw as the established limitations of the classical school. Worth mentioning here are, above all, Bruno Hildebrand (1812–1878), Wilhelm Roscher (1817–1894), and Karl Knies (1821–1898), who – while certainly making use of liberal concepts

in their approaches – considered political economy to be far more an ethical and social science. They largely rejected the method of observing single economic processes or individuals in theoretical isolation. Fundamental for the proponents of the historical school was a contextual perspective on the economy. In other words, they considered the economic system to be an integral part of the overall societal order. Furthermore, they considered the uniqueness of economic phenomena with regard to the various interrelationships of their context: be it historical, cultural, social, or ethical. For them, the analogies to scientific or natural laws found in classical political economy were invalid (Jahn 1967, 41–43).

In light of their own context, the economists of the older historical school – especially Bruno Hildebrand – were primarily concerned with the socio-economic dimensions of the profound institutional change created by the industrialization:

> Rather, we are in unanimous agreement that we are currently living in a period of transition, a time in which the desire for a more just distribution of goods, for the elimination of the imbalance between the forces of capital and labor, is ever more urgently demanding to be satisfied. We do not ignore the great social problem of our time, but consider it in fact to be the greatest that mankind has ever been given to solve. (Hildebrand 1848/1922, 184)

Unlike Karl Marx, the proponents of the historical school did not conclude from their criticism of economic liberalization that a socialist revolution was a necessity. In 1848 – at the height of German pauperism – Hildebrand wrote that despite the negative effects of "the factory system […], its proximate and infinite advantages should not be forgotten" (Hildebrand 1848/1922, 184). He emphasized the beneficial consequences of industrialization, which in his opinion had "not created or worsened the poverty of the lowest levels of society, but merely brought it to light" (ibid). With regard to the great levels of civic inequality, however, he did not consider "the function of modern industry in the cultural development of humanity to be fulfilled" (ibid., 186). In order to implement social reform, Hildebrand assigned political economy the task of directly shaping the economy and society. In his magnum opus *Die Nationalökonomie der Gegenwart und Zukunft* (1948/1922), Hildebrand was committed to developing a bourgeois alternative to incipient radical socialism, distancing himself in particular from Friedrich Engels (Müssiggang 1968, 109). He rejected the conclusion which Engels had reached in his work on "the condition of the working class in England" (1845), namely, that class warfare was the solution, and responded as follows:

> If one is to try to solve the problems of the present, one must study with open eyes and without prejudice the actual conditions of the people and their historical development, establish the manifold

> causes of pauperism, and everywhere deduce from the practically observed wants the necessary reforms, yet without rejecting the unknown world of reality as barbarism, and without losing oneself in idle dreaming. (Hildebrand 1848/1922, 223)

Hildebrand became convinced that neither liberal laissez-faire nor socialist revolution was capable of putting an end to the widespread suffering of the working classes – but that the state, through social reform and legislation. It was these fundamental ideas which the younger historical school around Gustav Schmoller developed further, combining them with concrete sociopolitical demands.

2.2 The Headmaster of the Younger Historical School

Gustav Schmoller was born on June 24, 1838, in Heilbronn, Württemberg.[37] Young Gustav grew up in intellectual surroundings and wealthy circumstances. The well-situated family on his mother's side had already produced prominent academics,[38] while his paternal forebears had frequently found employment in the civil service. Among them Schmoller's father himself, Ludwig Schmoller, who was an administrator at the treasury [*Kameralamt*] of the Kingdom of Württemberg. After the death of his wife in 1846, the young widower Ludwig Schmoller dedicated himself to the care of his children (Balabkins 1993, 20). In his father's office, Gustav Schmoller was able, even at a young age, to form an impression of the problems great and small with which the various classes of society were afflicted. It was here that he first became acquainted with cameralism and was confronted with the everyday difficulties encountered by small businesses. Schmoller was quick to recognize the significance of class differences and familiarized himself with the social changes caused by industrialization. These practical observations were "highly significant for my intellectual development," as Schmoller himself put it in an essay discussing his youth in which he, shortly before his death, recounted insights into his private life (Rieter 2006, 150–152).

Schmoller's life proceeded with exceptional purpose. After secondary education, in 1857 he took up the study of cameral science [*Kameralwissenschaften*] at the University of

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[37] For reasons of space, Schmoller's vita will not be discussed in great detail. It should be borne in mind, however, that works in the social sciences and humanities can ultimately only be interpreted and judged in the historical and discursive context in which they originated. This includes, not least, the biography of their authors. Apart from a few short biographies (e.g., vom Bruch 1987; Goldschmidt 2008) and thematically focused works with a pronounced biographical component (e.g., Balabkins 1988; Kreis 1999), a detailed Schmoller biography has only been available for this purpose since 2019 (see Herold 2019). As an autobiographical source, however, Schmoller's essay on his formative youth in Heilbronn is a good choice; with a foreword and annotations by Rieter (2006).

[38] Schmoller's maternal grandfather, Karl Friedrich von Gärtner, was a doctor and botanist who had occasionally corresponded with Charles Darwin (Goldschmidt 2008, 287).

Tübingen. Schmoller was an attentive and conscientious student, he "needed no special admonition to abstain from the traditional student activities of beer drinking, dueling and the fraternity life" (ibid., 156). Beyond the requirements of his syllabus, he also attended lectures on philosophy, history, and the natural sciences. His doctoral thesis "on the history of economic views in Germany during the reformation" (1860) was prize winning. Following his studies, he began his traineeship at his father's treasury in Heilbronn, working later with his brother-in-law Gustav Rümelin in Württemberg's Statistical Bureau.[39] The great significance which Schmoller attached to comprehensive statistical surveys for the analysis of economic processes can without doubt be said to stem from his brother-in-law's influence. In 1863, Schmoller published in Württemberg's statistical yearbooks the results of a trade census compiled during his traineeship (Schmoller 1863), thus laying the foundations for his academic career.

As a result of his statistical publications, in 1864 Schmoller was called to the University of Halle – without habilitation – where the following year he took up a full professorship in the political sciences (Hansen 1993, 113). Here, the two academic focal points of his future work were quick to emerge: historical accounts of the history of political economy and administration and treatises on social issues. With his series of essays on the labor question (1864a; 1864b; 1865), Schmoller looks to develop the younger historical school's own perspective by examining the social and economic conditions and their historical development.[40] Moreover, with these writings he formulated the program for the scholars who would later, with Schmoller, found the *Verein für Socialpolitik* [Society for Social Policy] (Grimmer-Solem 2003, 138).

Schmoller was determined that his thinking and judgment be based essentially on "real-life observation and experience, rather than just in abstract, logical concepts" (Rieter 2006, 152). He was also active politically: from his first year as a professor in Halle, he held an office with the town council in order to get to know the details of the city's constitutional life (ibid.). In 1870, Schmoller published his first major work, *Zur Geschichte der deutschen*

[39] Gustav Rümelin was a member of the Frankfurt Parliament of 1848–1849 and, from 1861 to 1873, the director of the Royal Württemberg Statistical-Topological Bureau. In 1867 he was made Professor of Statistics and Civics at the University of Tübingen, where he was chancellor from 1870 to 1889.

[40] With *Die Arbeiterfrage* (1864a; 1864b; 1865), Schmoller formulated the main features of his social policy in an early work. In it, he advocates remarkably liberal positions and ambitiously concludes: "If the reform does not transform internally, then everything is in vain" (Schmoller 1864a, 421). In later works, he arrives at a more pragmatic assessment, relativizing his earlier, culturally optimistic and lofty aspirations as a "distant and abstract ideal" (Schmoller 1918b, 310).

Kleingewerbe im 19. Jahrhundert,[41] continuing in the tradition of the historical school and following a third way between liberalism and socialism. In contrast to the older school, however, Schmoller rejected much more emphatically the liberal dogma of harmony between all individual interests. Contending with both socially revolutionary marxism on the one hand and laissez-faire liberalism on the other, Schmoller's intention was to utilize his research for the principles of governmental social reform, being amenable to the idea of a strong and assertive state. This outlook, and the criticism of liberalism's one-sidedness, ultimately led to Schmoller and his academic allies being labeled "lectern socialists."[42] Although such a normative and politically engaged conception of the scientific profession was typical for Schmoller and the "socialists of the chair," it would be wrong to see them as genuine political actors. They saw their mandate more in acting as a source of ideas, as well as in commenting on sociopolitical methods and reforms, to which end the *Verein für Socialpolitik* (VfS) served as their public forum.

In the year in which the Verein was founded, 1872, Schmoller's time as a professor in Halle also came to end. He was called to the newly founded *Reichsuniversität Straßburg*, where he came into contact with colleagues who shared his approach to historicize political economy. Schmoller finalized his research program in Strasbourg, maturing into Germany's leading economist. At the University of Strasbourg, with colleagues such as Georg Friedrich Knapp, Wilhelm Stieda, and Wilhelm Lexis, Schmoller developed the seminar format as a new form of teaching (Balabkins 1993, 22).

In 1882, as the successor of Adolf Held, who was also an important member of the VfS, Schmoller moved, finally, to the *Friedrich-Wilhelms-Universität zu Berlin*. The appointment, to the political hub of his time, was not least an acknowledgment of his engagement in social policy. Schmoller had already, in 1881, taken on the editorship of the *Jahrbuch für Gesetzgebung, Verwaltung und Volkswirtschaft im Deutschen Reich*, which was published from 1913 under the name *Schmollers Jahrbuch*, and still appears today (in English) as *Journal of Contextual Economics*. In 1884, Schmoller became a member of the Prussian State Council; he was accepted as a member of the Royal Prussian Academy of

41 *On the History of German Small Businesses in the 19th Century* (1870); own translation of the title.

42 The academics' critical attitude prompted the liberal publicist Heinrich Oppenheim to counter with a critique of his own. To discredit the emerging research program, he referred to it in his diatribe as "lectern socialism" [*Kathedersozialismus*] (Oppenheim 1872) – often rendered less cynically as "socialism of the chair" – setting off a very public dispute.

Sciences in 1887; between 1897 and 1898 he held the rectorate of the University of Berlin;[43] and in 1908, he was ennobled.

Despite his growing reputation, and his numerous accomplishments and fellowships, Schmoller remained a quiet and introverted academic, one who kept his professional and his private life strictly separate, and whose public statements dealt almost exclusively with economic and political matters (Rieter 2006, 142). Three days after completing an autobiographical essay (Schmoller 1918a) describing his youth in Heilbronn, which represents the greatest exception to his private reclusiveness, Gustav Schmoller died on June 27, 1817, on a journey in Bad Harzburg.

2.3 A Preliminary Answer to the Labor Question

By the 1860s, Schmoller was convinced that the industrial revolution – the increasing use of machinery and the development of large-scale industries in a growing number of sectors of production – was irreversible, but that the development could quite conceivably have a beneficial effect on people's lives. In his *Die Arbeiterfrage*, Schmoller considered industrialization to be a "time of tremendous progress" (Schmoller 1864a, 393), measuring its significance above all in the economic growth in production and consumer demand. Despite his euphoria, Schmoller's faith in progress did not prevent him from recognizing the drawbacks of this new economic order. He describes a fundamental institutional transformation accompanying this new way of running the economy, seeing in it – quite beyond the purely economic considerations – nothing less than the greatest current challenge for modern society:

> The economic world of the Middle Ages was based on stable legal norms, which […] established moderation and order in the face of inconstancy and immorality. […] The trades and crafts, with their familial and moral associations […] are becoming ever more displaced. […] The immoral pursuit of possessions and wealth on the part of the industrialists, and destitution on the part of the workers leads […] to the absolute dominance of capital in the economy, in society, in the state. (Schmoller 1864a, 395)

For Schmoller, this radical change was the consequence of a historical process of transformation "towards a new culture and a new form of economy" (Schmoller 1864a, 396). In order to ameliorate social hardship while still accommodating this development, both inexorable and yet fundamentally adjudged to be positive, he considered it a necessity that

[43] For an English translation of Schmoller's well-known inaugural lecture on the occasion of ascendancy to the rectorate, see Schmoller (1897/2018).

the transformed economic circumstances be attended by social reform (Nau 2000, 508). He distinguishes here between those "evils" which merely accompany this transformation temporarily, and those, which adhere to it permanently (Schmoller 1864a, 395).

> The entire sickness [of industrialization] was more a developmental fever which did not quite pass with the onset of puberty, but whose most dangerous symptoms abated. […] The question is simply whether the improvement itself is a permanent one, or merely temporary […] securing as it does for the great mass of the workers a proportionate and permanent share of the growing benefits of earthly goods. (Schmoller 1864a, 399–400)

Schmoller goes on to establish a further distinction within the class of the industrial worker, appearing optimistic with regard to a nascent middle class among the wage laborers, which in his opinion "provides, if not all the pleasures of life, at least an existence worthy of a human being, with all prerequisites for further progress" (Schmoller 1864a, 406).[44] This rather hopeful assessment – doubtless encouraged by the economic boom of the 1860s – is, however, immediately qualified by Schmoller when he states that "our question as to the position and future of the working classes is thus merely concentrated – not concluded" (ibid., 412). He summarizes his sociopolitical credo as follows: "It is not a matter of creating an equal existence for all, but of creating a humane existence even for the lowest classes, one which contains the possibility of further acquisition and higher education" (Schmoller 1864b, 524).

Schmoller is adamant that the initiative here "can and must […] come from the upper classes: It is their duty" (ibid.). The methods which he suggested to "outwardly" improve the lot of the wage laborers are not new: restrictions on employment for women and children, improved living conditions, and limits on working hours, among others. However, it was not his intention that applied social policy be limited solely to economic welfare provision. Alongside the "outward" effects of social policy measures, Schmoller proposed an "inward" effect: "If the reform does not transform internally, then everything is in vain" (Schmoller 1864a, 421). He accused the socialist reformers aligned with Ferdinand Lassalle of

[44] In fact, it can be considered Schmoller's achievement to bring the differentiation of the emerging wage labor force as part of a newly formed middle class and its socio-economic significance into the focus of economic research. In doing so, he opposed the widely held belief at the time that industrialization would displace the trades and crafts and thus result in a disintegrated class society (Herold 2019, 113). His differentiated view of the various socio-economic strata led him to the insight that all social reform must start from the actually "existing educational and psychological circumstances of the different social classes" (Schmoller 1873a, 5).

overlooking this, criticizing them for endeavoring to change external social and economic mechanisms without considering how to transform man's internal motives and ideas (ibid.).

> The workers must be helped from within, not from the outside. Anything approaching them outwardly that does not equally change their customs, their knowledge, their way of thinking and living, helps for a moment, but not in perpetuity. (Schmoller 1865, 46)

With his rejection of quick, populist solutions – such as shortsighted financial aid – Schmoller could hardly be more relevant for the current political discourse. Instead, he argued for an integrative approach to problem resolution, considering social policy to be inherently related to education policy. To him, education represented the decisive factor for the betterment of the lower classes – the fundamental prerequisite in enabling the working classes to participate sustainably both in society as a whole and in the workforce:

> Education and skills, these are the true forces that will advance the workers […]. Education is the basis of all moral improvement, […] by which individuals may continually work their way out of the bonds of the working classes and into the highest echelons of society. (Schmoller 1864b, 535)

Until the "lower classes" are able to withstand the level of competition in the new economic system, Schmoller assigned to the benevolent state the task of protecting them: "In this way, he [the wage laborer] has just as much right as the higher classes to expect that the state will care for him, and support him should he have a hill to climb" (Schmoller 1864b, 533). He considered state intervention in the economy as being, in principle, justifiable in as much as it serves the public good and helps to eliminate social hardship,

> […] which justifies state aid, showing in how many cases the state, as an agent of the higher moral interests, is entitled to coerce upon the individual his duties. […] The working classes possess neither sufficient sense of moral duty nor intellectual comprehension to understand that this [education] is the principal way by which they may be bettered, and thus without this coercion this betterment would simply not be achieved. (Schmoller 1864b, 534–535)

Schmoller considered the authority of the state to be the sole neutral entity qualified to oversee the class struggle and initiate targeted social reforms (Hansen 1993). According to him, it must be the state's goal to eliminate social inequities and eliminate social imbalance, so that the development of a society towards a new culture and new form of economy is not hindered, but in fact encouraged. Schmoller was quick to defend his notion of an assertive, ultimately paternalistic state against stigmatizing comparisons with a "police state" – one of his critics' accusations (Schmoller 1864b, 535). And indeed, he rather objected arbitrary state intervention in the processes of the market economy (Hansen 1993, 138–139; Frambach 2006, 229–232).

> [T]he entirety of our modern times, and our modern industry in particular, is based on the vigorous and not overly constricted development of individuality; however, law and state – in particular the constitutional state – do not at all see the development of individuality […] as a barrier or obstruction, but as the outward guidelines for that which is itself good and right. (Schmoller 1864b, 535)

Schmoller's conception of society is based on institutions, which guide social and economic life, and he saw in the state the driving force that develops these institutions (Peukert 2001a, 76). His notion of an assertive state should, of course, not be misunderstood in this context. The provision of self-reliance and state reliance should, in his opinion, be subsidiary; thus "it would be good were the process to begin in the lower instances, the family, the community, customs" (Schmoller 1864b, 534). Preeminent roles in the inward and outward application of the, in his eyes, necessary reforms were assigned to the institutions of self-reliance. He aspired to social reforms which would awaken the awareness of personal responsibility in the working classes; he thus aimed to enable self-reliance and create the conditions necessary for it.

In his *Die Arbeiterfrage*, Schmoller provides an initial and optimistic solution: "self-reliance and personal responsibility" (Schmoller 1864a, 421), which one could perhaps even formulate as self-reliance *inducing* personal responsibility. With his integrated approach to questions of social policy, his distinction between the inward and outward effects of social policy measures, and the significance he attached to education, Schmoller performed a balancing act between the conflicting fronts. The expression of his desire to bestow upon the new capitalistic social order a level of social and political responsibility both created opportunities for new political perspectives and laid the groundwork for further scientific and public discourse.

2.4 The *Verein* Makes the Case for Social Policy

Schmoller's conviction that the only guarantee of economic prosperity, social stability, and cultural identity was to be found in reconciling conflicting social interests, which had emerged in the first half of the nineteenth century, remained with him his entire life. The labor question was to him never solely a question of economics, but an ethical, cultural question (vom Bruch 1985a, 67). As a result of his disputatious personality and yet conciliatory way of thinking, he soon became a focal point for politically like-minded economists who shared his both perspective on social equity and his criticism of the prevailing economic doctrine. In order to effectively campaign in public for their social cause, they required a common forum, particularly as the liberal-minded forces at the

Kongreß deutscher Volkswirte [Congress of German Economists] had a large section of the press behind them (Müssiggang 1968, 137; vom Bruch 1985a, 67).[45] The first step would be to raise awareness of the necessity of social reforms throughout the broader population, in the political parties, and within the Prussian government (Grimmer-Solem 2003, 140). As an institutional counterweight to the *Kongreß*, the socialists of the chair founded the *Verein für Socialpolitik* (VfS).

Besides Gustav Schmoller, the two most important representatives were Adolph Wagner, whose efforts were likely responsible for the foundation of the VfS (Wittrock 1939, 166–167), and Lujo Brentano. It was important to Schmoller that the VfS be an institution whose creation would allow for the collaboration of science and practice and be able to work towards a compromise of interests. Consequently, he called for the conferences to be open to as many participants as possible: The VfS was to focus its recruitment not just on academics from relevant fields but also individuals from the spheres of politics, economics, and publishing who had an interest in societal questions and did not consider the unconditional laissez-faire of the classical school of political economy a reliable panacea (Müssiggang 1968, 150). Ultimately, Schmoller was able to convince Wagner and Brentano of the need for this plurality, although they would have preferred a rather more homogenous participant profile (Gutmann 1993, 107).

After a round of preliminary, exploratory talks at Schmoller's private residence (Wittrock 1939, 171), the VfS was officially established in 1872 at a conference in Eisenach which had been convened to discuss the social question.[46] As a prelude to this "Eisenach Conference," Schmoller gave a groundbreaking opening speech that was to determine the guiding principles of the VfS, sketching out the conceptual framework of what can to all intents and purposes be thought of as the foundations of Bismarckian social reform. In his speech, Schmoller expressed his hopes that the *Verein* would create a basis for the reform of societal conditions, both unifying the opponents of Manchester liberalism but also setting them apart from socialist experiments (Schmoller 1873a, 5). As the participants were anything but a homogenous group with regard to their academic and political perspectives (vom Bruch 1985a, 65), Schmoller expressed a desire to avoid discussions of principles, intending instead from a position of political neutrality "to concentrate on the most important, most of-the-

[45] The *Kongreß deutscher Volkswirte* was an itinerant conference which met for the first time in 1845, in Gotha, and which argued for free trade and liberal economic ideas. Its members were particularly committed to freedom of trade, the free movement of persons, and cooperative societies.

[46] Three years earlier, also in Eisenach, the *Sozialdemokratische Arbeiterpartei* (SDAP) was founded, a forerunner of the present-day SPD, the *Social Democratic Party of Germany*.

moment points of reform […] and to attempt to bring about their practical resolution" (Schmoller 1873a, 3).

In his speech, Schmoller took back the term "socialism of the chair," applying it to himself and his like-minded contemporaries, and defining it more clearly. As he had already explained in *Die Arbeiterfrage*, Schmoller considered economic liberty – i.e., freedom of trade, of movement, and of establishment and contractual freedom in general – to be the "most important and most just requirements of our time" (Schmoller 1864b, 532). In this sense, he understood the socialists of the chair to be liberals both in origin and in outlook, praising the progress made by the new liberal market. Nevertheless, he argued for greater state influence, "which, standing apart from egotistical class interests, was to legislate, administrate with a just hand, protect the weak, elevate the lower classes" (Schmoller 1873a, 4). Of primary concern for the socialists of the chair was the gradually widening gulf between the classes in "decency, education, outlook and ideals" (ibid.):

> [The contrast] soon became ever more striking, just as the social question, growing in importance by the day, was utterly unsuited to a solution based solely on the principle of state non-intervention, solely on the dogma of granting free rein to the egotism of the individual. (Schmoller 1873a, 2)

Historical accounts had brought Schmoller to the conclusion that "all higher culture did ultimately decline as a result of similar oppositions, of class warfare and revolution, as a result of the inability to bring about reconciliation between the higher and lower classes" (Schmoller 1873a, 4–5). In order to counteract this effect, social reform was to be integrated into "the existing economic legislation, the existing forms of production, the existing educational and psychological circumstances of the different social classes" (ibid., 5). In particular, with regard to the often-tense relationship between employer and employee, Schmoller developed specific ideas concerning – among other things – trade unions (Schmoller 1873b), employment contracts (Schmoller 1874b), workers' operational participation (Schmoller 1890a; 1892b), and profit-sharing mechanisms (Schmoller 1890b). In the next section, these principles will be discussed in more detail.

Initially, in the years after its formation, the agenda of the VfS was to lay the foundations for social legislation that would make participants out of the mass of German factory workers, affording them a more self-determined existence than was possible under the conditions of the virtually unregulated market of the time (Balabkins 1993, 25). It is difficult to precisely determine the success and effectiveness of the VfS; its influence cannot clearly be distinguished from that of the socialists of the chair or the younger historical school more generally. It is irrefutable, however, that the VfS exerted an influence of varying intensity

on both press and parties, hence affecting the general political climate (vom Bruch 1985a, 125). By the turn of the century, the efforts of the VfS had changed the public perception of the social question in Germany (Hansen 1993, 152).

Regardless of the success of their petitions to affect legislation directly, the socialists of the chair certainly influenced state policy, at least indirectly: Towards the end of the nineteenth century, almost every professorship for political economy in Germany was held by a socialist of the chair, and as such the government officials and thus decision-makers on social legislation also emerged from this school of thought (Müssiggang 1968, 155). Consequently, one might argue that the army of Prussian officials whose thinking had been shaped by the work of the *Verein* could be considered just as directly accountable for the subsequent social reforms as the efforts of the more distinguished members of the VfS. Germany was the first country in the world to introduce, in the course of Bismarckian social legislation in 1883, statutory health insurance for workers, followed by accident insurance in 1884 and old-age and disability insurance in 1889. This paradigm shift in the German Reich's economic and social policies, towards a greater level of state involvement in the sphere of social policy, could also be seen in the way that the Chancellor Otto von Bismarck, when visiting Strasbourg in 1875, told Schmoller that he too was a socialist of the chair (Schmoller 1890c, 464–465).

The relationship between the socialists of the chair and Bismarck, who was following his own personal political goals with his top-down approach to state social reform, was nonetheless an ambivalent one.[47] Unlike Bismarck, the socialists of the chair were quite able to imagine reform coming "from below," negotiated by way of incentives and an environment which would enable self-reliance (Eidenmüller 1995, 47). There is an undeniable irony to the fact that it was Bismarck's social legislation, of all things, which rather took the wind out of the *Verein* members' sails (Grimmer-Solem 2003, 210) after the success of their first decade as the "spearhead of social reform" (vom Bruch 1985a, 79). The VfS was thus prompted to increasingly disregard the labor question, returning to it only after the accession to the throne of Kaiser Wilhelm II and Bismarck's subsequent dismissal. The "February Decrees" of 1890, a reaction to the miner's strike in the Ruhr the year before,

[47] There are good reasons to conclude that Bismarck's social policies were far more the result of politically opportunistic motives than purely social ones (van Meerhaeghe 2006, 295). Of at least equal importance to him was his strategy of weakening the forces of social democracy in their fight for social equality (seen in the Anti-Socialist Laws of 1878: *Gesetz gegen die gemeingefährlichen Bestrebungen der Sozialdemokratie*), while simultaneously pacifying the working classes with social legislation.

announced the introduction of operational workers' committees, among other things (Teuteberg 1961, 362–376), and brought the labor question back onto the agenda of the VfS.

2.5 The Ethical Integration of the Worker

Schmoller directed intense attention to the factually existent institutions both of the labor market in general and within corporations specifically. In numerous publications on this topic, he focuses in particular on the psychological and ethical relationship between employer and employee, which – as a result of industrialization – underwent dramatic change throughout the nineteenth century. His analyses concentrate less on formal (legal) aspects such as employment contracts, etc., and more on their informal institutional effects on economic processes. The socialists of the chair identified in the economic and social reality of the labor market a discrepancy in the balance of power which benefited the employer, and which they thought had been neglected in the theories of classical political economy. They were unanimous in their stance that work is not a good like any other, but that it is fundamentally different from the other factors relevant to production; sufficient alone for this assertion were the facts that work is inseparable from the worker's person, and that the worker's livelihood is dependent on his employer and his wages (Brentano 1874, 147; Schmoller 1874b, 72). Schmoller's goal was the "proper incorporation of wage labor, both into a life lived in free employment and into the mechanisms of new economic enterprise" (Schmoller 1918b, 205). He feared that, if the ethical integration of the workers were to prove unsuccessful, the workforce might turn against industrialized progress altogether. The best way for a corporation to protect itself against socialist unrest, according to Schmoller, was to integrate the workforce, in the long term and in their own interests. It would solve the problem of the discrepancy in the balance of power between employee and employer.

One institution which Schmoller (1873b, 93) thought would be of use here were the *Gewerkvereine* [trade associations, a forerunner of the trade unions]. Unlike liberal thinkers, he considered these organized "workers' coalitions" an integral part of a freely organized market. He thus advocated the state authorization of trade unions, and – with a view to developing the economy as a whole – campaigned for their advancement:

> And I must emphasize this in the most energetic way possible […] to counter these so-called practical demands; it is a great short-sightedness to always think only of the momentary detriments to working conditions and their resolution. A businessman, an industrialist might make these calculations – the economist must apprehend the entire process. […] For him, the question does not arise as to whether

> some businessmen may suffer further or fewer inconveniences, but in what way the entire contemporary economy is developing. (Schmoller 1873b, 82–83)

Unlike most contemporary economists, Schmoller advocated freedom of association, and strikes as the workforce's last resort, seeing in them the only way of upholding the liberal values of freedom of trade and contract. Otherwise, the inherently inequitable negotiating positions of employer and employee would not allow for the free settlement of contracts. "Freedom of trade is nothing but the regulation of the public contest for material interests, within certain legal confines. However, if this contest is to be a fair one, one cannot bind the hands of one party" (Schmoller 1873b, 80). It is his argument for free but fair competition on the labor market: The unions are accommodated within Schmoller's fundamental principle of social reform, which was that self-reliance would induce personal responsibility, "keeping the moderate worker to the fore, and undermining the foundations of the revolutionary parties" (ibid., 88). With this approach, the socialists of the chair intended to alleviate the discrepancy in the balance in power between the industrialists and the workforce and in a way also laid the groundwork for the notion of the so-called *Tarifautonomie* [free collective bargaining] in Germany.

Although Schmoller, for the reasons given above, was an advocate of the *Gewerkvereine*, he was not oblivious to their great potential for conflict, which might be triggered by a politicized, overly aggressive, and hostile attitude in the economy at large (Grimmer-Solem 2003, 238). Unlike Brentano, Schmoller thought workers' operational participation a considerably more effective institution than the unions, which acted outside of individual corporations (Teuteberg 1961, 285–286). It could be characterized as an almost subsidiary notion of reform, trying as he did to implement the social integration of the workers at the lowest possible level:

> We must reform from the ground upwards, we must establish peace in each individual business, and then we shall find it in entire branches of industry, and in all of society. This will happen only if we give the employees in every individual larger business, by way of operational workers' committees […] an interest in the prosperity of the business. (Schmoller 1890b, 460–461)

Looking at their composition and their remit, these workers' committees can in many ways be thought of as the forerunner of modern works councils (Teuteberg 1961, 111). The concept had already been developed by the economic commission of the Frankfurt Parliament (1848), although the Parliament's collapse meant that, initially, the idea was not drafted into legislation (Eidenmüller 1995, 129–130). Admittedly, there was a small number of progressive employers in the second half of the nineteenth century who, of their own

accord, granted their workers a certain measure of participation in operations.[48] This led to the emergence, for example, of "constitutional factories," which were intended to be run on the model of constitutional monarchies. In this analogy, the owner was the monarch, the workers' committee the parliament, and the workforce the electorate. Schmoller acknowledged the fact that "such workers' committees, factory councils and boards of elders […] almost always were created on the initiative of the employers" (Schmoller 1890a, 426). He remained convinced, however, that internal operational labor relationships could not be based on good will alone, but on legal rights (vom Bruch 1985a, 86). It was thus first and foremost Schmoller who, through the VfS, demanded industrial legislation that would stipulate the introduction of workers' committees (Graetz 1974, 94):

> All those who feel any affinity with social reform, who believe in a better future for society, and yet are disinclined to support sudden socialist experiments, all those know that social progress is slow, perceptive work, they have reason to endorse with every energy the proliferation of such workers' committees. (Schmoller 1890a, 440)

Schmoller's goal, on the one hand, was to harmonize the interests of the industrialists and the workforce: "This understanding can only mutually grow by way of an exchange of ideas, through collective discussion, through the advancement of collectively administered businesses" (Schmoller 1892b, 475). On the other hand, he hoped that the committees would alleviate the imbalance in the relationships of dependence: "I thus find that a redress of this inequitable dependency could only be reached if the manufacturer were to negotiate the organization of the factory with his workers" (Schmoller 1874b, 99). Schmoller expected the operational involvement and greater say of the workforce to have an "inward" effect on the workers themselves – more so than would be the case in the unions – and thus preferred this approach:

> If the larger corporations are thus transfigured from within, through workers' committees and through settlement procedures associated with the workers' and factory organizations […] in this way, by degrees, the economic and social status of the working classes shall be successfully improved, and, which is more, they shall be elevated intellectually and morally. (Schmoller 1892b, 477)

Although initially only voluntary in nature, operational participation became law in the German Reich for the first time with the passing, on June 1, 1891, of the *Arbeitsschutzgesetze* [working conditions acts] (Schmoller 1892b, 474; Graetz 1974, 95; Abelshauser 1999, 226):

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[48] Max Sering presented a comprehensive study of workers' committees in German industry to the VfS; see Sering (1890). Among the socialists of the chair, Sering and Schmoller were the greatest proponents of the committees.

> Still, the same principle must penetrate further into the heart of major industry. Our democratic times will not accept in any situation where large numbers of adult, married men freely collaborate that a few alone may command and the rest obey. A certain constitutional charter must nowadays be part of all social organizations. This is made possible in the individual factory by the factory's owner meeting with an elected committee of workers so that they may discuss certain matters with him. (Schmoller 1892b, 475)

These observations make it clear that Schmoller considered a business to be not just an economic organization but also – and equally – a social institution with an influential role within the economy (Grimmer-Solem 2003, 238). The socialists of the chair believed that reform on the level of the single enterprises, "from the bottom up" and "from the inside out," could bring about peace for all of society (Schmoller 1890b, 460–461).

Schmoller identified the workers' committees as a formal institution for conflict resolution on the lowest level. In accordance with his psychological and ethical notion of humanity, however, he also saw them as an institution from which effects on informal processes emanate, creating a shared identity, a feeling of self-worth, and communal interests and mutual obligations (Teuteberg 1961, 288). Another institution associated with this concept is employee profit sharing: The idea of profit sharing [*Antheilswirtschaft*] was not unknown in the nineteenth century (Eidenmüller 1995, 146–149). The socialists of the chair were thus moved to ask whether profit sharing might be suitable for mitigating the effects of the discrepancy in the balance of power in industrial corporations. The academic discussion did not necessarily proceed harmoniously, and criticism was rife in liberal circles (e.g., Prince-Smith 1868). The fear was that private entrepreneurs would have their power compromised. Regardless, it was not Schmoller's intention to restrict industrialists' ownership rights. His concern was the emancipation of the workers. His conclusion, however, was that profit sharing would also be in the fundamental economic interests of the owners:

> The voices of the industrialists are united in stating that the people's efforts, their application, their diligence and their efficiency with material and machines have increased in greater proportion than the shares thereof paid to them in wages, and thus that the corporations […] have done a good piece of business. (Schmoller 1890b, 455)

As he did with regard to unions and workers' committees, Schmoller was looking to find fundamental solutions that could be institutionally integrated into the economic efficiency of the market (Frambach 2006, 229). In his opinion, the benefits of profit sharing were that it could be implemented easily, regardless of the size of a business, and also that – as a supplement to their usual wages – it would promote economic thinking among the workers:

> The worker who receives a share of any profits will begin to consider at all times what would benefit the business, he will become inventive, improving his products without being exhorted or impelled. He will of his own accord familiarize himself with the vicissitudes of business life, thus abandoning utopian demands and plans. Of the enemy who hates and envies his employer will be made his participative comrade. (Schmoller 1890b, 455)

In his conceptions of reform, however, Schmoller never lost sight of the historical reality of large corporations. As emphasized in his later works, integration did not, for him, mean "that employer and worker share the management, that both parties are somehow by turns meant to command and obey. […] The employer must retain the dismissal as a last disciplinary resort" (Schmoller 1918b, 218–219). He also displayed his sense for organizational problems, describing the basic idea of the principal-agent problem as early as 1900: "The large corporations are becoming less and less suited to remaining in the hands of individual, personal proprietors. […] In large companies, a growing number of clerks have inserted themselves between the managers and the workers" (Schmoller 1908/1978, 516). Schmoller realized that in large companies, profit sharing may at times be insufficient to steer the workers towards effectively performing their increasingly complex tasks. At the same time, he formulated an initial approach to solving the principal-agent problem: long-term incentives such as "rising salaries, provision for old age, contracts for years or for life," and measures to increase intrinsic motivation that promote "interest in the business [and] honesty" (ibid., 518).

2.6 A Disputatious Advocate of the Working Class

Schmoller's way of thinking should be both historical-realistic and psychological-ethical. It shaped the younger historical school and the entire field of political economy in Germany. Schmoller's publications cover a broad spectrum of topics relevant to the economic and social sciences. Himself strongly opinionated his entire life, his approach polarized opinion both in the academic and the political sphere; alongside his numerous allies, his outlook also earned him equally influential adversaries.

A number of economists – then and now – consider Schmoller to have come off second best in both of his methodological disputes with Carl Menger and Max Weber and speculate that this may have led to the demise of the historical school (Rieter 2002, 153). Be that as it may, the debate into which Schmoller truly put his "body and soul" (Schmölders 1993, 99) was, anyway, the ever-present dispute over peaceful social reform. In his pursuit of the advancement of the working classes, he himself became a disputatious advocate of the

workers (Grimmer-Solem 2003, 281). In this role, he fought to secure numerous victories, or laid what hindsight has shown to be their foundations. Schmoller's realistic assessment of the nature of corporations and the labor market led him to formulate concepts of reform which were at least partially realized – and those that were not still seem desirable today (Schneider 1989, 373–374).

Undoubtedly, Schmoller's optimistic and often state-reliant suggestions for reform are not applicable to the modern welfare state in every respect. his own optimism occasionally deserted him, too, in the course of the sustained arguments regarding the ethical integration of the working classes. Still, his universal cause – that social policy be considered a fundamental element of economic policy – was taken up in the twentieth century by the ordoliberal thinkers around Walter Eucken (Hansen 1993, 158–172; Blümle and Goldschmidt 2006a), and thus has also found its way into the "Social Market Economy" of the present-day Federal Republic of Germany. Many of the developments that have taken place since Schmoller's death would have been unthinkable without the pioneering work of the socialists of the chair.

Today, Schmoller's ideas are more relevant than ever. Considering the – once again – growing calls in the economic sciences for realism, pluralism, and social relevance (Goldschmidt et al. 2016), it seems clear that it was an error to have excluded the history (of economic thought) and thus the memory of Schmoller from the standard textbooks (Hodgson 2001). His approach might be able to help to win back some of the trust that the economists' profession has lost in recent years, or least help them to learn from their own mistakes. His broad and undogmatic perspective on the socio-economic problems of the people and on the relationship between academia, economy, and the state could serve as an example for a politics of unification in a time where society seems to be drifting apart.

3 The Institutional Context of Entrepreneurship

Although surely few scholars would deny the unique relevance of entrepreneurs to the economy and to economic development, the subject of entrepreneurship has been largely omitted in mainstream economic theory and in leading standard textbooks (Baumol and Schilling 2008, 2; Landström 2015, 24). There were indeed some early efforts in the history of economic thought that addressed the emergent role of the entrepreneur (see Hébert and Link 2006), but they were mostly driven by the attempt to define entrepreneurship in the context of capital accumulation or of individual risk taking.[49] The works of Joseph A. Schumpeter, who instead focuses foremost on the significant implications of entrepreneurship for technological and economic change, are seen by many as the zenith of the discipline when it comes to discussions of entrepreneurship; but in terms of mainstream recognition they remain an exception. Especially in the predominant theory of neoclassical economics the entrepreneur was transformed into a static and rational economic agent. In this abstract definition, the entrepreneur disappears behind capital and self-optimizing production functions, or at best behind an ill-defined part of the firm. As Baumol (1968, 66) puts it: "The theoretical firm is entrepreneurless – the Prince of Denmark has been expunged from the discussion of Hamlet."

The profound lack of interest in the role of the entrepreneur was already inherent in late eighteenth-century British classical political economy which established a quite sterile notion of entrepreneurship (Hébert and Link 2006, 308). Two reasons can be given. On the one hand, the classical school's founder Adam Smith directed the discipline largely toward the consumer side. In Smith's view, consumption "is the sole end and purpose of all production; and the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer" (Smith 1776/1840, 274). As a result, in classical theory the entrepreneur's role is reduced primarily to that of a provider of capital (Streissler 1989, 19).[50]

On the other hand, under the influence of David Ricardo, the late classical doctrine developed into what Goldschmidt et al. (2016) define as *isolating economics*. This term

[49] The term *entrepreneur* is first used by Richard Cantillon, making reference to the uncertainty of economic activity and the willingness to accept risk (Cantillon 1755/1931).

[50] Of course, all scholars of the classical school have to be evaluated on their own merits. Scholars whose work exhibits exceptions to this reductiveness include Jean-Baptiste Say and John Stuart Mill, both of whom outlined further entrepreneurial functions.

describes a theoretical approach that is predominantly concerned with the general processes operating *within* the economic order, largely separated from time, space and its interrelations with other societal orders. While it is beyond doubt that isolating economics has led to considerable progress in economic science, it has advanced ultimately through ever-greater (mathematical) formalization and abstraction. Built on the general equilibrium paradigm, the development of economic theory dominant today, led from classical political economy to neoclassical economics and then to the neoclassical synthesis of Paul Samuelson. Yet pursuing this path made it ill-equipped to address changes in the economic environment and, therefore, lost sight of the essence of entrepreneurship (Landström 2015, 25; Hudik and Bylund 2021, 954). The assumption of timeless static equilibria within a self-contained economic order leaves virtually no room for enterprise or entrepreneurial initiative, which – in stark contrast – are based explicitly on dynamism, transition, and transformation (Baumol and Schilling 2008, 3). For instance, following Schumpeter, the innovative entrepreneur is essentially a creative destroyer of economic equilibria who dares to navigate "outside the familiar routine" (Schumpeter 1942/2003, 132), while Kirzner (1979) in turn shows how the alert entrepreneur seeks out disequilibrium-based arbitrage opportunities.[51]

Since pervasive social and economic change does not play a major role in isolating economics, it is understandable that perspectives on entrepreneurship are largely neglected. This may be a valid theoretical approach in cases where the economic order has differentiated itself out of society,[52] and where the relationship between economy and society is reasonably stable, as was the case for nineteenth-century British classical economics or for postwar neoclassical economics in the Western world. But in order to examine transition and transformation – and thus the genuine nature of entrepreneurship – *contextual economics* approaches have a comparative advantage (Goldschmidt et al. 2016, 5).

Contextual economics is mostly concerned with the processes occurring at the interfaces between the economy and the other societal orders. According to Goodwin (2010, 21), its starting premise is that "an economic system is embedded within a social context that

[51] In this sense, it is fitting that Israel Kirzner, one of the leading economists in the field of entrepreneurship, considers the role of entrepreneurs to be pivotal and much more extensive in scope than has been acknowledged in the literature (e.g., Kirzner 1979, 107). Hence, Kirzner disapproved of neoclassical theory to the extent that it was unable to account for the entrepreneur (Douhan et al. 2007, 221).

[52] Modern mainstream economics has to be considered the result of what Karl Polanyi called the "great transformation": the functional differentiation of a self-contained economic suborder out of a broader societal order. But this development is neither self-evident historically, nor is it predetermined as such (Polanyi 1944/2001, 71).

includes ethics, norms and human motivation, and the culture that expresses them. It also includes politics – that is, the development of economic and other kinds of power – as well as institutions, and history." With regard to entrepreneurship, this approach enables a broader and more accurate analysis that is not feasible in isolating economics because of its high degree of abstraction.[53] One school of thought that did radically dedicate its research and teaching to issues of context, and thus made pioneering contributions to the development of contextual economics, is the German historical school of political economy under the leadership of its *spiritus rector* Gustav Schmoller.

The conviction of studying the economy in its complex entirety, of grasping it as a dynamic and evolutionary "social organism" is central to the approach of the historical school (Hodgson 2001, 63–64). Schmoller's essential insight that institutional development is just as important as technological development could hardly be more relevant for the future prosperity of today's economies (Hodgson 2019). Methodologically, his approach is highly inductive and empiricist, resulting in studies of economic history in which human behavior, as well as the ethics and institutions that shape it, constitutes the tangible object of research. To this end, the historical school gathered vast amounts of empirical statistics, the evaluation of which also led to numerous accounts of the economic and societal role of the emergent entrepreneurial class and its private enterprises. Throughout his extensive oeuvre, Schmoller dedicates over fourteen hundred printed pages to the scrutiny of the nature and development of the *Unternehmung*.[54] His intention was to provide an answer to "what an enterprise as an institution of society is, where it emerges, what different forms it takes under which conditions, which psychological and legal principles it is governed by, which persons and groups of persons have a role in it, what functions and consequences it has for production and commerce, for the distribution of goods and the formation of capital, for cultural life both societally and otherwise, how it is integrated into the system of the other social institutions" (Schmoller 1890e, 738).

Schmoller's theory on entrepreneurship grew out of a critique of classical economics' failure to deal with the socio-cultural institutions that had fundamentally changed the economic order (Wadhwani 2010, 345). He thus – unintentionally – became one of the

[53] It is not the aim of this thesis to engage a fruitless either/or debate about the superiority of one approach over the other. Instead, it provides an alternative perspective on the role of the entrepreneur, and on the enterprise as an organization and special form of institution, which might contribute to a better understanding of the phenomenon of entrepreneurship.

[54] Particularly noteworthy are the following Schmoller publications (1870; 1874b; 1890a; 1890d; 1890e; 1890f; 1891a; 1891b; 1891c; 1892b; 1892c; 1893a; 1893b; 1908/1978, 456–560).

founding fathers of entrepreneurship research (Schmude et al. 2008, 290). In fact, even Schumpeter considered Schmoller's work on private enterprise to be one of his "finest pieces" (Schumpeter 1954, 810). Nevertheless, since the decline of the historical school, his oeuvre has (knowingly or not) been neglected for the most part (Senn 1989, 279; Hodgson 2006b, 170–172). It is only now – or so it seems – that a growing interest within the field of business administration, in research areas such as contextual entrepreneurship or business history, has led to a rediscovery of Schmoller's early observations (e.g., Kipping et al. 2017; Wadhwani and Lubinski 2017).

It might be too soon to infer the emergence of a global *Schmoller Renaissance* (Peukert 2001a), but it is to be hoped that other branches of modern economics will follow suit and realize that they too would profit from Schmoller's still underutilized groundwork in the field of contextual economics (Hudik and Bylund 2021, 944). His historical insights into entrepreneurship, whose rapid expansion he examines in the context of German industrialization; his profound understanding of questions of the organization and governance of the modern enterprise and its institutional interactions with society; finally, his psychological and ethical depiction of the entrepreneur as an economic actor and human being – these are all good reasons to examine (or re-examine) Schmoller's ideas regarding what is, even today, a relatively uncharted object of research. Given "the growing call for the restoration of entrepreneurs' place in theory" (Baumol 2010, 188), familiarity with his works could be a great asset for a better understanding of entrepreneurship in economics.

3.1 The Agenda of Entrepreneurship in Schmoller's Work

It appears quite reasonable that the tradition of a decidedly contextual understanding of political economy originated in Germany in the mid-nineteenth century (McAdam et al. 2018, 185–189): Compared to Great Britain and Western Europe, the onset of industrialization was a relatively late development. The rapid transition from a traditional into an industrial society was accompanied by radical upheaval. The extensive reorganization of the socio-economic structure gave rise to numerous issues, that were intensively discussed in German academia as the *social question* (Grimmer-Solem 2003, 89–126). Unable to dedicate their research and teaching to an already sufficiently existing economic order – let alone a stable one – German economists of the time first and foremost sought to examine the relevant institutions to achieve a sound catch-up development (Shionoya 2006, 190). In considering the emergence of modern enterprises and the role of

the entrepreneur essential for this development, they, unlike their British counterparts, deliberately addressed the subject of entrepreneurship in their works (Streissler 1989, 22).[55]

For Gustav Schmoller, it was evident that economic phenomena such as entrepreneurship are historically grown and embedded within, and in permanent interaction with an effective institutional framework based on morality, custom, and law – not on abstract and mechanistic concepts that transcend time and space (Schmoller 1911, 463). His contextual research program for illuminating such complex objects of inquiry can best be described as *historico-ethical political economy* (Nau 2000). *Historico* – because Schmoller had a profound evolutionary understanding of the economy, according to which the actual reality of economic life (and this is what he was exclusively concerned with) arises as the result of a specific context. He was convinced, therefore, that economic insights were to be gained primarily from historical research (Schmoller 1911, 461–465).[56] *Ethical* – because Schmoller understood his approach, like economic science in general, to be first and foremost a science of human beings, as one branch of a general science of cultural studies and the humanities. The true desideratum of his research is not economic efficiency or material wealth (as an end in themselves), but the cohesion and integrity of society, which he considered to be the prerequisite for economic activity (Schmoller 1875a, 39–40). And since human action and social interaction are shaped by ethical frameworks, ideas of morality, values, and norms had to be the main subject of economic analysis for Schmoller. One often overlooked aspect should be stressed here: with regard to his science, Schmoller did not want the attribute "ethical" to be understood in the sense of a moralizing doctrine of virtue. His overriding concern was not a normative declaration of moral values, but a positivist examination of their emergence and socio-economic impact (Schmoller 1911, 473; see also Herold 2019, 38–40). For this reason, he intended his economic perspective to be a "psychological-ethical consideration" (Schmoller 1908/1978, 124).

The Schmollerian notion of political economy, of course, also permeates his research on entrepreneurship. In fact, his treatises on the development of the modern enterprise can be considered prime examples of how Schmoller approached a concrete object of research (see Backhaus 1993/94, 11–12). First of all, it was his intention to depict as realistic and faithful

[55] Pioneering works from outside the historical school here include Karl Heinrich Rau's *Grundsätze der Volkswirtschaftslehre* (1826), Hans von Mangoldt's *Grundriß der Volkswirtschaftslehre* (1863), and Albert Schäffle's *Die nationalökonomische Theorie der ausschließenden Absatzverhältnisse* (1867).

[56] Schmoller considered history, or the "historical method," to be an auxiliary science of economics. Nevertheless, findings from economic history, he argues, are not be understood as "economic theory, but as building blocks for such a theory" (Schmoller 1911, 464).

a picture as possible of evolving entrepreneurial practices, embedded in their historical and cultural context. The key here, he contends, was a comprehensive historical record of the changing organizational forms of the enterprise in their dependency on both technological progress and institutional change (Schmoller 1890e, 735–742). Schmoller uses history and the "comparative method" as a tool to explain the performance and development of entrepreneurship, and in turn to trace the causality of broader economic and societal developments. As Ebner (2000) suggests, this approach had an important influence on the research program of Schumpeter. The fundamental idea of using historical methods and reasoning offers significant opportunities to advance entrepreneurship research even today (Wadhwani et al. 2020; Hudik and Bylund 2021).

Regarding the various forces that affect (or are affected by) the evolving forms of the enterprise, Schmoller's historical studies are not limited to quantitative or physical aspects such as technical progress or population growth. Although he concedes that these often have a catalytic effect on institutional or, especially, organizational change, the real emphasis of his studies is on the qualitative or "psychological-ethical" dimension (Schmoller 1890e, 739–740). The scope and character of an enterprise necessarily conform to the specific context of prevailing ideas, moral principles, and (customary) laws, not to any logical scheme of development, for example, from small to great or from a tall to a flat hierarchy. The question later addressed by Coase (1937) and Williamson (1971), namely under what circumstances does the exchange of goods take place within organizations, would have been answered by Schmoller's contention that it is the established norms of conduct that determine the proper social cooperation of people, and thus enable the emergence of suitable forms of social organization that can form substitutes for market exchange (Backhaus 1993/94, 13–14).

But it was not only with regard to the organizational form of the enterprise that Schmoller identified the ethical framework prevalent in a society as crucial. He goes further, concluding that this framework's manifestation in morality, custom, and law determines the direction of entrepreneurship in general. Whether the exercise of entrepreneurial activities works to the benefit or detriment of societal concerns is thus determined by the interrelation of the institutional context and the psychological and ethical forces that act within it (Schmoller 1890e, 740; 1893a, 361). With respect to this tenet, his notion of entrepreneurship appears compatible with Baumol (1990), who distinguishes between the productive, unproductive, and destructive entrepreneurial activities that the same person can engage in depending on

"the reward structure in the economy" (ibid., 894). Nevertheless, in Schmoller's approach the reward structure would certainly be driven more by an ethical momentum.

Schmoller assumes that the entrepreneurial "acquisitive impulse [*Erwerbstrieb*] is not a universal force of nature, [but] is always bound and restrained by certain moral influences, legal statutes and institutions" (Schmoller 1908/1978, 37). This basic assumption reflects an essential element of his entrepreneurship theory. Moreover, it indicates an inherent policy dimension of the underlying research program. In his own words, the task is to identify

> which moral instruments and which social institutions, on the one hand, maintain a measure of healthy acquisitive impulse – without which the economic endeavors of large communities (their rightful self-assertion), personal freedom, and the development of individuality is unthinkable – and yet, on the other hand, allay the greed and social injustice that threaten our moral and economic existence. (Schmoller 1908/1978, 36; see also 1893b, 1015–1018)

The fact that Schmoller's scientific work in its practical and sociopolitical orientation is not sparing with normative ideas gave rise to considerable criticism. One prominent commentator was Thorstein Veblen. In a review devoted to the first volume of his *Grundriß*, Veblen's conclusion is strikingly ambivalent, especially with regard to the analysis of entrepreneurship. On the one hand, he clearly shares Schmoller's view that "business enterprise" and "its present central and dominant position" must be considered the gradually evolved outcome of certain historical and cultural contexts (Veblen 1901, 92). "What this modern cultural situation is and what are the forces, essentially psychological, which shape the further growth of the situation, no one is better fitted to discuss than Professor Schmoller" (ibid.), Veblen acknowledges approvingly. On the other hand, the review takes on a more severe, critical tone whenever Veblen feels that "the author becomes an eager and eloquent counsellor, and argues the question of what ought to be and what modern society must do to be saved" (ibid., 85).

Veblen accuses Schmoller's analysis of falsely "proceeding on the assumption that the stage now reached is, or at least should be, final" (ibid., 92). Yet, while there is no doubt that normative value judgments can be debated from numerous perspectives, this justification does not do justice to Schmoller's theory of entrepreneurship. In fact, the examination of a broader spectrum of his writings reveals the opposite: Schmoller deems, quite explicitly, neither the organizational form of the enterprise nor the role of the entrepreneur to be a completed phenomenon, but as uncertain, developing, and to be shaped (e.g., Schmoller 1875a, 92; 1890a, 374; 1890d, 96; 1890e, 739–740; 1893b, 1017–1018). This perspective, typical of Schmoller, is crucial in order to understand the agenda of entrepreneurship in his

work. For a comprehensive review, it is helpful to divide his research on this topic into three phases (see Schneider 1993/94, 359–362):

The *early phase* comprises two texts from 1870 and 1874, in which Schmoller primarily develops preliminary value judgments regarding freedom of trade, labor contracts, corporate governance, workers' committees, cooperative societies, and so on.[57] These elements are included and expanded upon in his later work. At the very beginning of this period, he attempts to show that it would be a mistake to assume that the bare introduction of economic liberty would automatically result in accelerated economic growth (Richter 1996, 570). Instead, Schmoller argues, rapid change in "external economic life" needed to be complemented by analogous changes "of customs and habits, of the consciousness of law and morality" (Schmoller 1870, 662).

The *main phase* includes several works published between 1890 and 1893.[58] Over this period, Schmoller develops his conception of the modern enterprise as an "economic and social organization" (Schmoller 1890e, 736). The most compelling notion is his emphasis on and accentuation of the enterprise as a special form of institution. Attempting to trace the nature and the historical development of the *Unternehmung*, the main phase concludes with a series of thirteen essays. If it had been his only goal to formulate the valid laws of the underlying evolution here, then the assessment of Schneider (1993/94, 362) would seem to hold true – he failed. After a convincing introduction, the essays meander, with a series of – by today's standards – protracted descriptions of isolated points in history, from the "ancient labor cooperatives" in tribal society to the colonial "trade society of the seventeenth and eighteenth centuries." Still, Schmoller's sweeping narrative is successful with regard to a different goal: between the lines – and perhaps without any great intent – he paints a detailed picture of entrepreneurs and their role in an interdependent state of tension with institutional change.

The *mature phase* is constituted by Schmoller's two-volume *Grundriß*.[59] In his magnum opus, the lines of argument that he had systematically developed in earlier works are brought

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57 *On the History of German Small Businesses in the 19th Century* (1870) and *The Nature of Employment Contract and the Breach of Contract* (1874b); own translation of titles.

58 *On the Nature and Constitution of Large Scale Enterprises* (1890a), *The Nature of the Division of Labor and the Formation of Social Classes* (1890d), *On the Development of Large Businesses and the Formation of Social Classes* (1892b) and *The Historical Development of the Enterprise* (1890e; 1890f; 1891a; 1891b; 1891c; 1892c; 1893a; 1893b); own translation of titles.

59 With the *Grundriß*, his intention was to recapitulate the results of his "special research into political economy" (Schmoller 1908/1978: IX). The first edition was published in two volumes in the years 1900

together, yielding a coherent image of what, in his opinion, the enterprise and the role of its entrepreneur are – of their conditions and of their purpose. In the final two chapters of the first volume, he offers an accurate description, in all its complexity, of the enterprise at the beginning of the twentieth century (1908/1978, 456–560). Schmoller distinguishes between the internal side ("the personal and technical organization") and the external side ("the interrelationship with the market, and with the rest of society"); both are part of any enterprise (ibid., 460). This characterization, which approximates a general definition of an enterprise, can still be considered valid (Pierenkemper 2011, 38).

With his extensive works, which do not fall just into the realm of economics, but also cultural studies, sociology, psychology, and (legal) history, Schmoller can be considered one of the founding fathers of entrepreneurship research. Even if most of these scholars would not have thought of themselves as entrepreneurship researchers, the origins of the discipline can be traced back to German political economy of the nineteenth century (Schmude et al. 2008, 290). Examining entrepreneurship was not purely an end in itself, neither for the historical school in general nor for Schmoller in particular. Instead, they thought of it as a means to an end, something which I ascribe to the following motivations:

(a) Historical situation in Germany: In the nineteenth century, Germany, in contrast to the more advanced Western European economies, was the first country to carry out catch-up industrialization. The domestic entrepreneurial landscape was only beginning to develop, providing German economists, interested in closing the economic gap, with a valuable field of research (Streissler 1989, 22).

(b) Tradition of mercantilism: The historical school originated in reaction to various traditions of thought, including mercantilism and its German variant, cameralism (Schmoller 1897/2018, 222; see also Schmoller 1896). Since the basic idea of its economic policy was profit-oriented trade, the exponents of mercantilism were quick to begin examining the entrepreneurial role of the merchant. Accordingly, for German economists, the concept of the entrepreneur appeared to be a familiar element of their cameralist tradition (Schumpeter 1954, 555).

(c) Historical method: Wherever possible, the historical school rejected the acquisition of knowledge via abstraction and the solely deductive construction of models. Schmoller argued that only detailed historical research was able to adequately capture the complexity

and 1904, after which he worked on a revised second edition, with publications in 1908 and posthumously in 1919.

of economic phenomena. For him, collecting and examining empirical statistics was a prerequisite to the formation of any economic theory (Schmoller 1881a, 7). To this end, business statistics in particular provided a rich and valuable source of data (Schmoller 1870, VII–IX).

(d) Endeavor to refute classical economics: The sterile and ostensibly universal conception of entrepreneurship held by classical economists ran counter to Schmoller's contextual approach to political economy (Schmoller 1897/2018, 223–224). The detailed elaboration of the various functions of entrepreneurship, taking into account the historical and cultural context, was thus another important element in the historical school's unceasing intellectual effort to refute the classical economists' claims of the universal validity of their theories (Streissler 1989, 22).

(e) Sociopolitical concerns: The research program of the historical school was motivated not by theoretical knowledge alone, but also by its practical application in the form of economic policies of social reform. Schmoller was convinced that the modern enterprise, as an essential institution of the economy, could play a central role in his social reform agenda (Grimmer-Solem 2003, 235–245).

3.2 The Nature of the Enterprise as a Social Organization and Irenic Institution

Schmoller's theory of entrepreneurship emerged as a by-product of his broader institutional research, which displays several similarities to the later work of Douglass C. North.[60] Building upon his general teaching of institutions and institutional change, Schmoller's works on entrepreneurship focus on the enterprise as an organization (such as firms or corporations). He differentiates between institutions and organizations (i.e., social organs) as follows: [61]

> Every institution is a collection of habits and rules of morality, custom, and law […] which are connected to one another, form a system, have been subject to common practical and theoretical instruction, firmly rooted in communal life […]. We understand the formation of organs to mean the personal side of the institution; marriage is the institution, family the organ. Social organs are the

[60] Richter (1996) offers an illustrative comparison of these two approaches in institutional economics. For an extensive discussion of the respective theories of institutional change, see Küssner (1995).

[61] The terminological differentiation between institutions and organizations as a special type of institution (i.e., its personal side) implies that Schmoller's conception of institutions enables more precise distinctions than is the case with North's theory (Küssner 1995, 129).

> lasting forms of the relationship between people and goods for specific purposes. (Schmoller 1908/1978, 61–62)

The entrepreneur, who expressed the initiative, guidance, and accountability of the enterprise was situated at the core of this organization (Schmoller 1908/1978, 460). And yet, it was initially the organizational form of the enterprise, and its structural adaptation depending on contextual change, that Schmoller, through historical analysis, employed in order to explain the nature of entrepreneurship.

Schmoller sees the causal origin and driving principle of all social organization (societal, governmental, and economic) in the consolidation of the division of labor (Schmoller 1890d, 48); indeed, he considers it the source of enterprise itself. The division of labor, he claims, emerges from the moral integrity of the community, and may even enhance it at first. Subsequently, however, the ongoing division of labor would lead to a disintegration of the community.[62] In a nutshell, the division of labor creates different occupational classes, within which hierarchies develop, which in turn leads to the formation of social classes. Schmoller identifies this hierarchy as a "psychological necessity" of economic progress (ibid., 79), while nevertheless warning that the formation of social classes represents a danger to the cohesion of society if the differences and resulting conflicts become too great (ibid., 96). In other words, the division of labor in complex market societies operates based on prerequisites that it cannot itself guarantee. It is therefore a characteristic of societies of "higher cultural stages" to have developed institutions that resolve this dilemma – for instance, social organizations such as the modern enterprise.

In modern approaches to institutional research, it is widely accepted that organizations are a special form of institution (Powell and DiMagio 1991; Miller 2010; Scott 2014; Guala 2016). This definition is propounded with particular emphasis by Hodgson (2006a; 2018). Making reference to his personal correspondence with North, he elaborates what makes organizations a special case from the standpoint of institutional economics (Hodgson 2006a, 8–11): an organization can be understood simultaneously both (1) externally as a unitary actor within an overarching institutional environment and (2) internally as its own institutional microcosmos that involves rule-systems of membership, governance, conduct, etc.

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62 Schmoller's reasoning resembles Durkheim's theory found in *The Division of Labour in Society* (1893). Although fundamentally in agreement, Schmoller was skeptical about the general belief of Durkheim that continuing the division of labor per se would lead to growing solidarity within society (Nau and Steiner 2002, 1016).

Schmoller addresses these two organizational dimensions, and considers them to be two interdependent sides of the same coin. Referring to the work of Albert Schäffle, he defines "the social organ, externally, as one entity, internally as a structured plurality, with certain duties, applications, and with a certain stake in the successes of the undertaking" (Schmoller 1908/1978, 62). Besides what, in the following, I shall describe as the (1) macroscopic dimension and the (2) microscopic dimension, one further dimension can be derived from Schmoller's works on the enterprise as a social organization: (3) the metascopic dimension, which is constituted by the institutional link between the organization and society.

Through the lens of contextual economics, enterprises are not sterile, mechanistic factories for producing goods or services, but social organizations. As spaces of social encounter, they affect the development of values and the enforcement of norms, just as – in turn – ideas, moral principles, and (customary) laws prevailing in society have an impact on their form and organizational structure. Accordingly, the metascopic dimension encompasses the "psychological-ethical" impact described by Schmoller, which diffuses out of the enterprises and unfolds into society – and vice versa. Since dimension (3) is not limited to the internal scope of the organization, nor does it refer to the direct effects that organizations exert as corporate actors, it has to be distinguished from (2) and (1).

Schmoller's notion of the enterprise includes each of these interrelated dimensions, albeit a clear emphasis on (2) and (3) is evident in his works. In light of the socio-economic complexity, he describes the enterprise as "the most expedient organization" for the realization of the free-market production of goods, enabling society to make lasting use of the advantages of the division of labor (Schmoller 1890d, 51). Equally, however, in his historical representation of institutional change, he notes that the contemporary form of the enterprise is merely the interim status of a "long process of psychological-ethical, intellectual, and economic cultivation" (ibid., 56). The essence of an enterprise is not defined by him by means of concrete or quantitative characteristics, insofar as "it was not the number of persons thus employed which determines its nature, but rather the tendencies at work within its structure, its ways of dealing with and connecting its employees, its relationship with the rest of the economy" (Schmoller 1908/1978, 501).

3.2.1 The Macroscopic Dimension

By today's standards, Schmoller's contribution with regard to the macroeconomic implications of free enterprise can be considered trivial at best.[63] Nevertheless, his macroscopic view – considering the enterprise to be a unitary corporate actor – was pivotal to his idea of the enterprise as an organization. In its quality of being an autonomous entity serving its own purposes, not for subsistence but for profit, "completely divorced from the personal fates of those involved" (Schmoller 1892b, 467), he sees the enterprise's defining characteristic, distinguishing the dividing line between the modern enterprise and earlier forms of economic organization such as family-run businesses or traditional handcrafts. Yet Schmoller holds the latter to be precursors to the industrialized enterprise "as they, tied up as they were in the social structures of the family, were by this very circumstance easily and commonly prevented from the goals of wholly rationally pursuing the market and engaging in mass production" (Schmoller 1908/1978, 500). It was only after the institutional development of a market, monetary, and credit economy, and the formation of suitable morals, customs, and legal rules, he argued, that the enterprise was able to transform into an independent organization, operating as a single actor.[64]

> [A corporate actor] that struggles for its existence and progress, aspires to equal or overtake other similar organs, sells to the rest of the public, wants to gain from it. Every enterprise appears as an aggregated system of workforce and means of production, which, within the overall scope of economic production, has independently taken on a separate role and strives to realize this purpose through purchase, technical and economic operation, and sale for compensation and profit. (Schmoller 1890e, 736)

For Schmoller, despite its lingering imperfections, the private enterprise is the necessary bearer of risk that creates "the greatest levels of economic ability, of hard work and energy, of technical and organizational progress" (Schmoller 1908/1978, 560). However, his enthusiasm for the role of the corporate actor as driver of progress does not blind him to the fact that the enterprise is ultimately a *complex actor* as well. Although Schmoller occasionally tends to equate the corporate actor with the person of the entrepreneur, as for example North does (Hodgson 2006a, 19), he always refers to the criterion that allows him to treat the enterprise as a unitary actor: an understanding of the internal structure and forces

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63 For example, Schmoller's favorable notion of cartels is often considered a major flaw in his economic theory (see Krüger 1989).

64 The differentiation between morals, customs, and law was, for Schmoller, a necessary condition for productive enterprise. It is only by way of this differentiation that the rules of law can be reduced to that which is essential for society: the commensurate increase in the significance of the more elastic ethical customs creates the necessary freedoms for (economic) expansion and innovation (Backhaus 1993/94, 13).

which constitute its social organization. The "psychological and institutional problem" of entrepreneurship, for Schmoller, consists of "finding a modus vivendi" that combines the heterogeneous elements into a unitary, greater whole (Schmoller 1892b, 461; 1893b, 1016; 1908/1978, 515).

3.2.2 The Microscopic Dimension

Schmoller can rightly be credited as progenitor of the view that dismisses an unhistorical, uniform concept of *the* enterprise (Schneider 1993/94, 373). Through his inquiries into the evolving forms of enterprise, he illuminates the abstract black box that late classical and neoclassical theory assumed in the place of real organizations. Or, as he puts it, classical economics "represents the attempt to provide an economic physiology of the juices of the body without an anatomy [of the social organs]" (Schmoller 1908/1978, 64).[65]

Schmoller, on the other hand, is specifically interested in the organizational forms of the enterprise and their structural adaptation in response to contextual changes. He concludes that its historical transformation resulted through path dependence; embedded in and in interaction with the technical, institutional, and psychological frameworks prevalent in society (Schmoller 1893a, 359–360). Arguing that "coincidental victories of power" influence the transition as much as "considerations of the social benefit and prescient morality," he describes the process as unstable, disputed, and beset by conflicting interests (Schmoller 1890d, 57). Schmoller outlines a cyclical long-term trend according to which the development of organizational forms is initially dominated by aspects of economic performance and productivity, followed by a phase of ethically-driven adjustments (Schmoller 1890d, 57; 1890b, 382–384; 1892b, 465–467).[66] The historical development of the enterprise thus becomes an entrepreneurial process of trial and error – entrepreneurship in the sense of a creative act of organization formation.

Schmoller's works display a practical understanding of the relationships and networks operating within organizations. The focus of his examinations is the corporate constitution, the set of rules that defines the governance structures of the enterprise (Pierenkemper 2011, 37). Especially for large-scale enterprises with diminished direct human relationships, he

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[65] Schmoller's quotation displays a notable similarity to a statement by Coase: "The objection essentially is that the [modern economic] theory floats in the air. It is as if one studied the circulation of the blood without having a body. Firms have no substance" (Coase 1984, 230).

[66] Schmoller noted that the second of the alternating phases "is a secret of ethical and intellectual education of the entrepreneurs, as well as of the workers; only through tentative attempts of custom and law, only after long struggles and frictions […] can new forms of cooperation be found" (Schmoller 1890a, 380–381).

contends that unambiguous chains of command are an absolute necessity in establishing sufficient discipline and order (Schmoller 1890a, 378–379). While the first corporations, in essence, initially retained the patriarchal constitution of the family, he felt that autocratic approaches were becoming less and less suitable to control and operate a modern enterprise, let alone to manage increasingly assertive employees (ibid., 381). Broad institutional change throughout society, including the introduction of freedom of movement, freedom of contract, and private legal equality, transformed the principles of corporate governance. Schmoller welcomes the fact that the formerly "incidental and arbitrary precepts of entrepreneurial authority" had eventually become prescribed legislation (Schmoller 1892b, 474), all the while emphasizing that this did "not mean the end of dominance, but merely a change in the forms of dominance and the attendant moral duties" (Schmoller 1890a, 421).

The complexity of large-scale enterprises led Schmoller to anticipate a corporate constitution that – in a way analogous with property rights theory – organizes hierarchal relationships between various occupational classes.[67] Realizing that the essence of a social organization does not lie "in the relationship of the workers to capital, but in the personal relationship of the circles of management […] to the circles of implementation" (ibid., 388), he engaged as early as the end of the nineteenth century with the principal-agent problem:

> The principal, who used to be familiar with his people, used to talk to them every day, becomes a noble-minded taskmaster, acting only through officials, foremen, supervisors. (Schmoller 1892b, 459–460) The psychological and institutional problem here is always the same; it is a matter of how to render the individual, egotistical acquisitive impulse a collective one. […] The larger the corporations become, the more troublesome the problem. (Schmoller 1893b, 1016)

The ordinary acquisitive impulse of the individual is considered insufficient to coordinate numerous employees and occupational classes in such a way that they would appear outwardly as a unitary corporate actor. "Other motives must do the best part: interest in the business, honesty, good increasing wages, provision in old age, contracts for years or for life" (Schmoller 1908/1978, 518). Schmoller's awareness of the reality of management helps him develop specific ideas for incentive structures, including employment contracts, worker participation, and profit-sharing mechanisms (Goldschmidt and Störring 2019, 103–107).

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[67] Schmoller did not formalize an elaborated property rights theory. However, his *Grundriß* already provides the basic idea: "The property right is the epitome of legal rules, which define the permissions and restrictions of use of persons and social organs among themselves, in relation to the material objects" (Schmoller 1908/1978, 424). The differentiation between ownership and the transfer of certain property rights is, not least, an essential element in his theory of the different forms of enterprise, such as joint-stock companies (Küssner 1995, 130).

Schmoller considers, however, that the growing complexity of coordination set potential limitations on the growth of large-scale enterprises, limits that might soon be reached if, thanks to increasing bureaucratization, "the ponderousness and the costs offset the economization and technical improvements" (Schmoller 1892b, 468). For this reason, and because formal institutions, despite their necessity, are able only to provide external impetus, Schmoller writes that the decisive momentum depends on whether change in organizational forms is accompanied by a commensurate shift in the habits and customs of those involved (Schmoller 1890a, 422). Only intrinsic adaptation will lead to self-imposed codes of conduct and reduce the costs of formal enforcement (North 1990, 76).

3.2.3 The Metascopic Dimension

For Schmoller, a monistic interpretation of the enterprise is too narrow. After all, he is not only concerned with the economic, purely material purpose of the enterprise but also with the institutional link between the organization and society to which his research and social policy agenda is dedicated. To overlook "the psychological relationship between the organizational forms in the economy and the whole ethical state of a nation", he asserts, would be a fatal mistake (Schmoller 1873a, 4).

This assumption followed from his contextual perspective of the enterprise as a social organization, as a space of social encounter that affects and is affected by the people involved. In the organizational corpus of the enterprise, he recognizes a unique forum in which the different social classes are directly confronted with their differing social and cultural realities – a forum in which mutually dependent people with different interests and different mental models are required to engage with their differing ideas of morality, values, and norms. Schmoller expects intellectual exchange to develop, and he therefore expects a growing awareness and better understanding of the other's position to develop too (Schmoller 1890a, 386–388; 1892b, 474–475). To some degree, the emergence of shared ideas and rules of conduct would follow; initially within the (formal and informal) institutional framework of the organization, but in the end gradually diffusing into broader social life.

Because of its social-connective nature, Schmoller thought about the enterprise as a potential basis for establishing psychological and moral bonds among people (Schmoller 1894, 719–720). With regard to its metascopic dimension, he posits the enterprise as a sort of *irenic institution*: in other words, an institution of balancing and mediating social interests that counteracts the fragmentation of society. I use the notion *irenic* (from the Greek *eirēnē*,

being conducive to or working toward peace and conciliation) in the sense of Alfred Müller-Armack, one of the intellectual pioneers of the Social Market Economy in postwar Germany. With his idea of "social irenicism" Müller-Armack addresses both the reconciliation of economic efficiency and social interests in the market economy, and the mediation of different worldviews within society (Müller-Armack 1950).

The issue of social stability and cohesion – the basic thought of social irenicism – is probably the most important domain in Schmoller's scientific agenda. Adhering to the tradition of the historical school, he is convinced that it was the privilege and duty of the assertive state to establish institutions that ensure the integrity of society. Nevertheless, he notes the practical limitations of the state in creating or maintaining a "moral community" within a complex market society (Schmoller 1865, 34–35): This requires more of the intermediary and decentralized influence of social organizations. With these entities standing between the state and the individual, following outwardly their own goals and exerting, inwardly, an educational and social-connective influence, "the moral community and the free development of individuality are reconciled" (ibid., 35).

Unlike other representatives of the historical school, Schmoller sees the most effective chance to amicably settle conflicting social interests within the constitutionally organized framework of single enterprises (Goldschmidt and Störring 2019, 104–105). The institutional link between the organization and society is inherent to every enterprise. The impact on society is all the more striking where equivalent institutional patterns emerge in economic branches or within the entire entrepreneurial system. That Schmoller submits the function of an irenic institution is based, in large part, on his normative principles stemming from German Idealism:

> Every particular form of economic organization has not only the purpose of producing goods, but at the same time that of being the vessel, the engendering source, the occasion for the creation of those moral factors without which society cannot exist. The question arises with every concrete form of division of labor […]: does it educate the young workers properly, does it work on diligence, thrift, self-responsibility, integrity, and good family life among the adults, in such a way that progress is assured, that the sources of future prosperity are not buried? (Schmoller 1875a, 40)

Schmoller's idealistic philosophy can doubtless be accused of being based on a naïve belief in cultural progress and the improvement of society. At this point, one could also argue about the extent of – and the ostensibly "desirable" tendency toward – the influence of enterprise on society. Nevertheless, his general assertion that entrepreneurship has a responsibility for, or in any case an influence on, societal contexts seems less controversial. Which socio-

economic implications can be inferred from this insight is a question which has been discussed under the term *corporate social responsibility* since the middle of twentieth century, both in theory and in practice (Carroll 2008).

Schmoller considers the idea of corporate social responsibility a given fact – inherent to entrepreneurship. Thus, the entrepreneurs "must become aware that they are responsible for their actions, not only for production and trade, but also for the social order, for human and technological education, for domestic and other moral capacities [...], that great public duties rest upon them" (Schmoller 1890a, 408). Because of its public impact, he ascribes to the private enterprise a certain "public character" (Schmoller 1890a, 392–395; 1892b, 467–468). But he does not understand this in the sense of state-controlled or socialist – but rather in terms of a broad stakeholder – approach. In point of fact, he would have regarded it as "an inexcusable setback to put all great enterprises into the hands of state officials because they have a half or entirely public character. It would be the grave of all personal freedom, […] the technical progress, the vital striving of the upper and middle classes would be destroyed" (Schmoller 1890a, 391). He thinks it to be in the own interests of the enterprises to run their business in such a way that their operations received at least a minimum of social acceptance (Hecker 2016, 15). Perhaps he would have agreed with the Friedman doctrine – *The Social Responsibility of Business is to Increase its Profits* (Friedman 1970) – with regard to the macroscopic dimension of the enterprise; but certainly not if this means ignoring the implications of its metascopic dimension.

3.3 The Nature of the Entrepreneur

The isolating approaches of neoclassical economics emphasize the role of the enterprise as a corporate actor in markets but ignore the enterprise's organizational structure and its institutional framework. In contrast, approaches of new institutional economics focus on the organizational structure but neglect the role of the enterprise within the economic and societal order. Although – or perhaps because – Schmoller did not intend to conduct entrepreneurship research specifically, his contextual research program took both into account. In direct comparison, his works may lack theoretical depth, but unlike the more specialized approaches, they discerned a unique factor in all economic activity: the enterprising spirit of the entrepreneur (Hébert and Link 2006, 350–351).

It is surprising, though, that Schmoller, for all his appreciation and admiration of the role of the entrepreneur, never produced a serious work dedicated to the topic. One exception could be seen in the volume *Charakterbilder* (1913; in English *Character Portraits*), in

which he describes the life and works of twenty-two personages from the spheres of politics, economics, science, and publishing. Alongside biographical essays on, for instance, Otto von Bismarck, Adam Smith, and Friedrich List, it also includes descriptions of four "great German businessmen." But these compositions, some written as obituaries, are heavily distorted by personal romanticizing, and can hardly be thought of as scientific works on the typical entrepreneur (see Schmoller 1913, 233–279).[68]

Yet, Schmoller was right to reject the criticism that his approach to political economy "did not appreciate the entrepreneur" (Schmoller 1913, VI). In point of fact, although he did not elaborate upon the figure of the entrepreneur explicitly, it is visible implicitly in his comprehensive treatises on the enterprise. In these, too, Schmoller ascribes to the entrepreneur the function classical economics assigns – namely providing capital – while at the same time emphasizing that it is not capital itself that generates enterprise. "What it creates and maintains always remains the personal characteristics [of the entrepreneur]; any lack thereof will be punished by losses, often by total bankruptcy" (Schmoller 1908/1978, 502). The function of providing capital, to him, is a necessary, but far from a sufficient condition for entrepreneurship. His assessment that "in many ways […] the dominance of capital has even today been replaced by the dominance of talent, of great gifts, of commercial genius" (Schmoller 1890a, 384) could hardly be more relevant to the economies of the twenty-first century (McCloskey 2016).

Despite the fact that Schmoller's characterization of the entrepreneur is unsystematic and scattered widely throughout his numerous works, one can clearly infer the qualities he attributes to the person of the entrepreneur – understood as an economic actor and human being. The Schmollerian entrepreneur exhibits imagination, daring, initiative, zeal, resilience, authority, desire for profit, and willingness to take risks, as well as exceptional innovative and administrative abilities. Schmoller admits that the extent to which leading entrepreneurs need to possess rare traits is debatable, while noting "that it is immensely difficult to find such people in sufficient amounts" (Schmoller 1908/1978, 498).

3.3.1 The Classic Doer (External)

For Schmoller, the root cause of entrepreneurial drive is the pursuit of profit; he considers it "a misjudgment of human nature to demand that man not strive for profit" (Schmoller

[68] Schmoller was personally acquainted with each of the four businessmen in question: the banker Killian Steiner (1833–1903), the publisher Carl Seibel (1842–1910), the entrepreneur and scientist Ernst Abbe (1840–1905), and the entrepreneur and politician Gustav von Mevissen (1815–1899).

1908/1978, 559).[69] To thus conclude that state-controlled enterprises are (morally) superior he thinks short-sighted. Instead, he trusts in the controlling effect of competition to restrain the private entrepreneur (ibid., 556). In any case, he did not believe that it was the most avaricious persons who made the more successful entrepreneurs, but those with the greatest desire for power and authority (Schmoller 1919/1978, 498). With these traits suitable for entrepreneurial leadership, Schmoller associates the archetype of a *doer*. As Schumpeter puts it:

> [I]t is this "doing the thing," without which possibilities are dead. […] It is, therefore, more by will than intellect that the leaders fulfil their function, more by "authority," "personal weight," and so forth than by original ideas. […] As long as they are not carried into practice, inventions are economically irrelevant. (Schumpeter 1934/2017, 88)

Seen in this light, it can be no coincidence that Schmoller regards "energetic vigor" [*energische Tatkraft*] to be the primary characteristic of the entrepreneur, ahead of intellectual competences such as commercial education, technical knowledge, or inventiveness (Schmoller 1918b, 601). Not without a certain sense of irony, he continues as follows: "The entrepreneur is liberal by nature, demanding above all a free path for himself."

The doer component of entrepreneurship coincides with Schmoller's notion of a "genuine" or "daring" entrepreneur (Schmoller 1908/1978, 497). Although it is difficult to differentiate accurately in practice, his definition is clear-cut: the person who takes the initiative and bears the risk is the entrepreneur (ibid., 460). Proposing that entrepreneurship entails sustained and yet dynamic momentum, he assigns further characteristics to the genuine entrepreneurial spirit: as such, entrepreneurs must "exhibit quite pronounced speculative and organizational mental character traits, tread their path with particular energy, in some instances even with ruthlessness; some pursue it consumed exclusively by the acquisitive drive, harassed by competition, with rigor and shamelessness" (ibid., 502). He also establishes – besides a sort of resilience on the part of the entrepreneur – a potentially destructive side to the entrepreneurial spirit. The daring entrepreneur who manages the challenge of being the head of the enterprise is portrayed as energetic but also as a ruthless actor. This, ultimately, only underlines Schmoller's ambiguous notion of entrepreneurship (Ebner 2003, 121).

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[69] "Whoever charges that all earnings be 'lust for profit' [*Profitwut*], and wishes to have them expelled from the economy, will kill the soul of that economy, and must prove which other soul he is capable of furnishing it with" (Schmoller 1908/1978, 462).

3.3.2 The Creative Organizer (Internal)

Schmoller portrays an entrepreneur whose scope of activities is not only external but also, and in particular, internal. Within the organization, he roughly divides the entrepreneurial challenges into two spheres: (a) technical and business processes, which involve production, accounting, marketing, and so on; and (b) social arrangements including, the human resources and governance structures of the enterprise. The two spheres are interrelated and, according to Schmoller, essential elements of entrepreneurship.[70] Thus, the entrepreneur has to assume not only the role of the doer but at the same time also the role of the organizer of enterprise.

> [Therefore, the] entrepreneur must have, on the one hand, a comprehensive knowledge of the markets, consumer tastes, and sales channels, as well as a technical expertise of the feasible methods of production. On the other hand, organizational talent, knowledge of human nature […]. (Schmoller 1908/1978, 41)

To find solutions for (a) and (b) might make the entrepreneur's role seem rather bureaucratic or administrative. Nonetheless, Schmoller considers these entrepreneurial challenges to be dynamic, forcing the entrepreneur to examine every process within the enterprise in the pursuit of optimization continuously, "if the competition is not to destroy the business" (Schmoller 1919/1978, 496). Schmoller's entrepreneur is a *creative organizer*, the forward-thinking mastermind who, in the effort of finding solutions for existing needs (Schmoller 1908/1978, 505), combines factors of production to develop either new products or new manufacturing processes (Hébert and Link 2006, 351). Albeit without grasping its macroeconomic implications, Schmoller hints at the entrepreneur's innovative role, evoking Schumpeter's *creative destruction* (Schumpeter 1942/2003).[71]

It appears characteristic of Schmoller's theory of entrepreneurship that the innovative role of the entrepreneur is situated first and foremost within the organization. Bearing this in mind, it is important to understand that he is referring in particular, with his notion of the ability of the entrepreneurial spirit to innovate, to the development of the organizational

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[70] In its basic idea, this perspective of Schmoller resembles the socio-technical systems approach formulated by Emery and Trist. "In general, management must recognize that the success of an enterprise depends upon how it works as socio-technical system, not simply as a technical system with replaceable individuals added to fit" (Emery and Thorsrud 1969/2013, 85).

[71] The concept of the entrepreneurial innovator can be traced back from Schumpeter to the German political economy of the nineteenth century, especially to the works of Schäffle (Balabkins 2003, 213–215). In this respect, as Balabkins mockingly remarks, since 1912 "the economics profession has always assumed that the idea of the 'innovating entrepreneur' popped from Schumpeter's head like Athena from the head of Zeus" (ibid., 203).

structure of the enterprise – addressing the challenges of (b) becomes a creative act of organization formation.

3.3.3 The Leading Figure (Psychological-Ethical)

Despite his rather holistic and organismic understanding of the economy, Schmoller emphasizes the creative role of outstanding personalities as an individual factor of progress (Ebner 2003, 121).[72] Whether it be energetically doing the ventures or creatively organizing the development of the enterprise, the decisive point has always been "that path-finding vigorous and ingenious characters exist, who create something new, unite in themselves seemingly heterogeneous qualities, force others to follow and thus, placing larger groups of people in their service, lift them intellectually as well as morally" (Schmoller 1893b, 1017).

In these *entrepreneurial leading figures*, Schmoller sees the "most modern form of aristocracy," recruited from talented people across all social classes (Schmoller 1918b, 601). As heads of enterprises, they have the crucial role of creating and maintaining the moral community. Therefore, he continues, the entrepreneur needs further skills, including "the art of treating and binding people, of managing organizations with numerous members in a cohesive way, of commanding properly and of gaining compliance" (Schmoller 1908/1978, 462; see also 1892b, 461). It might be said that Schmoller sees in this necessity less a "mandate to rule" [*Herrschaftsauftrag*] and more a mandate to educate ethically (Schmoller 1890a, 422). Entrepreneurs not only have an influence on the internal corporate lives of their employees, but to a certain extent they form their employees' fundamental (psychological and ethical) way of thought. Because of their specific character traits and their privileged position, he interprets the major entrepreneurs as being capable of serving as a kind of avant-garde leading figures; within their organizations and for society as a whole (Schmoller 1875a, 82). Schmoller's entrepreneur is not least a cultural entrepreneur.[73]

Yet this assessment also reveals his profoundly ambiguous notion of the entrepreneur. There is a discrepancy between the entrepreneur Schmoller describes as an actual person and his ethical ideal of how an entrepreneur should be (Kreis 1999, 138). This is because, for

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[72] It would be a mistake to read Schmoller's conception of man and the derived behavioral assumptions as methodological holism; equally, of course, it is not a strict individualistic approach assuming a rational *homo oeconomicus*. The starting point of Schmoller's reasoning lies, in fact, in the psychological reality of the individual, but as a social being, embedded in the ethical frameworks of society. His conception of man can best be described as a *homo psychologicus*, entailing a duplex notion of an individualistic and a socializing tendency (Peukert 2001b, 102–104). "[The selfish and the ethical forces] are the two orientations which are prevalent in every organization and human breast" (Schmoller 1919/1978, 288).

[73] For the concept of cultural entrepreneurs, see Mokyr (2017, 59–116).

him, the entrepreneur is never just a unique factor of purely economic activities (Hecker 2016, 5). “The entrepreneur acts, while at his own risk and his own costs, also, in truth, in the public interest, and thus, as it were, under the mandate of the collective, and so is bound by the limits and duties of this mandate” (Schmoller 1892b, 468). Schmoller assigns his concept of corporate social responsibility to the entrepreneur as a form of personal responsibility. His thoughts on this, however, are intermingled with normative expectations with regard to the development of a moral and ethical entrepreneurial ideal – for instance when he writes:

> [The entrepreneurs] have such a high rank, they can sense that on the force of the helm they hold in their hands depends the woe and well-being of far more than their own workers and customers; for this reason, they steer it not just in the spirit of *money-making*, but equally in the spirit of that higher professional obligation which, by their very status, imposes itself upon the upstanding and capable man. (Schmoller 1890a, 392–393)[74]

3.4 The Beginnings of Entrepreneurship Research – Contextual by Nature

In positioning Schmoller as a forerunner of entrepreneurship researchers, one must concede that he would not have considered himself to be one. He observed the emergence of the modern enterprise in the nineteenth century as an economist – more accurately as a contextual economist. His investigations into entrepreneurship are not, to him, an end in themselves but rather by-products of his historico-ethical research program on the economy and its institutional development in general. He describes his own contribution to a more differentiated understanding of entrepreneurship in his definition of the enterprise as “a social organ with a specific function and integrity, which has grown from the soil of existing morals and legal relations, [and] which can be attributed to specific causes” (Schmoller 1890e, 737). Since then, the important connections between entrepreneurship theory and the theory of the firm have been largely overlooked in the literature.[75] But can entrepreneurship even be meaningfully addressed without considering the organization in which it takes place?

The strong emphasis on the enterprise as a social organization and an irenic institution, whose form depends on the historical and cultural context, corresponds with Schmoller’s general notion of economic science. With his approach, he engenders a realization that both entrepreneurs and enterprises are invariably the result of their society, just as a society is, to

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[74] Schmoller uses the English phrase *money-making* as it is here, in italics, in the original German text.

[75] One current exception to address the issue of an entrepreneurial theory of the firm, which incorporates the role of the entrepreneur into a contractual theory of the firm, is the effort by Foss and Klein (2012).

an extent, the result of its entrepreneurs and enterprises. While this might, to his critics, sound tautological, it is one starting point for the growing research field of contextual economics. In particular, the need to contextualize entrepreneurship research is an important insight of the last decade (e.g., Boettke and Coyne 2009; Zahra et al. 2014; Lounsbury and Glynn 2019; Baker and Welter 2020; Wadhwani et al. 2020).

With his expositions on the questions of an enterprise's internal organization, Schmoller can be thought of a progenitor of the theory and even teaching of business administration (Tadajewski and Jones 2018).[76] But there has been little reception of his observations since his death and the decline of the historical school. Various reasons can be given here: his methods, his perspective, his nationality, and many of the subjects on which he wrote have all seen their standing and significance decline since the First World War. That only very few of his works have been translated into English is an obstacle to the widespread circulation of his ideas to this day (Senn 1989; Hodgson 2006b; McAdam and Störring 2016). Thus, they remained ignored by twentieth-century theoreticians of business administration.

In addition, there was an almost complete lack of any theory of entrepreneurship among classical economists (Blaug 1958, 226), leading to an institutional vacuum in their approaches which has been largely transferred to the theory of today's mainstream economics. In neoclassical economics, the enterprise is still commonly reduced to a black box whose inner life remains virtually irrelevant. Schmoller's contextual approach identifies and describes aspects of the nature and role of entrepreneurship that had previously – and to some degree since – gone unnoticed. For example, understanding and encouraging the role of private enterprises as irenic institutions could be one of the answers to the fragmentation of society.

Of course, it was above all Schumpeter's merit to establish entrepreneurial action and macroeconomic dynamics as progressive interactions in the canon of contemporary economics, but this fundamental notion calls for further reflection in the twenty-first century. In times of social upheaval, entrepreneurs and their enterprises are increasingly being challenged as factors of structural policy and culture, especially with regard to a global economy. Schmoller was aware of this, and in his work he assigns them a certain

[76] For instance, the prospering American business schools founded between 1890 and 1920 were significantly influenced by Schmoller and the German historical school. In particular, Edwin Francis Gay, who was the first dean of Harvard Business School, received his PhD from the University of Berlin under the supervision of Schmoller (Tadajewski and Jones 2018, 127–129).

responsibility, not least because the era in which he lived was also affected by enormous socio-economic changes. The insight – increasingly relevant and prevalent in today's economics – that entrepreneurship and institutional change are bidirectionally related (Henrekson and Sanandaj 2011; Kuchař 2016) was for him the main reason to engage with the topic of entrepreneurship in the first place.

Fritz Redlich once argued that Schmoller "could summon up no comprehension" for the entrepreneur (Redlich 1955, 289–290). This harsh judgment may hold true from the perspective of one of the most prominent researchers of entrepreneurship, but one must consider that Redlich's research focuses on the entrepreneur as a theoretical type, whereas Schmoller is interested above all in the entrepreneur as a person (Kreis 1999, 152). He anticipates Alfred Marshall's advice to economists to deal "with man as he is: not with an abstract or 'economic man'; but a man of flesh and blood" (Marshall 1920, 26–27). In this interpretation, Schmoller can be understood more as the founder of a rudimentary form of research on entrepreneurial behavior, and less as a theoretical entrepreneurship researcher. Although his research on the entrepreneur is rather incidental, its emphasis on the human being as a free actor in a socio-economic context is quite profound (Zrinyi 1962, 74). Schmoller undertook no specialized or isolated, but contextual research on the entrepreneur. It is, ultimately, the very plurality of his approach from which the concept of entrepreneurship, decidedly heterodox and multidisciplinary since its origins (Wadhwani 2010, 358; Landström 2015, 25–28), has profited most notably – and from which it could potentially still profit.

More than a hundred years later, Ronald Coase, Douglass C. North, and Oliver E. Williamson received the Nobel Prize by largely answering many of the same questions that Schmoller had asked (Richter 1996, 587). But precisely because these leading scholars did not build upon Schmoller's work, the discipline is at risk of missing out on valuable insights if one focuses exclusively on the newest, state-of-the-art publications. It would be unsatisfactory to conclude that the – in some cases extraordinary – parallels between Schmoller's work and newer publications are merely a way of making amends for the often unfairly harsh criticism meted out to his approach since the decline of the historical school. To plainly state "Look what Schmoller already knew..." would hardly do justice to the task of research into the history of economic thought. The goal must instead be – and this article should serve as a preliminary overview and catalyst – to think of Schmoller's contextual economics in parallel with contemporary research discourse. The idea of *humanomics* promoted by McCloskey (2021), for example, represents in certain respects a modern

synthesis of contemporary economics and the kind of human-centered contextual approach that Schmoller had in mind. Based on this type of foundation, a contextual conception of entrepreneurship, that is, entrepreneurship as an expression and trigger of economic and thus, invariably, societal transformation, has the potential for an improved theory of institutional change.

4 A Precursor to Ordoliberalism and the Idea of a Social Market Economy

The history of economic thought often seems to be a history of upheaval and disruption, with old traditions replaced by new ways of thinking – indeed, sometimes the old is completely swept away. From this perspective, the history of economic thought is a history of discontinuities: Adam Smith made the mercantile system obsolete; John Maynard Keynes buried neoclassical thinking (temporarily) and paved the way for a new macroeconomics; and ordoliberalism marked the end of the German historical school of political economy and made it become the rubble of supposedly rightly forgotten doctrines. It is often the originators of these new views themselves, and no less frequently their zealous epigones, who vehemently proclaim this break with old tradition. And from their point of view they are absolutely right: indeed, new doctrines or ways of thinking often seem revolutionary to their contemporaries, departing from familiar paths of teaching and research. To quote Joseph Schumpeter, one can see in these pioneering thinkers scientific entrepreneurs who dare to navigate "outside the familiar routine" (Schumpeter 1942/2003, 132).

We can, however, tell a different story, and perhaps the real task of the history of economic thought is to take this path more frequently. Research on the history of thought then becomes research of and on continuities, connections, small steps, and paths; they temporarily converge and then separate again. It is the careful and small-scale combination of rational and historical reconstructions, not a broad depiction of epochal upheavals. Rational reconstructions analyze older ideas from the perspective of newer theories to uncover changes and to establish scientific progress. Historical reconstructions, on the other hand, examine past authors and works in the context of their time by including categories appropriate to the respective period. Taking both into account, the history of economic thought can be understood as a history of ideas that seeks the wider context, in which (historical) analysis is not limited to an author or a work, and at best merely contrasts it with an outdated forerunner, but where ideas and strands of theory are located and merged in the context of *Zeitgeschichte* and *Geistesgeschichte*, or the history of time and thought. It is the perspective I assume in this chapter in respect to the early ordoliberal thinkers and their concept of the Social Market Economy. For the rise of ordoliberalism was not a revolution, but an evolution nourished by various sources (Fritz et al. 2021; Schefold 2022). And, of course, the same holds true for the development of the Social Market Economy established in post-WWII Germany. Recognizing this represents the only way to better understand the

ordoliberal research program, to establish connections to other theories, and to suggest further developments that are sustainable and viable.

Without denying the formative influence of the numerous sources that shaped ordoliberalism, I focus on one source in particular: the work and contributions of Gustav Schmoller as the *spiritus rector* of the younger German historical school of political economy. Although from the point of view of the history of economic thought there can be no doubt that the ordoliberal idea is based to a considerable extent on the intellectual heritage of the historical school, it is first and foremost the representatives of ordoliberalism themselves who find it difficult to acknowledge this fact – both in ordoliberalism's heyday and today. A fatal error, I think, because ordoliberalism and the success story of the Social Market Economy are almost inconceivable without the work of the historical school in general and Schmoller in particular. In the writings of Alexander Rüstow, Wilhelm Röpke, and Alfred Müller-Armack, this is practically tangible. But a careful examination of Walter Eucken's writings also shows this – beyond the abundantly well-known methodological contentions – in many respects (Peukert 2000; Goldschmidt 2002; Broyer 2006).

For a long time, researchers and practitioners in the field of economics of order have failed to understood that the conscious, partially strategic demarcation by ordoliberals from Schmoller's teachings (e.g., Eucken 1938a, 1940) did *not* mean that their break with the views and ideas of the historical school was as radical and consistent as some ordoliberals at the time themselves suggested (Häuser 1994, 52–57). This rift – fundamentally an act of emancipatory self-determination – may seem plausible from the perspective of the early ordoliberals. After all, many of them were themselves trained and academically socialized within the doctrinal constructs of the historical school, which shortly afterwards was branded as outdated. Thus, the subsequent reception of this attitude in economics from the middle of the twentieth century onwards reveals above all an ignorance of – and, as a consequence, a sort of (ideologically charged) resentment with regard to – Schmoller's work, with far-reaching consequences. To this day, the name Schmoller evokes almost reflexive efforts among contemporary German economists to distance oneself and refute any connection to the founder of their own professional association: the *Verein für Socialpolitik*.[77] The extent to which blatantly superficial and piecemeal arguments are taken at face value is extraordinary. The coarsely drawn image of Schmoller is that he was atheoretical, or even

[77] As Carl Brinkmann, a student of Schmoller's, aptly puts it: "It would not be correct to say that the figure of Gustav Schmoller is still controversial today. He stands in deep shadow, and there is no judgment too spiteful and harsh as to motivate its contradiction" (Brinkmann 1937, 7).

hostile to theory; reliant purely on inductive reasoning and thereby normatively and morally judgmental; pathologically addicted to disputes (of methods); an anti-liberal, authoritarian, Prussophile monarchist with a socialist slant. Yet this image is both an absurd caricature and yet stubbornly widespread. Above all, however, it is inaccurate. In addition to its obvious inherent contradictions, it largely ignores the numerous contributions to and reassessments of Schmoller's research program that emerged especially in the late 1980s and 1990s. Not to mention the twenty-first century "Schmoller Renaissance" (Peukert 2001a), which admittedly was proclaimed somewhat prematurely.

Yet the pertinent reconsiderations of Schmoller's oeuvre in the past three decades demonstrate to striking effect the manifold questions of modern economics to which it can still offer valuable contributions, or at least a perspective unheeded in contemporary discourses (Schmidt 2018).[78] In this sense, an in-depth, unbiased examination of Schmoller's works seems to me well-suited to a better and more reflective understanding of the economic and sociopolitical program of ordoliberalism. For, on the one hand, Schmoller's work is the starting point of the deep anchoring in political economy of the interplay between market dynamics and societal order in Germany (Priddat 1995, 310). On the other hand, he declares the question of social cohesion in society to be the most urgent desideratum of his research (Zweynert 2010, 27–28). Thus, ultimately, the very concept of the Social Market Economy hews far more closely to the tradition of the historical school than modern economics would like to admit – without, however, being aware of it. Which means that by ignoring the historical school it has also deprived itself of the fundamental insights of this line of development.

4.1 The Beginnings of Contextual Economics

From the middle of the nineteenth century onwards, the historical school established a doctrine of political economy in the German-speaking world that in many respects saw itself as a counter-proposal to late classical and early neoclassical economics.[79] In particular, the

[78] To name just a brief selection of topics: issues of economic development (Altmann 2011; Drechsler 2016); forms and effects of globalization (Rieter and Zweynert 2006); the foundation of contemporary social policy (Hansen 1993; Blümle and Goldschmidt 2006a); questions of money (Barkai 1991; Hudson 1993/94) and taxation (Backhaus 1997; Hansen 1997); entrepreneurship (Störring 2023) and worker participation (Goldschmidt and Störring 2019); and even the economic and societal challenges arising from the ecological environment (Seifert 1990; Krabbe 1993/94).

[79] At the beginnings of this specific development of German political economy were Adam Müller and Friedrich List, who – in their own way – are often regarded as predecessors of the German historical school; see Rieter (2002, 137–142).

representatives of the younger historical school – and this must be viewed historically against the backdrop of a society in transition – radically shifted the focus of economic teaching and research, away from what they considered an overly abstract science of isolated economic processes and their supposedly universally valid interrelationships, towards socio-economic questions referring to specific contexts (McAdam et al. 2018, 185–189). Gustav Schmoller is regarded as the most prominent and undoubtedly most influential representative of the historical school, with which German political economy trod a kind of *Sonderweg* [special path] in the history of economic thought until the 1920s.

For Schmoller, there was no question that a complex object of interest, subject to historical and cultural change, such as the socially embedded economy, could never be sufficiently grasped within the framework of an isolating approach, but – on the contrary – demanded a unity of the social sciences. Accordingly, he considered "the term 'economics,' adopted by the Americans and partly by the English, instead of political economy [...] impractical, because it also seeks to eliminate the people, the society, the social side of the economic process by using the economy as a mere material process" (Schmoller 1911, 429). Schmoller's approach, on the other hand, can best be described as *historico-ethical political economy* (Nau 2000).[80] *Historico* – because Schmoller had a profound evolutionary and relativistic understanding of the economy, according to which actual reality of economic life (and this is what he was exclusively concerned with) arises as the result of a specific context.[81] Economic insights should therefore be gained primarily from empirical and historical research (Schmoller 1911, 461–465). *Ethical* – because he understood his approach, like economic science in general, to be first and foremost a science of human beings, as one branch of a general science of cultural studies and the humanities. Economic variables were not to be understood mechanistically as purely material facts, but as the result of economic organization and the social order of life in a society, which find "their most essential expression in the ethical rules, in economic customs, and in economic rights" (Schmoller 1875a, 35). Thus, he intended his economic perspective to be a "psychological-ethical consideration" (Schmoller 1908/1978, 124). Until today, the eponymous attributes of Schmollerian political economy are open to misinterpretation. I therefore consider the following explanations relevant.

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80 Under the title *Die andere Ökonomie* [The Other Economy], Priddat (1995) elaborates on the value and independent structure of Schmoller's approach to political economy.

81 Relativism is here to be understood exclusively as the opposite of the absolutism of abstract and mechanistic theories, which were isolated from context.

Schmoller considers history, or the "historical method," to be an auxiliary science of political economy. Nevertheless, findings from economic history, he argues, are not to be understood as "economic theory, but as building blocks for such a theory" (Schmoller 1911, 464). The frequently voiced criticism that Schmoller aimed to replace economic theory with a descriptive view of history, however, does not stand up to scrutiny. It is true that Schmoller strongly rejected the preoccupation with economic theoretical models without any reference to empirical investigations and questions; i.e., what one could call "model Platonism," following Hans Albert (Backhaus 1989, 53). However, he was not an opponent of deductive reasoning either. Rather, Schmoller held that deduction and induction must always complement each other and are as indispensable to the progress of knowledge "as the right and left foot are to walking" (Schmoller 1911, 478).[82] Nor can his work be dismissed as atheoretical in view of his oeuvre as a whole (see Schefold 1989). The outstanding importance Schmoller ascribes to the inductive method is by no means accompanied by a general rejection of the formation of economic theories.[83] Or, as Schmoller himself puts it: "I wanted to free political economy from false abstractions through exact historical, statistical, and economic research, while simultaneously and invariably remaining a generalizing theorist of the state and the economy, to the extent that I am satisfied we reliably have solid ground under our feet" (1919/1978, VI).

The core of Schmoller's theory is his teaching of institutions and institutional change. The fact that he did not mathematically formalize his concept of institutions according to a modern understanding should not obscure that it is theory-guided; which Schmoller himself, for example in the introduction to his *Grundriß* (1908/1978), makes abundantly clear. The first 126 pages of his magnum opus serve exclusively to clarify his basic understanding of economic science and theory (Plumpe 1999, 264). In institutions (i.e., rules of morality, custom, and law) Schmoller finds the concrete object of study, which proceeds historically in order to be able to examine societal change. Accordingly, he understands humans as social beings: living in and through institutions, shaped by institutions, and in turn shaping their

[82] With regard to the *Methodenstreit* [dispute on methods] with Carl Menger, it must be stated that this dispute did not, essentially, involve such absolute counter-positions as may appear in retrospect; for a corresponding classification, see Backhaus and Hansen (2000) or Horn and Kolev (2020).

[83] Schmoller's comparative empirical-historical research was intended to enable the testing of hypotheses as a substitute for the experiment, which was "lacking on many sides" in the social sciences (Schmoller 1911, 460). Given that Schmoller was certainly considered a statistician in his time (Herold 2019, 195–198), the fundamental criticism of his preference for an inductive approach in his works can hardly be considered valid, especially from the perspective of today's economic research, which is more than ever based on empirical evidence.

institutions. If – and Schmoller is convinced of this – people's moral values influence the institutional framework (and vice versa), these must also be the subject of economic analysis: "Without examining how they [moral values] arise psychologically, transform themselves, are transmitted, are shaped ever anew by the changing external and internal, economic and intellectual culture, and yet remain the same in their basic features, no one can, in my humble opinion, solve the ultimate economic questions" (Schmoller 1903, 299).

For even if the sociopolitical agenda of the German historical school did pursue normative goals (see Grimmer-Solem 2003), Schmoller, with regard to his political economy, did not want the attribute "ethical" to be understood in the sense of a moralizing doctrine of virtue. His overriding concern was not a normative declaration of moral values, but an examination of their emergence and socio-economic impact (Schmoller 1911, 473; see also Backhaus 1989, 42–45; Herold 2019, 38–40); an often-overlooked aspect of his work to this day.

Since economics, in his opinion, must deal with the "world of economic culture which is constructed within the world of nature," which owed its emergence and further development primarily to the psychological-ethical causes of human nature, Schmoller elevates not only history but also psychology to the rank of an indispensable auxiliary science of political economy (Schmoller 1911, 473–475).[84] But that is not all: with his approach, extending also beyond the realm of economics to the fields of anthropology, psychology, sociology, (legal) history, and political science, Schmoller became a pioneer for interdisciplinarity and pluralism of methods.[85]

> Like every science, it is only the very essence of economics which is distinct; on its periphery it coincides with numerous neighboring sciences with which it partially has material or method in common, on which it depends in receiving, or which it fertilizes in giving. It is therefore reasonable to

[84] It is a common mistake to read Schmoller's conception of humanity and the derived behavioral assumptions as methodological holism; equally, of course, it is not a strict individualistic approach assuming a rational *homo oeconomicus*. The starting point of Schmoller's reasoning lies, in fact, in the psychological reality of the individual, but as a social being, embedded in the ethical frameworks of society. His conception can best be described as a *homo psychologicus*, entailing a duplex notion of an individualistic and a socializing tendency (Peukert 2001b, 102–104).

[85] The spectrum of methods that make sense in Schmoller's perspective ranges from philological methods of hermeneutics to the methods of natural sciences, which he by no means disparages (Backhaus 1989, 48–49): mathematical methods – insofar as they contribute to the progress of knowledge in the discipline – are advocated with the same fervor (Schmoller 1911, 434) as the use of statistics; albeit admittedly not without the comment that qualitative research must always take its place alongside quantitative results (ibid., 460–461).

> argue about the core, not about the periphery, which, especially in the humanities, represents a constantly blurring and shifting boundary, a common domain of various sciences (Schmoller 1911, 431).

Schmoller represents an understanding of the subject that conceptually maintains open boundaries between economics and other social sciences. What might be labelled *pluralist economics* from today's perspective was considered the mainstream at German universities until the middle of the twentieth century: "the unity of the social sciences" (Häuser 1994, 58–61). In other words, the demand (1) to pursue economics not in isolation but as a genuine part of the social sciences. A demand which in turn is based on the conviction that (2) the object of interest – i.e., the economy and economic phenomena – should not be studied in isolated fashion, but contextually, in its complex societal dimension. Both aspects are mutually dependent and are, at least in terms of their genesis in the history of ideas, part of the expression of a certain zeitgeist marked by social transformation. Today, both aspects outline the research program of contextual economics (Goldschmidt et al. 2016), which started in Germany with the historical school and Gustav Schmoller.

4.2 Bridging the Essence of Ordoliberalism and the Schmoller Program

The economic and sociopolitical concept of ordoliberalism is the result of different historical influences and schools of thought. It is therefore not surprising that some works consider ordoliberalism to fall – also, or even particularly – into the Anglo-Saxon tradition (e.g., Sally 1996; Vanberg 2004; Goldschmidt and Berndt 2005; Köhler and Kolev 2013; Kolev and Köhler 2022). Nevertheless, even if this interpretation were correct, ordoliberalism can only be fully grasped through its connection to its intellectual heritage of the German historical school (Peukert 2000; Goldschmidt 2002; Schefold 2003; Broyer 2006; Fritz et al. 2021; Schefold 2022). There is no question: the founders of ordoliberalism, in an effort to free themselves from the dominance of the historical school, in view of establishing new methodological perspectives, and by aligning with the international mainstream of economic research, formulated a clear rejection of the Schmoller program (Janssen 2009a; Kösters 2011). And yet, a further examination of this heritage reveals continuities that even they themselves may not have fully recognized, or perhaps did not wish to acknowledge.[86]

[86] The ambivalent relationship is particularly evident in Walter Eucken's academic career: While he began as a student of the historical school in both thematic and methodological terms, as his dissertation and habilitation thesis demonstrate (see Eucken 1914 and 1921), he later deliberately turned away from it in favor of a supposedly more (neoclassical) theoretical approach (e.g., Eucken 1938a, 1940). Even so, his ideas remained strongly influenced by it in many ways (Peukert 2000; Goldschmidt 2002, Broyer 2006).

It goes without saying that in this respect no sweeping statement can be made about *the* ordoliberals – understood as a monolithic bloc.[87] Just as the economic and sociopolitical thinking of ordoliberals, such as Alexander Rüstow, Walter Eucken, Franz Böhm, Wilhelm Röpke, Alfred Müller-Armack, et al., do not form a uniform canon, this also applies to their relationship to the teachings and ideas of Gustav Schmoller. The following sections, which focus on the nexus between Schmoller and ordoliberalism, therefore refer to six generic characteristics of the ordoliberal research program, without wishing to claim universality for those references made to individual thinkers or to ignore their nuances.

4.2.1 The Contextual Approach to Political Economy

Despite their biographical and scholarly differences (see e.g., Kolev 2017), the founders of ordoliberalism, in addition to working towards a renewal of liberalism in the 1930s and 1940s, were united above all by thinking in terms of orders. A dichotomy between questions of the economy and questions of other spheres of society seemed to them both untenable and unsuitable in grasping real economic policy issues. By examining the interaction and the entangled interfaces between the economic order and other societal orders, ordoliberalism clearly belongs to the economic approaches subsumed under contextual economics (Kolev et al. 2019). And what would better describe this multifaceted and interdisciplinary group of scholars than Schmoller's call for the unity of the social sciences? Among ordoliberals, there exists something of a division of labor in this respect: Eucken and Böhm (and the *Freiburg School*) addressed contextual issues primarily as a symbiosis of economics, jurisprudence, and political science – particularly concerned with the problem of power in a free society. Rüstow, Röpke, and Müller-Armack, on the other hand, are referred to as the sociological or "communitarian" branch of ordoliberalism (Renner 2002, 250–255), focusing more on the issues of social cohesion in modern market societies.

It is fair to say that all protagonists of ordoliberalism have always been more than "mere" economists. Even Eucken, who probably polemicized most vociferously against what he saw as the anti-theoretical "ruins of the Historical School" (Janssen 2009a, 104), shares its genuinely contextual perspective. This becomes clear in his concept of the "interdependence of orders," with which he describes the interaction between the various spheres of life in human societies (Eucken 1952/2004, 180–184). According to this, there is no strict primacy

[87] Accordingly, Schmoller should not be referred to as *the* historical school. Where I have used this rhetorical trick, I apologize and point to the necessary narrowing of the content of the article. As Pearson (1999) notes, the historical school should not even be perceived as an exclusively German movement in political economy.

of the economic order over the orders of law, politics, culture, etc. "There is not, therefore, a one-sided dependence of the other orders on the economic order, but a mutual dependence" (Eucken 1948, 72). But Eucken emphasizes that no one will be able to solve the "question of social justice, freedom, or peace" without the insight "that solemn questions about the spiritual existence of humankind are inseparably connected with very sober questions about economic mechanisms" (Eucken 1952/2004, 183–184).[88] Schmoller was also convinced of the interdependence of the spheres of human life. In an effort to make a contribution to the solution of precisely those questions, he chimes in – albeit with the portents reversed – as follows: "And likewise we must not limit the study of economics to the technical-economic [...]; our science has to do primarily with human actions and their causes (i.e., with social and moral purposes) and with the societal, ethical, and legal order of economic life" (Schmoller 1911, 496).[89]

The concept of the interdependence of orders gives Eucken's theory a historical, and thus contextual, awareness (Broyer 2006, 254–257). Considering this, it is not surprising that Eucken rejects classical political economy with quite a Schmollerian argument: it failed to him "not simply because of defects in its theoretical system, but mainly because its theoretical solutions did not fit the existing historical variety of economic life" (Eucken 1950/1992, 48). Rüstow is ploughing the same furrow when he accuses the "vulgar liberalism" of the past of "sociological blindness" (Rüstow 1945/2001, 91–98). His critique is directed against the reduction of economic liberalism to an isolating, purely economic view in the vein of neoclassical theory. The market mechanism, Rüstow points out, does not function autonomously, but in dependence on historical (i.e., certain sociological and institutional) circumstances (Rüstow 1945/2001, 97–99); another argument typical for Schmoller (e.g., Schmoller 1864a, 414; 1875a, 33–36; 1908/1978, 37).

The ordoliberals thus sought to distance themselves to a certain extent from both the methodological approach of the German historical school *and* the isolating approach of (neo-) classical economics. To follow Schefold (1994, 222), one might say: ordoliberal

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88 This idea is taken up not least by Ludwig Erhard (at this time Federal Minister of Economic Affairs) when he writes in *Wohlstand für Alle (*1964): "The economy is perhaps the most primitive thing, but it is also the most indispensable thing; only on the basis of a healthy economy can society fulfil its proper and ultimate aims" (ibid., 137).

89 This perspective on the interdependence of the spheres of human life can also be seen in Rüstow (1945/2001, 142): "Despite its self-evident indispensability, it is time to return the economy to the subordinate and serving position it deserves [...]. In doing so, it is necessary to recognize that even within the economy itself the imponderably vital and anthropological is more important than what is actually economical, measurable in quantity."

thinkers wished to pursue modern economics, but also sought to include contextual thinking into their analysis; they attempted a new form of abstraction but wanted to remain grounded in the real world. Eucken's attempts to overcome the "great antinomy" (Eucken 1950/1992, 34–44) between historical and theoretical orientation in economics is an expression of this ambivalence. In his reaction to the doctrine of historicism, and to overcoming them, however, Eucken seems to overlook the fact that the distance between him and Schmoller, in terms of contextual thinking, is nowhere near as great as his discussion of "science à la Schmoller" (Eucken 1940) suggests. In particular, the accusation made therein that Schmoller – who was always interested in the classification of individual economic issues in the overall context of the development of an economic and societal order – had founded a school that did not understand economic reality and its relationships (ibid., 493), requires correction from today's perspective (Schellschmidt 1997, 176).

4.2.2 The Need for Institutional Framing of the Economic Order

Like ordoliberalism, Schmoller's sociopolitical vision of his research program is aimed at shaping an economic order in which the economically necessary is in harmony with the socially desirable. Both approaches see themselves as a kind of "third way" insofar as they place themselves in opposition to both the economic doctrines of socialism and of the classical liberalism of laissez-faire, which they see as incapable of providing a viable solution to the challenges raised by the cultural and social issues of modern mass societies.[90] For the ordoliberals, Eucken puts it in a nutshell: "One of the great tasks of the present age is to find an effective and lasting system, which does justice to the dignity of man" (Eucken 1950/1992, 314). The goal is a *functional* and *humane* order of the economy in which market efficiency and social balance can be combined.

The ordoliberal conviction that such an order is neither historically predetermined nor self-sustaining by the principle of laissez-faire was already expressed by the German historical school. Schmoller compares the economy to the mechanical gears of a clock driven by egotism and quantitative relations which must be regulated by ethics and law in order to achieve a prosperous outcome (Schmoller 1875a, 86). Insisting on the need for an institutional framing of the economy, he suggests that the economic order is not a "natural product," but rather that it is most of all the outcome of "respective moral views on what is right and just in the relationship of the various social classes" (Schmoller 1874a, 337). In his

[90] Against this background, Peukert (2000, 127) sees both the historical school and ordoliberalism as a reaction to what Karl Polanyi (1944/2001) termed "The Great Transformation": the increasing marketization and economization of society.

essay on *The Idea of Justice in Political Economy* (1894a), Schmoller proposes that social stability derives from the subjective perception of socio-economic conditions based on certain predominant mental models rather than from objective economic indicators. He concludes that the institutional framework must develop with the economy in order to help redefine the precepts of morality and justice at the highest possible level (Priddat, 1998, 324).

In the language of ordoliberalism (e.g., Röpke 1958/1979, 145–191; Rüstow 1945/2001, 90–112), one could read Schmoller as: *the market economy operates based on prerequisites which it cannot itself guarantee*.[91] For Schmoller, the only guarantee for social cohesion and thus the necessary condition for a – in ordoliberal terms – functional and humane economy is a constantly evolving minimum consensus on values that permeates all social strata and is reflected in everyday institutions. "The most primitive barter is impossible, unless, between the parties practicing it regularly, a certain moral understanding exists" (Schmoller 1894a, 718). Schmoller thus includes in his reflections on the development of the social order not only formal, but also and above all informal institutions and their interactions.

At the same time, he keeps in mind that a humane economic order is still dependent on an economic logic. In this respect, and this is often overlooked in the literature, Schmoller's understanding of the market economy was clearly influenced by classical liberalism (Zweynert 2010, 27).[92] Indeed, Schmoller never left any doubt that he essentially gave priority to the market-driven coordination of economic processes (Hansen 1993, 138–139; 2012, 406; see also Frambach 2006, 229–232), just as he considered private entrepreneurship indispensable (Störring 2023, 15). In this respect, an economic order oriented towards the principles of the market economy can be seen as a second necessary condition for a functional and humane economy in Schmoller's sense. But – and this is an essential

[91] In Röpke's words: "[E]conomic life does not, of course, take place in a moral vacuum. On the contrary, it is constantly in danger of losing its ethical center if it is not supported by strong moral pillars [...]. Extra-economic, moral, and social integration is always the precondition of economic integration [...]. The market, competition, and the forces of supply and demand do not generate those moral reserves. They presuppose them and consume them. They must draw them from other spheres beyond the market, and no textbook of political economy can replace them" (Röpke 1958/1979, 184–186).

[92] Examining Schmoller's appreciation of Adam Smith (Schmoller 1913, 126–134), it is difficult to deny this connection, as, for instance, Recktenwald (1989) does. Schmoller speaks of the "great," "astute, honorable Scot," and ultimately arrives at a balanced judgment of Smith as an economist and especially as a moral philosopher. On the *Theory of Moral Sentiments*, he even confessed that he could hardly recall another book which "made so great and lasting an impression on first reading" (Schmoller 1913, 130). In contrast, Schmoller saw the historical school in particular in opposition to *late* classical political economy in the vein of David Ricardo and Jean-Baptiste Say (ibid., 134).

intersection with ordoliberalism – it is not unreflected. He considers the economic achievements of the market economy as unsurpassed in its wealth creation and progressiveness, but at the same time regards its prerequisites and side effects as a source of social fragmentation.

> Without such modern individuality, without acquisitive desire, without self-affirmation in this sense, there would not be today's spiritual and political culture, there would not be our major states and economies [...]. But the other side of this development is the greedy spirit of usury, the social hard-heartedness, the enforcement of our social and political life with [...] social struggles, political corruption. Since they came into being, we also strive to combat and mitigate these mistakes (Schmoller 1919/1978, 774).

Like no economist before him, Schmoller's work links the institutional structure of society to the shape and performance of its economy. This insight in turn substantiates his commitment to practical politics and his idea of the capabilities and the necessities of shaping the economic order (Plumpe 1999, 267).[93] He sees the task of his research in providing an answer to "the great question of our time," namely:

> [W]hich moral instruments and which social institutions, on the one hand, maintain a measure of healthy acquisitive impulse – without which the economic endeavors of large communities (their rightful self-assertion), personal freedom, and the development of individuality is unthinkable – and yet, on the other hand, allay the greed and social injustice that threaten our moral and economic existence (Schmoller 1908/1978, 36).

The quote depicts an essential motif of ordoliberalism. Although for Schmoller a solution to this recurring task of political economy is complex and must do justice to specific context, one thing holds true for him in any case: "As [...] the wise constitution stands above the wise ruler, the just legislation above the just judge; we can add, the perfect constitution of the economy above the chaotic game of conflicting economic forces" (ibid., 64).

4.2.3 The Indispensability of a Strong and Assertive State

Ordoliberal thinking in terms of orders and institutional frameworks is much easier to derive from the work of the German historical school than from classical economics. The same applies all the more to the conviction that it is primarily the responsibility of the state to shape the order properly (Häuser 1994, 72). Influenced by camerialism, German idealism

[93] Schmoller's research interest in institutions is not only motivated by a program of formulating economic policy, as it is the emphasis in ordoliberalism, but beyond that to the theoretical analysis of institutions (Schellschmidt 1997, 122–131). While Schmoller is concerned with a theory of institutional change (e.g., Schmoller 1883, 983), institutions are not necessarily regarded as the primary object of study in the early days of ordoliberalism (Feldmann 1995, 39–42).

and partly even romanticism, the proponents of the historical school had a tendency to examine that which actually is, at the same time acknowledging, however, its mutability in both historical and cultural terms. Against the background of the profound social upheavals of their time, they came to the insight that the ideal order did not develop spontaneously but would have to be consciously created (Stark 1994, 271). This insight seems to be particularly appropriate in historically unstable contexts; at least it applies to Schmoller.[94] But it also applies to the ordoliberals, whose work was shaped by the threatening and incomprehensible historical backdrop of WWII and the tyranny of the Nazi dictatorship (see Rieter and Schmolz 1999; Goldschmidt 2005; 2011; Maier 2014). Both Schmoller and the ordoliberals drew from their incisive experiences the conviction that the prerequisite to a stable and prosperous order had to be a strong and assertive state.

Considering the biographies of most ordoliberals, there can be no doubt that invoking the "strong state" is not to be understood in the sense of an authoritarian or totalitarian state. For them it is a state which, by operating with general rules as opposed to establishing privileges, is above private interests and is not subject to being captured by them (Eucken 1952/2004, 325–338). Its role should be that of an "ordering potency," its purpose to create and maintain a market economy that serves society and the people (ibid.) – no more, no less. The misinterpretation of this specific notion of a "strong state" has repeatedly led critics astray (e.g., Ptak 2009; Bonefeld 2017; Innset 2020).[95]

Similarly, Schmoller's understanding of the state is often misinterpreted, not least by these ordoliberals. And yet he ultimately shares their perspective when he advocates "a strong state authority which stands above egoistic class interests, enacts laws, with a just hand directs the administration, protects the weak, raises the lower classes [...] for equality of rights, for elimination of all privileges and prerogatives of the higher classes" (Schmoller 1873a, 4). To be sure, Schmoller's concept of the state differs considerably in detail from that of the ordoliberals. How could it be otherwise, given the profound historical incidents that lie between the two different generations of scholars? Schmoller proves himself several times as a supporter of the Prussian monarchy and admirer of the Hohenzollern dynasty (e.g.,

[94] With regard to the industrialization of the nineteenth century, Schmoller emphasized that "we are in a time of chaos, of transition to new conditions; all old forms of economic life have been solved, an economic revolution is taking place that world history has not yet known. It is a matter of ordering the confused elements correctly to a new healthy building" (Schmoller 1974a, 336).

[95] For an informed review of Innset (2020), see Horn (2020).

Schmoller 1874a; 1915a).[96] He considers it the archetype of a benevolent sovereign, with its conscientious officialdom more capable and willing than any other form of government to use its power with farsightedness for the benefit of all citizens.[97] Of course, we can certainly argue today that Schmoller's trust in a state acting beyond all class interests – especially in a semi-constitutional monarchy – is idealistic naivety. However, his actual argumentation is in the same vein as ordoliberalism's, with its modern idea of a "strong state."

From the perspective of the theories of state, Schmoller is a proponent of the idea of a *social kingship* as formulated by Lorenz von Stein (Schellschmidt 1997, 134–144). In this context, Schmoller views the role of the state, above all, of fulfilling decisive functions for the implementation of social reform politics: "the dangers to society in the future can only be alleviated by one means: that royalty and the civil service, that these most qualified representatives of the ideas of the state, these only neutral elements in the social class struggle, reconciled with the idea of the liberal state, supplemented by the best elements of parliamentarism, take the initiative for grand social reform legislation, resolutely and surely" (Schmoller 1974a, 342).

For all his confidence in the abilities of social kingship, Schmoller was not, however, a state socialist. He recognizes the deficits of a central planned economy, noting the practical limits of the state in complex market societies:

> Today, in view of the increased complexity of economic activity, the central organ itself will lack the necessary insight and vision. [...] The threads between the center and the periphery in economic life today are far too long, far too intertwined, to be able to be directed from the center according to universal rules. Everything has become more complicated, more varied, more changeable. Among themselves, the businesses and enterprises are so little alike that all common rules, according to which the state must always proceed, would necessarily become inhibiting (Schmoller 1865, 35).[98]

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96 Nevertheless, it would be wrong to stylize Schmoller as a hard-headed Prussian nationalist: "The nativism that preaches to us that we cannot and do not need to learn anything from abroad [...] is currently growing strongly; we also have reason to feel prouder today than in the past; one cannot deny that we have often made mistakes by wanting to naturalize foreign institutions directly among us. – But on the other hand, a good part of our ideal culture, our scientific education, is based on this cosmopolitan, international course, and besides this we cannot close our minds to the realization, if we do not want to be narrow-minded, that in economic and other matters we have a much younger culture than the English and the French, and that for this reason alone we can learn from them" (Schmoller 1875b, 17).

97 Schmoller's preference for the monarchical form of government is certainly the result, not least, of historical context and strategic considerations (Herold 2019, 55–77). Beyond that, however, it is certainly amenable to arguments from public choice theory. He viewed modern democracy (e.g., in the USA; see Schmoller 1904) skeptically, although with fascination and without categorically rejecting it.

98 With this quotation Schmoller hints at what Hayek described as "the pretence of knowledge" in his speech at the 1974 Nobel Prize banquet (see Hayek 1989).

As Hansen (1993) in particular has convincingly argued, Schmoller does not advocate an interventionist state that influences economic processes as a direct actor.[99] Rather, the idea of the state as a power which shapes and orders institutionally also dominates his economic and social theory: "The state is the centre and the heart into which all institutions empty and unite. [...] Above all it exercises as legislator and administrator the greatest indirect influence on law and custom, on all social institutions; and this is the decisive point" (Schmoller 1894a, 734).

4.2.4 The Cultural Ideal of a Humane Liberalism

With all its peculiarities, ordoliberalism is commonly regarded as the German variety of neoliberalism (Riha 1986; Barry 1989; Biebricher 2017). It is indisputable that the early ordoliberals always considered themselves to be true liberals, but as their participation at the *Colloque Walter Lippmann* has demonstrated (see Reinhoudt and Audier 2018), they were chiefly concerned with a new and properly interpreted liberalism.[100] With their "liberal critique of liberalism" (Tönnies 2009), they accuse its classical interpretation of having fallen prey to an "economism" that aims only to stimulate performance and neglects the crucial, non-economic aspects of human existence (Röpke 1958/1979, 164–165).[101] They are, conversely, concerned with a return to what Röpke described as the lasting "cultural ideal of liberalism" (Röpke 1947a). As a result, for ordoliberals the idea of economic liberty (literally) comes second to the notion of a well-ordered society, albeit this is certainly not to be understood as a devaluation of freedom. In ordoliberalism it is the – functional and humane – order that makes freedom possible in the first place (Fritz et al. 2021).

Of course, I do not want to go so far as to portray Schmoller as a pioneer of (neo-) liberalism, but I do want to emphasize that, in line with the conceptual understanding of his time, he can certainly be described as an "undogmatic liberal" (Hansen 2012, 406) or a "liberal-conservative" (Herold 2019) thinker. In any case, for him "the idea of liberty" is just as much a moral ideal in the field of social policy – and it is emphatically on an equal footing with – "the idea of justice," "the idea of community," and "the idea of benevolence" (Schmoller 1894a, 723–724). In his well-known handbook article, Schmoller supplements these with "the idea of social order" and argues: "These are abstract goals, none of which

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99 In an informed review, Engelhart (1996) vehemently disagreed with Hansen (1993) on this point.

100 It is therefore not surprising that the creation of the term *neoliberalism* is supposedly attributed to Rüstow during the *Colloque Lippmann* (Mirowski and Plehwe 2009, 12–13).

101 "We mean that *economism* which is already known to us as one of the forms of rationalism, an incorrigible addiction to making the means the end [...]" (Röpke 1958/1979, 164; emphasis in the original).

can be envisaged unilaterally in practical life without creating abuse and exaggeration. *All freedom presupposes order at the same time* [...]" (Schmoller 1911, 438–439; own emphasis). In this way, he hints, in no uncertain terms, at the ordoliberal mantra; without, however, assuming the primacy of order.

In contrast to the idea of justice, Schmoller did not devote a separate work to the idea of liberty. Nevertheless, it is present in both his institutional theory and his sociopolitical reflections. With regard to the latter, liberty for Schmoller always means freedom for the (socially) weak. As he sees it, economic liberty without protecting and working in the interests of the disadvantaged would only lead to class domination by the owning classes; the concomitant social tensions would endanger the foundations of liberal society (Hecker 2016, 4).[102] In this context, Schmoller's work demonstrates a high degree of sensitivity to problems of economic and social power relations. Unlike some ordoliberals, however, for whom power and its concentration in connection with the competitive order is a fully-fledged topic in itself (e.g., Böhm 1933; Eucken 1947-1950/2001), Schmoller's discussions of this matter remain limited primarily to the unbalanced power relationship between workers and capitalists (e.g., Schmoller 1864a; 1864b; 1865; 1873b; 1874b; 1890d; 1892b).[103] In view of the prevailing imbalance of this power relationship in the nineteenth century, he concludes "that a merely negative concept of economic liberty does not suffice, but that a new legal order is needed" (Schmoller 1881a, 12). It is an assessment which takes the context into account, which Herold (2019, 259) aptly calls "revised liberalism."

With respect to his own contemporary historical context, Schmoller did not assume that the ability to live free lives was distributed equitably. In his view, any equitable distribution must first be developed by reformed institutions. Nevertheless, he sees the distribution of power and opportunities within a society not so much as a question of material possessions as one of moral and intellectual education.[104] In this way, he reinterprets questions of freedom as questions of education (Hofer 2001, 86–90). For Schmoller, both positive liberty

[102] The fact that Schmoller sees the role of the state most effectively upheld by a constitutional monarchy should not obscure the fact that he also has in mind a participative economic and social order based on the rule of law.

[103] Schmoller also deals marginally with cartels, but he arrives at fundamentally different insights than Eucken (Eucken 1940, 489). Schmoller's favorable notion of cartels is today often considered a major flaw in his economic theory (Krüger 1989).

[104] "It is not property in the first place, but rather moral and intellectual education that separates our social classes" (Schmoller 1892b, 479).

and its use for the benefit of society are governed by certain preconditions:[105] The degree of (economic) liberty beneficial for a society is determined by the existing institutional context, itself based on morality, custom, and law. As such, Schmoller rejects a judgment of freedom based "only on formal liberty, on the number of eliminated legal barriers" (Schmoller 1875a, 49). Instead, he is concerned with "elevating the formal liberty of each person to the material, inner, and true freedom of morally and intellectually educated, responsible individuals" (Schmoller 1878, 186).

All in all, it is quite clear that Schmoller is far from being a classical (paleo-) liberal, from whom, as is well known, the ordoliberal thinkers emphatically distanced themselves. But he is, equally, anything but hostile to the *cultural ideal of liberalism*, which was the cornerstone around which ordoliberalism circulated. Like early ordoliberals, Schmoller is concerned with freedom properly understood – a qualitative freedom (see Dierksmeier 2019), which should fulfil its social responsibilities and contribute positively to people's lives.[106] In other words: a humane liberalism.

4.2.5 The Importance of Social Policy

The most urgent challenge to be resolved for Schmoller and the entire German historical school was the *social question* (Grimmer-Solem 2003). The guiding and – indeed – practical questions which emerged at the time have, in the last fifty years, at most become a niche area for economic science, even if they were not only central, but indeed constitutive, for the profession in Germany in context of the nineteenth century. With the founding of the *Verein für Socialpolitik* in 1873, social welfare legislation, the reconciliation of interests between social classes, and the cohesion and moral integrity of society became a major concern for political economy.[107] The term social policy in the parlance of the time stands in the sharpest contrast to socialism (Müssiggang 1968, 9). Social policy was the means by which the ethical and social needs of a market society were to be met, in a reformist way; not through

[105] The idea of a preconditional "freedom to do something," in other words the necessity of enabling positive liberty, is also emphasized by Rüstow (Dörr and Goldschmidt 2015, 56–57).

[106] "We must no longer make it the only desirable postulate that the individual be left the greatest latitude for his whims [...]. In this spirit, I demand not merely formal liberty, but that material freedom which secures the individual's advancement and prosperity and seeks above all to elevate, advance, and educate the lower classes" (Schmoller 1878, 202).

[107] Schmoller co-founded the *Verein* in the hope of "finding a basis for the reform of our social circumstances, to acquire general approval for ideas that have long existed here and there but have not yet come to dominate public opinion" (1873a, 1). Yet it would be mistaken to consider him an active actor in the political arena. He tried to distance his science from day-to-day politics and saw the economist's mandate more in acting as a source of ideas, as well as in commenting on economic and social policies (Backhaus 1989, 46).

subversive revolution, but by integrating it into the existing order. Irrespective of how convincingly Schmoller's research program is directed against the doctrines of socialism, he recognizes in its "struggle for a more just order of the economy, for the emancipation and promotion of [...] the great mass of the people" an existing human need and therefore a legitimate goal (Schmoller 1897/2018, 220; see also 1911, 444–445).[108] With the same impetus – a market-based order that addresses the shortcomings of the market economy – Rüstow calls upon us to "take into account all the legitimate objections and demands of socialism" (Rüstow 1949, 131; see also Röpke 1944/1979, 51–52). In the context of competition between systems, social policy for Rüstow – he will later speak of *Vitalpolitik* [vital policy] – is the appropriate means to create within the market economy the necessary feeling of social inclusion and life satisfaction.

Even if the founders of ordoliberalism can be said to have rather heterogeneous conceptions of social policy, they nevertheless all agree that social policy should not be limited to merely correcting the deficiencies and undesirable side-effects of the market economy. Instead, it should be regarded as an integral component of the institutional prerequisites of an order based on the market economy which it itself cannot produce or guarantee. Social policy is thus not considered an "appendix to the rest of economic policy but first and foremost a policy of the entire economic order" (Eucken 1952/2004, 313).

This view can also be found in Schmoller's work (Blümle and Goldschmidt 2006a, 215–217). By tying social and economic policy together and transforming them into a comprehensive *Gesellschaftspolitik* [societal policy, i.e., a policy aimed at social conditions at large], he is far ahead of his time (Müssiggang 1968, 209). Despite according the state with the sovereign responsibility to steer social policy, his approach outlines the principle of subsidiarity (Kreis 1999, 136): "The state is always the final court of appeal to which moral cultural life may appeal." If possible, grievances should already be determined and remedied "in the lower instances, the family, the community, customs", since they are "closer to the cause" (Schmoller 1864b, 534).

Schmoller distinguishes between the "internal" and the "external" effect of sociopolitical measures: "Workers must be helped from within, not from the outside. Anything [...] that does not equally change their customs, their knowledge, their way of thinking and living, helps for a moment, not in perpetuity" (Schmoller 1865, 46). He is critical of short-term

[108] This outlook, and their sociopolitical commitment, ultimately led Schmoller and his like-minded allies of the *Verein* being cynically labeled "socialists of the chair" by the press (Goldschmidt and Störring 2019).

approaches to poverty and social problems that are based purely on financial assistance. Social policy and – in Schmoller's specific case – the solution to the social question were not considered to be remedied through higher wages alone. Instead, his goal is the "inner transformation" of disadvantaged social groups. The welfare state is seen as a cultural state, responsible also for ethical culture and education, thus promoting social eudaemonism (Nau 2000, 514).

> It is not a matter of creating an equal existence for all, but of creating a humane existence even for the lowest classes, one which contains the possibility of further acquisition and higher education (Schmoller 1864b, 524). [And a few pages later:] Education is the basis of all moral improvement (ibid., 535).

To speak of "morality" or "moral education" in this context may seem antiquated today. Yet Schmoller's realization that social policy must above all also be educational policy, and the way in which he stressed the importance of (school) education for social mobility as well as for social participation, is far from antiquated. He had in mind a "moral elevation" of the working class, by which he understood strengthening individuals' sense of personal dignity and self-responsibility as well as empowering them to become self-reliant (Goldschmidt and Störring 2019, 97–100).

The idea of state-guided social policy, which is based on the principles of subsidiarity, aims at encouraging self-responsibility. In so doing, it takes into account people's "inner" and "outer" life circumstances, a highly relevant issue for our contemporary era and almost characteristic of ordoliberal thinkers (Blümle and Goldschmidt 2006a, 215–218). Apart from the conviction, grounded in realpolitik, that systematic social policy is imperative for a market economy, Schmoller's concept shows overlaps, in particular, with Rüstow's notion of vital policy.[109] An examination of the practical outcomes of these theoretical approaches (against the background of social legislation in the German Reich, or the implementation of the Social Market Economy after WWII), would perhaps be a good example that continuity in economic thought can be measured not only by references in textbooks, but also by its real political impact.

4.2.6 The Consideration of Value Judgments

In light of the aspects illuminated above, a main motif emerges in ordoliberal thought, which is the ideal of a humane economic and societal order. This concern is strikingly evident, not

[109] For a more extensive description on Schmoller's notion of social policy, see Hansen (1993). For a detailed account of *Vitalpolitik*, see Dörr et al. (2015).

least in the allegorical titles of Röpke's writings: e.g., *Civitas Humana* (1944/1979),[110] *Der Mensch, nicht der Eintopf* [The Human, not the Stew] (1951/2009), *Rechnung ohne den Menschen* [Calculation without the Human Being] (1954/2009), or *Jenseits von Angebot und Nachfrage* [Beyond Supply and Demand] (1958/1979). On the one hand, this reflects a conviction that runs like a thread through the German historical school, namely that economists should pursue a science of human beings.[111] On the other hand – and this, too, marks a continuity in political economy in Germany – the requirements of a deliberately humane order that serves human beings cannot be established without setting ethical-normative value judgements.

According to the preface of the first *ORDO Jahrbuch* (Meyer and Lenel 1948, XI), the postulate of the ordoliberal program "is limited to the creation of an economic and social order ensuring both economic performance and humane conditions of existence. We support competition given that it can be used to achieve this end; indeed, this end is unattainable without it. But it is a means, not the ultimate end". Further information on the normative self-conception of ordoliberalism can be found in Eucken's *Principles*, in which he confirms "the task of the Yearbook":

> This is, however, only one aspect of the competitive order that it demands the enforcement of economic factuality and their laws. Its other aspect consists in the fact that, in doing so, a social and ethical desire for order should simultaneously be realized. And in this connection lies its unique strength (Eucken 1952/2004, 370).

This programmatic sketch implies that ordoliberalism, even in its attitude to normativity, can to a certain extent be seen as coinciding with Schmoller. For he too considers ethical value judgements – and herein lies a common misinterpretation – not to be randomly chosen subjective statements. The latter cannot be justified scientifically and, for Schmoller, are exclusively the "business of the party member, not of the scholar" (Schmoller 1881a, 6). Nevertheless, his undogmatic view of science also led him not to deny the significance of metaphysical constructions in achieving scientific progress (Lindenlaub 2018, 12). He notes on several occasions that the "supreme principles" of the ethical framework prevailing in society, such as freedom, justice, equality, etc., should serve science as "guiding stars,"

[110] In the preface, Röpke emphasizes that "the title of the book contains a double meaning in that it promises a treatment of fundamental questions, not only of human society per se, but also of the 'humane' society appropriate to man" (Röpke 1944/1979, 29).

[111] Wilhelm Hennis (1983; 1987) coined the phrase "science of man" in reference to Max Weber's work and illuminated how deeply this concept is rooted in the political economy of the historical school.

insisting that "they are not empirical truths from which one could continue to deductively reach conclusions on duties, about what ought to be" (Schmoller 1911, 438–439).[112]

He is concerned with value judgements which, in their historical formation, are shared by the majority of society and thus, in his eyes, acquire a certain degree of general bindingness of "objectivity" (ibid., 493). With this stance, he seems to represent a suitable template for Röpke. Like Schmoller, Röpke also pleads for a scientific consideration of value judgements of a "higher rank" (Röpke 1944/1979, 158), using the concept of an "anthropological fact" to assign scientific legitimacy to certain value judgements for which a general consensus existed (Christ 2018, 46–47). Such objective value judgments "are simply anthropological facts which science has to respect just as much as other facts and with which it has the same undeniable right and even a higher duty to operate as an objective fact" (Röpke 1944/1979, 158).

Eucken's normative self-understanding can also be interpreted in this context. As Pies (2021, 11–12) points out, Eucken understands his *constitutive principles* (of economic policy), for example, not as fixed normative settlements, but as arguments of expediency derived from the population's desire for, and from an economic understanding of, order; these arguments are both capable of and in need of further development through new insights. It is precisely in this dyad of socially shared ideas (or values) and scientific knowledge, both of which are to some extent subject to historical change and progress, that Schmoller's legitimation of value judgements in the sciences is founded; and by which it is, above all, limited. "Nothing was further from my intention than to derive value judgments from a specific economic ideology; on the contrary, I merely did not want to assert that economic activity is detached from good and evil" (Schmoller 1911, 497).

Schmoller's intention was to make social values tangible through his historical research on institutional change. Rigorous scientific methods, he felt, should reduce the subjectivity of the scientist as much as possible. He did not, however, indulge in the positivist believe that this could succeed entirely: "A subjective element always remains. It is the darker side of all scientific work" (Schmoller 1870, IX).[113]

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[112] Schmoller had already formulated these lines in the first edition of this handbook article in 1893 – and thus before the *Werturteilsstreit* [value judgment controversy] with Werner Sombart and Max Weber. This view also plays a central role in his preface to his assumption of the editorship of the subsequent *Schmollers Jahrbuch*; see Schmoller (1881a).

[113] See also Schmoller's following remarks (1881a, 3): "We always remain ourselves a part of that problem which we intend to investigate and understand. [...] Admittedly, the more developed our abstract thinking,

4.3 "Social Irenicism" and the Idea of an Ethical Market Economy

As has been shown so far, the six aforementioned characteristics of the ordoliberal research program were already essential in the work of Gustav Schmoller. With this in mind, it is hardly surprising that the sociopolitical vision derived from these motifs is also marked by certain continuities. The concept of the Social Market Economy, understood both as a normative guiding principle for a functional and humane order as well as the actually existing economic order of the Federal Republic of Germany, is inseparably linked with the research program of ordoliberalism. However, they are not completely congruent (Renner 2002, 65–71). In this context, reference should be made to Alfred Müller-Armack, who famously coined the term "Social Market Economy" and, as secretary of state under Ludwig Erhard, had a considerable influence on its theoretical foundations and practical implementation. Müller-Armack emphasizes that the scientific origins of the Social Market Economy have broader – or, in terms of the continuities to be highlighted in this article: *deeper* – roots than the formation of ordoliberalism.

> Those who would reduce the Social Market Economy to pragmatism overlook the long intellectual preparation that led to this modern solution of a free and social economic and societal order. This theory of the Social Market Economy is what is under discussion here, not exclusively in the sense of the modern understanding of theory alone, but in the broader sense of the scientific principles of the approaches that were built into the foundations of the Social Market Economy (Müller-Armack 1973a/1981, 178).

Müller-Armack is referring here to the "philosophical anthropology, especially that of the [nineteen] twenties" and the "sociology that began with Max Weber," which, he contends, led him personally to the sociology of religion and culture (Müller-Armack 1973a/1981, 168). What emerged from these branches of research for the notion of a Social Market Economy was, in particular, "the realization of encompassing styles that united the intellectual, the economic, the social, and the political into a single entity" (ibid., 181). In other words, a contextual perspective. Finally, among the pioneers of this tradition of thought, he also mentions Schmoller – but rather in passing, which is surprising, considering the extensive intersections between him and the head of the younger historical school.[114]

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the more we can discover the sources of error arising from it, and avoid the false conclusions. This will never be entirely possible, just as there will never be a man who does but think and understand, who does not at the same time feel and strive, who does not somehow share the feelings and the acts of will of his fellow citizens."

[114] Hansen (1993, 159), for example, understands Müller-Armack's social-ethical perspective as a continuation of Schmoller's approach. He emphasizes Schmoller's greater proximity to Müller-Armack's

Müller-Armack coined the idea of the Social Market Economy as an "irenic formula" (Müller-Armack 1969/1981, 131). Derived from the Greek term εἰρήνη (peace), he thereby addresses two challenges of societal organization: (1) the reconciliation of economic efficiency and social interests; and (2) the reconciliation of different worldviews within society. In Müller-Armack's eyes, a Social Market Economy must do justice to both concerns in order to be sustainable (Müller-Armack 1950). It is an idea of which Schmoller, in his efforts to stabilize and reform the German economic order of the nineteenth century, is also cognizant. The basic thought of social irenicism plays an essential leitmotif in his research program and represents a significant link between the two economists.

4.3.1 Reconciling Economic Efficiency and Social Interests

Müller-Armack conceives of the Social Market Economy as an irenic formula insofar as it tries to create a reasonable balance between the ideals of justice, liberty, and economic prosperity (Müller-Armack 1969, 131). With regard to the realization of an economic order of this kind, he recognizes that (economic) liberty and (social) justice exist in a mutually dependent relationship to each other:

> Only their simultaneous implementation and their reciprocal coordination guarantee success. [...] Mere freedom could be thought an empty phrase if it were not linked with social justice as an obligation. Thus, social justice must be elevated, with and alongside freedom, to an integrating component of our future economic order (Müller-Armack 1948a/1981, 90–91).

Notwithstanding the prominent place that the concept of justice has in Schmoller's work, he too emphasizes its interdependent character: "Whoever presents freedom or justice [...] as an isolated supreme principle from which one can deductively derive the right action with a strict, inexorable logic, completely fails to recognize the true nature of these ethical postulates" (Schmoller 1911, 439). Schmoller, too, ultimately envisages an order that brings a reconcilable – that is, for him, foremost a socially integrative – balance to the moral ideals of justice, liberty, etc. In light of the historical developments of increasing liberalization, as well as considering the socio-economic conditions of his time, Schmoller initially considers a subsequent adjustment of the institutional framework to be necessary which takes into account society's notions of justice (e.g., Schmoller 1890d, 56–57; 1892b, 465–467).[115]

concept of the Social Market Economy, in contrast to that of the Freiburg School. In doing so, he proposes a far sharper distinction between these two pillars of ordoliberalism (Renner 2002, 256) than I consider appropriate in this context.

[115] The conceptual elaboration of Schmoller's notion of justice can be traced back to the bitter sociopolitical controversy between him and Heinrich von Treitschke (see Schmoller 1874a and 1875a). Its theoretical reappraisal is particularly reflected in his "Justice" article (1881b; or the translated version 1894a).

Schmoller is explicitly not concerned with a definition of justice in an absolute sense, but with an awareness of the regulative effectiveness of the perceptions of justice prevailing in society. For him, these are both an expression and a formative driver of the institutional framework of morality, custom, and law; and they are subject to change. "Thus, the approving or disapproving judgment of the justice of human actions or institutions always rests on the same psychological processes. But the results to which it comes may be very different" (Schmoller 1894a, 704). In the long term, Schmoller is convinced, our shared moral ideals, especially the ideas of justice, must be in harmony with the institutional structure. Otherwise, he argues, the integrity of society is threatened (Schmoller 1908/1978, 55). The development and reforming adaptation of the economic order had to be oriented towards this:

> We demand to-day above all, [...] that the complexes of rules of custom and law which govern groups of men who live and work together should harmonize in their results with those ideal conceptions of justice which on the basis of our moral and religious conceptions are prevalent to-day, or which are gaining recognition. We do not acknowledge any one of these institutions to be above history, as having always existed or as necessarily everlasting (Schmoller 1894a, 731).

It contradicts Schmoller's historical understanding to regard the institutional arrangement of an existing order as the one ideal that must be preserved (Herold 2019, 177).[116] After all, the order of an economy is not subject to the laws of nature, but "mainly a product of the respective moral views about what is right and just in the relationship of the various social classes to each other" (Schmoller 1874a, 337).

Inherent to this perspective is a fundamental intersection with Müller-Armack's idea of the Social Market Economy. An economic order – as Müller-Armack writes in a similar tone – "can never emerge from expedient thinking and outdated political ideas alone, but requires a deeper justification by moral ideals, which are prerequisites for its inner justification" (Müller-Armack 1948a/1981, 90). In his programmatic book *Wirtschaftslenkung und Marktwirtschaft* [Planned Economy and Market Economy] (1947), in which the term "Social Market Economy" is used for the first time, he declares the free-market principle to be a "means of organization which transcends time"; as unsurpassed in terms of wealth generation. Nevertheless, he makes it clear that this realization "neither commits us to a past form nor forces us to idly accept our economic fate" (Müller-Armack 1947/1990, 154). Like Schmoller, he is concerned with progressing the principle of the market economy "to a

[116] Schmoller's moral relativism, which is evident here, gave rise to criticism from contemporaries (Backhaus and Hansen 2000, 313) and from subsequent generations, such as Eucken (Schellschmidt 1997, 174).

position corresponding to our sense of justice and our cultural ideas" (ibid., 97; own emphasis).

Müller-Armack deliberately leaves open the concrete institutional form in which this is to be realized. It is this very perspective, taking into account the historical and cultural context, that is expressed in his oft-quoted statement that the concept of the Social Market Economy is "a progressive, stylistic idea waiting for its embodiment […] which is imposing itself not only in Germany, but also in the rest of the world – if not always in the same cipher, then at least in substance" (Müller-Armack 1976, 12).[117] A conceptual distinction is essential and must therefore be made between its guiding principle(s) and its realization.

4.3.2 A Social Idea to Unite Different Worldviews

In order to be viable in its realization not only as economically efficient but also in irenic terms, every economic order – as Müller-Armack expresses it with reference to Röpke – must be anchored in intellectual, political, and ethical convictions (Müller-Armack 1972/1981, 161). These convictions must be taken into account "for the correct understanding of our economic order" (ibid.). For Müller-Armack, this implies taking recourse to the sociology of culture and sociology of religion (Dietzfelbinger 2000; Petersen 2020). In his relevant works, Müller-Armack is explicitly referring to Weber and Sombart (Müller-Armack 1973a/1981, 179–181). Similar considerations, however, can be found in Schmoller's writings. In his dissertation "on the history of economic views in Germany during the reformation" (1860), Schmoller deals with the interaction of religion and economic thinking. In the spirit of Weber, he emphasizes "the ethical and moral outlook evoked by the Reformation" as an effective and pervasive driver of economic ideas (ibid., 712). The following quotation from his *Grundriß* also testifies to the high value Schmoller attaches to (Christian) religion in its social function as an ethical and institutional framework of orientation:

> It will be the great question whether the formation of philosophical, ethical systems and the growth of other moral forces of life [...], even today, is and will ever be strong enough to make religious pillars and norms dispensable for the mass of ordinary people, whether a society without religion is not like a small ship which, in a sore predicament between a thousand cliffs, in the hope of the good breeze of

[117] In the light of the globally emergent intensification of subversive, populist politics, the quote should perhaps be accompanied by the following note: "The Social Market Economy must not, in future, be degraded to pure pragmatism, or even to a policy of vote-chasing, by accepting all concepts that are in some way popular. The constitution of liberty presupposes politicians who do not see themselves as exponents of majorities, but as personalities who try, even perhaps at first, to bring uncomfortable insights to bear politically" (Müller-Armack 1973b/1981, 193).

> new, materialistic winds, has cut the anchor rope which has hitherto held it fast, which has hitherto saved it in the wild vicissitudes of raw natural forces and passions from being smashed against the rocks of human vulgarities (Schmoller 1908/1978, 47–48).

With this, the "at most *culturally* Protestant Schmoller" (Herold 2019, 118; own emphasis) certainly does not intend to throw his secular understanding of societal orders overboard. Instead, from an analytical standpoint he here addresses the ethical vacuum created by the increasing loss of the importance of religious values (see also Schmoller 1875a, 122–123). Schmoller sees this as a problem for the integrity of economy and society, for his institutional theory explicitly emphasizes the essential importance of *sittliche Gemeinschaft* [i.e., moral community], for economic activity and any further progress. Indeed, he considers it the source of the division of labor in the first place.[118] Characteristic of such a "moral union of confidence" (Schmoller 1894a, 719) is the existence of shared, or at least compatible, ideas of moral values, as well as a common perception of custom and law as the ordering rules of social life. Schmoller describes the moral community as the historically evolved result of the commonality of language and history, memories and ideas, interpretation patterns and value judgments. It is a collective basis for understanding and communication that transcends generations and social classes – in short: the indispensable cultural building blocks of "socially harmonious interaction" (Schmoller 1908/1978, 61).[119]

> This uniformity of cultured behavior, of the prevailing perceptions and ideas seems to me so important that I would like to say that the inequality of income and wealth is completely meaningless compared to it. [...] When this basis is lacking, then the beginning of the end is here, then the different classes cease to understand each other. And when they cease to understand each other, then conflict, not mutual understanding, is near – revolution, instead of reform" (Schmoller 1875a, 122).

It should be emphasized once again that Schmoller is not motivated by a renaissance of religious values and communities. Nevertheless, he recognizes that in a secular market

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[118] The division of labor, Schmoller claims, emerges from the moral integrity of the community, and may even enhance it at first. Subsequently, however, the ongoing division of labor would lead to a disintegration of the community. It is therefore a characteristic of societies of "higher cultural stages" to have developed institutions that resolve this dilemma (Schmoller 1890d, 55–56). In his reasoning Schmoller resembles Émile Durkheim's theory of *The Division of Labour in Society* (1893). Although fundamentally in agreement, he was skeptical concerning Durkheim's general belief that continuing the division of labor per se would lead to growing solidarity within society (Nau and Steiner 2002, 1016).

[119] With the terms "moral community" and "moral judgments" Schmoller describes an economic understanding of culture that shows great parallels with the concept of *Shared Mental Models* by Denzau and North (1994).

society, which is receptive for values but does not necessarily itself create them,[120] other principles must provide social understanding and cohesion. Schmoller is convinced that these principles must be established through the conscious formation of "reconciliatory institutions" (Hansen 1993, 144), and once again (moral) education, in order to build bridges (Schmoller 1892b, 480; see also 1884a, 965; 1919/1978, 640–641).[121]

For Müller-Armack, too, the problem of social disintegration represents the starting point of his reflections (Zweynert 2010, 31). "The social situation in the world today is characterized by social disintegration, by a rift in both the individual and in society" (Müller-Armack 1950/1981, 113). Like Schmoller, he also sees the cause of this, on the one hand, in a spiritual development: "The real powers of our century are the secularized faith movements [...] of the masses who have become inwardly homeless" (Müller-Armack 1948b/1981, 453). And on the other hand, in technical and organizational requirements which go hand in hand with the maintenance of a complex society. In the context of this diagnosis, for Müller-Armack the "only hopes for possible unity can be irenicism, a reconciliation that takes the fact of division as given but does not abandon the efforts towards common unity in the face of it" (Müller-Armack 1950, 186). He recognizes in the dominant intellectual and spiritual currents of the day – Catholicism, Protestantism, Socialism and Liberalism – the prevailing worldviews which must be united. Not in order to equalize individual positions, but – and here, too, a certain consensus with Schmoller can be seen – in order to collaborate in a spirit of mutual respect and understanding on the challenges of societal formation (Goldschmidt 2010, 19).

At the very latest during the so-called "second phase of the Social Market Economy" in the late 1950s, which entailed reflection on and a reassessment of its factual design vis-à-vis its ethical foundations, the sociopolitical dimension became the predominant criterion of practical politics for Müller-Armack:

> It will be the task of the political groups in particular to make the guiding principle [of the Social Market Economy] so clear and memorable to the people that they endorse it as a desirable goal. [...]

[120] Röpke (1942/1979, 88), however, goes one step further with his assessment that the market is a "devourer of morality," which makes apparent – in contrast to Schmoller and Müller-Armack, for example – his fundamental cultural pessimism (see Kolev and Goldschmidt 2020).

[121] Yet Schmoller is not motivated by a radical equalization of class distinctions in terms of their mental models – he considers this neither possible nor desirable. "It is, however, conceivable that [...] a uniform physical, mental, and moral education on the general, human level may occur, so that despite the increasing division of labor a decrease in the breadth of social opposites may transpire" (Schmoller 1892b, 466–467).

> We are faced with the task of an internal integration of our society. This is only possible from a foundation of common values and convictions (Müller-Armack 1960/1981, 76).[122]

Undoubtedly, Müller-Armack's reflections on social irenicism focus more strongly on a pluralistic view of society (Müller-Armack 1969/1981, 139), whereas Schmoller, in accordance with the dichotomous class thinking of his time, emphasizes the social reconciliation of a class society. Ultimately, however, both share the irenic concern for a social idea to unite different worldviews. In their diagnoses of their respective eras, the two economists come to quite similar findings, but they are also surprisingly united in their approaches to address the problems they identify. This is particularly evident in the role they assign to private enterprises.

Schmoller examines the private enterprise not only with regard to its technical or purely economic purpose, but also as a social organization, as a space of social encounter that affects and is affected by the people involved. In a nutshell, he posits the modern enterprise as a sort of *irenic institution* (Störring 2023, 13–15). The same is true for Müller-Armack, who condenses this view into four points (1950/1981, 118):

1. An enterprise is not only a technical and commercial unit, but a community of persons.[123]
2. It follows from this that neither capital, nor the technology, nor the organization can have sole control over the people working in the enterprise; but it must be brought into an order which corresponds to its nature and function in terms of the people involved and their groupings.[124]
3. On the other hand, the requirements of technical operations, their dependence on the market and their productive purposes, give rise to the need for strict operational discipline and clear corporate governance.[125]
4. The function of the enterprise – in particular of large-scale enterprise and their meanings for the people employed within it and their families, on the one hand, but also as a part of larger supply chains and of providing the necessities of daily life for the population, on the other – delegates to it public, social-economic responsibility in addition to its already present commercial characteristics.[126]

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[122] Zweynert (2006) traces how the founding fathers of the Social Market Economy, taking into account the specific cultural context, succeeded in establishing the market economy in the young Federal Republic of Germany by means of the *irenic formula*, despite the German population's deep-seated "anti-capitalist sentiments." The critical reservations toward the Social Market Economy gave way over time, aided by journalistic efforts (Riedl 1992, Kutzner 2019) and continuous public confidence-building; e.g., by the *Aktionsgemeinschaft Soziale Marktwirtschaft* [Alliance for the Social Market Economy] founded in 1953.

[123] Compare to Schmoller (e.g., 1890a, 387).

[124] Compare to Schmoller (e.g., 1890e, 739–740).

[125] Compare to Schmoller (e.g., 1892b, 464).

[126] Compare to Schmoller (e.g., 1890a, 408).

The similarities of Müller-Armack's remarks to Schmoller's on the social role of private enterprises, as well as on the derived mandate to shape economic policy, are remarkable (see also Kreis 1999, 160–164). This includes – to pick just one example – their plea for co-determination for "the creation of a genuine partnership" between employers and their employees (Müller-Armack 1950/1981, 118).

Schmoller and Müller-Armack also resemble each other in their irenic thinking, insofar as they often appear in their work in a mediating role as *Gelehrtenpolitiker* [scholarly politicians] (Meinecke 1922); Müller-Armack attests, for example: "I have no intention of retreating to one of the two positions and rejecting the other in the dispute between the moralist and the economist" (Müller-Armack 1969/1981, 126). This rhetoric of mediation is also typical of many of Schmoller's writings (Herold 2019, 268): Often a bifurcated contrast is established at first, only for the development of an "on the one hand, on the other hand" logic to ensue. The writer's own position is then consciously placed within this – not infrequently ideological – spectrum of opposites.[127]

For Müller-Armack, the concept of the Social Market Economy is both economic and social policy at once. "The social" is the proxy for the basic attitudes and values that simultaneously prevail and are required in a society (Goldschmidt 2010, 18). If we take seriously his insight that the guiding principle of the Social Market Economy is a "progressive stylistic idea" (Müller-Armack 1976, 12), that the implementation of principles of economic policy "cannot be detached from their context," and that they best fulfill their task "when they are the necessary answer to the questions of a particular time" (Müller-Armack 1960/1981, 63), we must then also, quite reasonably, consider Schmoller's conception to be a Social Market Economy – waiting for its contextual embodiment. However, what Müller-Armack implies with the term "social" would, according to Schmoller's reading, be better expressed by the German term "*sittlich*".[128] In this respect, Schmoller's specific guiding principle of a socially integrative economic order is perhaps

[127] For example, between Manchester liberalism on the one hand and socialism on the other (Schmoller 1897/2018); between self-reliance and state aid (Schmoller 1864a; 1864b; 1865); between workers and entrepreneurs (Schmoller 1892b); between free trade advocates and proponents of protective tariffs (Schmoller 1879).

[128] The term "*sittlich*" is an important key to Schmoller's approach of political economy. Depending on context, I have typically translated the adjective as "moral" or "ethical"; although these do not always accurately convey the intended meaning. With regard to his theory of institutions and institutional change, Schmoller uses "*sittlich*" almost congruently with the predicate "social", in the sense of serving the common good (Priddat 1995, 125).

(semantically) best served by describing it, analogously to Müller-Armack, as a *Sittliche Marktwirtschaft* [Ethical Market Economy] – *Sittlich* with a capital "S".

4.4 Reflecting on the Past to Prepare for the Future

Unarguably, there is a certain irony to the fact that German economics never enjoyed greater appeal and international influence than during the time of the historical school (e.g., Herbst 1965). That is, contemporary German economists, in their struggle for international recognition, have thoroughly excised the very research program which had once claimed unmatched appeal. Indeed, there are likely to be few scholars about whom one can state that the discrepancy between the culmination of the esteem with which they were regarded and their subsequent dismissal as a source of inspiration is as great as in Schmoller's case.

> Nevertheless – Schmoller enjoys a strange relevance today. He lives on as the prototype of a tendency that can scarcely be condemned harshly enough. Unlike Klopstock, in Lessing's famous epigram, he is not praised, rather censured – but equally seldom read (Beckerath 1962, 69).

This well-known quotation from Schmoller's disciple, Erwin von Beckerath, who was a prime mover in the implementation of the Social Market Economy in Germany, as part of the wider circle of ordoliberalism, still accurately sums up the unfortunate – and dare I say: unjustified – state of Schmoller's intellectual legacy today. Rarely do the harshest condemnations of Schmoller's thought apply to more than disjointed, individual sections of his major works. This is once again evident in recent criticism of Schmoller, in which he – and his work – has been accused of being racist (Brankovic 2021; Piper 2021; Weizsäcker 2021). There are descriptions in his *Grundriß* – and there is no need to sugarcoat anything – about "races and nations" which sound appalling from today's point of view and, if assessed according to today's standards, must be condemned unconditionally. But herein lies the crux: On the one hand, the concept of race used by Schmoller is not normatively charged, at least not according to today's understanding. On the other hand, the accusations dissolve if one does not consider the passages in question in isolation, but rather makes the effort to assess Schmoller's entire oeuvre.[129]

[129] Certainly, further evidence can be found in some other writings, which, according to today's view, must be considered outdated (such as Schmoller's image of women) or racist. Yet, racism is certainly not systematically interwoven into his work or biography. On the contrary, although Schmoller, of course, remains a child of his time, both his life and his written work stand out for their striking open-mindedness which he harbored concerning progressive changes in values. His institutional teaching, in particular, can be adduced in some respects to refute the accusation of racism; which, however, cannot be discussed in greater detail here (see Goldschmidt and Störring 2021).

Since it does not do justice to Schmoller's work as a whole, the same applies to the reductive consideration of questions of methodology. Certainly, the early ordoliberals vehemently rejected the methodological apparatus of the historical school for manifold reasons. Ultimately, concerns by ordoliberals entailed finding new methods which would provide effective remedies to the problems of their time. To narrow the scientific discourse to methodological dissent seems to be quite unproductive; not least, because it has already been conducted exhaustively. By taking as the basis of our investigation Schmoller's entire oeuvre instead, and by highlighting the linkages between it and the pertinent works of ordoliberal thinkers, continuities which have not been in plain sight become more clear: (1) The contextual approach towards political economy; (2) the need for institutional framing of the economic order; (3) the indispensability of a strong and assertive state; (4) the cultural ideal of a humane liberalism; (5) the importance of social policy; (6) the consideration of value judgments; and (7) the pervasive idea of social irenicism – all these motifs can be found in Schmoller as well as among each proponent of early ordoliberalism. Moreover, they reflect the essence of the ordoliberal research program. Why should it be of any help to pretend that these characteristic ideas sprang fully formed from the minds of the ordoliberals like Athena from the head of Zeus? Becoming aware of their long developmental path forms the foundations for a better and more reflective understanding of both research programs (in general) and the concept of the Social Market Economy (in particular). With this research aim, I once again invoke Müller-Armack, who remarked on the study of the scientific origins of the Social Market Economy:

> If I return here to the beginning of our century, then the cheap reproach should not be raised that a historical view would thus divert from questions of the present. On the contrary, genuine historical reflection helps us to better orient ourselves with regard to the questions of the present (Müller-Armack 1973a/1981, 178–179).

What, then, are the points of orientation Schmoller's comprehensive work provides for modern economics of order and the Social Market Economy today? First and foremost, it is about viewing economic thinking in historical and ethical contexts. For example, Schmoller advises us that institutions are only viable if they are consistent with the moral ideals, especially with the general ideas of justice, of the time. In this context, Lindenlaub (2018, 38) raises, not entirely without justification, the question of whether "common European institutions, for instance, take sufficient account – through public education – of this fact." We no longer need to refer to "moral community" as our sociopolitical goal in antiquated Schmollerian ductus. And yet, the insight remains true that social peace and agreement can

only exist in the long term where most people perceive economic conditions as fundamentally just and viable for the future.

It is no coincidence that, especially in times of social transformation and the relative shift of different societal orders towards each other, the focus of economic observation on the "ethical framework" intensifies – precisely because shared mental models and values are decisive for the change and the conscious shaping of institutions. Thus, morality and law become categories of *the* economic (Hüther 2016). Schmoller recognized this for his time, marked by upheaval as it was, just as the ordoliberals did for theirs. And the current shifts in societal orders, which have gained considerable momentum and reach through digitalization and globalization, also demand this contextual perspective. At least if, in the context of the new (economic, political, cultural) fragility of the twenty-first century, economic science does not want to lose touch with the reality of people's lives – and thus its relevance.

In view of the predominant exclusion from the economic mainstream of approaches oriented toward the humanities, modern economics of order faces the task of re-examining the insights and scientific possibilities of its suppressed intellectual heritage – without, however, reverting to the now outdated confrontation between theory and history (Hodgson 2001). A reconstruction of Schmoller's theory from the perspective of cultural and institutional economics could contribute building blocks for a modern contextual research program (Goldschmidt et al. 2016) and uncover hitherto neglected starting points for a renewal of *Ordnungsökonomik* (Kolev et al. 2019). Elsewhere, quite prominently, promising proposals have recently been formulated to advance modern economics with an awareness of the human within historical and ethical frameworks; e.g., *Narrative Economics* (Shiller 2019) and *Humanomics* (McCloskey 2021). Schmoller's contextual approach provides revitalizing impulses for these approaches, too, as well as providing links to the economics of order.

There is no doubt that Schmoller's scientific vision of an economy is imbued with the progressive style of a Social Market Economy and that he, too, can be counted among its many pioneers. Where else, if not in the unity of the social sciences called for by Schmoller, would the necessity of an ethically integrative solution for "ordo-political" problems have been made more clear, more accessible? The continuing challenge of combining both market economy *and* social inclusion clearly shows how important it is to supplement isolating economics, which focuses on a self-contained and inherently stable economic order, with a contextual economics that is concerned with the dynamic interplay between economy and

society. The realization of the Social Market Economy is, on the one hand, the result of this specifically German path in the history of economic thought, which has its starting point with the historical school. On the other hand, however, as Zweynert (2010, 25) notes, the ordoliberal conception of the Social Market Economy has comparatively little to say about the all-important question of how the market and social cohesion are entangled and how they are interdependent. This basic thought, which is central to Schmoller's work, is a promising starting point for ordoliberal perspectives on considerations of the problem of cohesion in modern, increasingly globalized market societies. The question of how Schmoller's institutional approach can be made usable for a further development of Müller-Armack's idea of social irenicism stands out as but one example; for instance, in development economics, so as to turn the guiding principles of a Social Market Economy into an international peace project (Gohl et al. 2019). In this way, Hecker (2016, 4) sees Schmoller's "idea of justice" as directly compatible with modern theories of justice such as the *capability approach* proposed by Nobel laureate Armatya K. Sen (1999; 2009).

Over the past seven decades, the concept of the Social Market Economy has produced a considerable wealth of practical experience. In view of the challenges of the coming decades, however, new aspects must also be taken into account in order to preserve the fundamentally timeless message and thus the changing promises of this adaptable economic order (Hüther 2021). It is self-evident that Schmoller's ideas cannot be applied one-to-one to societies in the twenty-first century. Nor can or should we discuss individual reform proposals again. Rather, the most promising appeal lies in renewing Schmoller's general concern and to emphasize it in today's discourse. His broad, undogmatic view of economic problems could once again serve as a model for reconciliatory economic and social policy at a time when society is threatening to drift apart. In this sense, the guiding principle of the Social Market Economy never was merely about establishing an economic order; it was of instituting, above all, an ethical order – one characterized by responsible, humane liberty *and* solidarity.

5 Bringing Schmoller to America

Gustav Schmoller's "The Idea of Justice in Political Economy" was the first of Schmoller's writings to be translated into English and published in an English-speaking journal. In the early 1890s, there was a concerted effort by several leading economists in the United States and Great Britain to make Schmoller's work more popular and accessible to an English-speaking audience. The purpose of this section is to highlight these efforts and to provide the historical context and background surrounding the translation of Schmoller's article and its publication in the *Annals of the American Academy of Political and Social Science* in 1894.

5.1 First Inquiries from Chicago

When Ernst von Halle wrote Gustav von Schmoller on May 17th, 1893, to gauge his reaction and seek permission to translate his articles for an English-speaking journal, Schmoller's work was known to several economists in Britain and the United States.[130] Alfred Marshall, for example, had written favorably of Schmoller in the 1890s (cf. Hodgson 2006, 164). In the United States, similarly, the historicists who founded the *American Economic Association* (AEA) in 1885 were familiar with Schmoller's work (Goldstein 1993, 89), and economists who were or would become leading figures of American Institutionalism had been influenced significantly by Schmoller's writing (Mitchell 1949, 196). And yet to understand Schmoller at the time meant that he had to be read in German. This was not as problematic as it might seem today, since – as I will discuss in the following sections – many Americans in the field were proficient in German at the time.

Distraught with the state of economic science, however, served as an impetus to translate Schmoller's work. J. Laurence Laughlin, a widely-read economist who was the department chairman at the newly formed University of Chicago and the founding editor of the *Journal of Political Economy*, lamented in the first article of the first issue on "The Study of Political Economy in the United States" (Laughlin 1892) that despite the growing interest in social questions in society, "vast masses of even intelligent people know little or nothing as to the scope, method, and principles of scientific economic work" (ibid., 3). As a result, he argued

[130] At the time, the translator's name was Ernst Levy. As early as 1888, Levy, who was born into a Jewish family of attorneys, had been baptized and converted to Christianity in order to improve his prospects for a professorship in Germany. It was not until 1894 that he received approval to change his name to his grandmother's maiden name: Ernst von Halle (Sielemann 2015, 72–75).

for the need to address the prevalent fallacies and misinterpretations that were commonplace in economics. It was thus with the aim of making the study of economics more scientific that he, a critic of the motivations underlying the founding of the AEA, welcomed its shift to become more inclusive. He writes:

> Organized in the beginning by a group of men who felt that their views had not had respectful attention, and hoping to forward in this country the doctrines of German origin in favor of the new historical method in economics and the principle of state interference, so familiar to the European mind, their membership was originally confined to those largely in agreement with those views. […] Gradually, however, the association became broader and withdrew any required subscription to particular phases of belief. […] This action is significant in showing that out of discussion, calmer thinking, and deeper scholarship, American economists have found much more in common, both as regards method and the attitude of the state toward industry, than had been originally supposed. Personal considerations have given way to larger views of scholarship and to a higher interest in the development of economic study throughout the country. (Laughlin 1892, 11)

Irrespective of his personal politics and his political allegiances to the Republican Party, Laughlin was a consummate academic and sought scientific advancement instead of the promotion of his own political commitments. It was with this mindset that he brought professors with whom he disagreed significantly (like Thorstein Veblen) to the department (Nef 1967, 780–781), and it led Laughlin to be interested in making Schmoller's work better known despite some of the criticism that becomes apparent in the quote above. Laughlin certainly was critical of the German historical school in several respects, but he nevertheless argued strongly in favor of the necessity of induction as an integral part of economics, praising those advocating the historical method for their "valuable service, through the insistence on the verification of reasoning by facts, with the result that all statistical data are now more carefully and extensively gathered" (Laughlin 1892, 18). This approach and the goal of enabling better scholarship, specifically, was the journal's *raison d'être* as a venue for the study of practical problems.

Laughlin and other professors at the Department of Political Economy at the University of Chicago were acquainted with von Halle, an academic admirer of Schmoller's from Germany, who was in Chicago in 1893. They inquired with him whether he would translate some of Schmoller's writing to be published in the *Journal of Political Economy*. Concerned about Schmoller's reception in the United States, von Halle notes in his letter that Schmoller's reputation was largely based on hearsay as language difficulties impeded broader audiences to develop an accurate understanding of Schmoller's thought. An article published in the second issue of the journal for which Laughlin had assumed editorship

provoked the ire of von Halle in particular. In the essay entitled "Economics at Berlin and Vienna" (1893), Henry Roger Seager, a graduate student who spent time studying in Halle, Berlin and Vienna from 1891–1893, described and contrasted his experiences studying economics in Germany and Austria. Seager was ardently devoted to Karl Menger's thought, due to which von Halle felt that he mischaracterized Schmoller's thinking, describing Seager's contribution in correspondence to Schmoller as a "rather deficient essay which will hardly have contributed to a better understanding of your work" (von Halle 1893, 24).

Seager describes his experiences with and views on Schmoller and Adolph Wagner in Berlin in some detail, contrasting them with Karl Menger and Eugen Böhm-Bawerk in Vienna. He does praise Schmoller's approach in certain instances, characterizing "his particular method of treatment [as] exactly at home and the fruitfulness of its application in the hands of such a master need not be dwelt upon" (Seager 1893, 251). However, this rare praise is juxtaposed over and against criticism of Schmoller, whom he criticizes for treating matters of political economy as descriptive, noting that "[a]t this point came the crucial test for Schmoller's theory of method, and at this point, it seemed to me, his theory broke down conspicuously" (ibid., 250).[131] He levels his most damning critique against Schmoller on the issue of value and price, writing that "[i]n this part of his lectures the student meets only confusion, loose definitions, description instead of careful analysis, and conclusions arrived at, no one knows exactly why. His elucidation of the action of demand and supply in fixing price seemed to me especially unhappy" (ibid.).

Likely frustrated by what he perceived as unfair criticism and exposition of Schmoller's views, von Halle suggests that he and a fellow translator would start with the two articles on the division of labor,[132] and later translate *Die geschichtliche Entwicklung der Unternehmung*,[133] requesting Schmoller's permission to move forward with their work (von Halle 1893, 25). The request was likely received favorably by Schmoller, as he had already adopted an academic fascination with the United States in his early work that would last throughout his life. Of particular interest were the country's political economy and social policy (Schmoller 1866) and – writing at the end of the American Civil War – he was especially swayed by the unity of the American nation-state; a hope he also had for Germany (Kreis 1999, 92). Indeed, his academic interest in the United States persisted throughout his

[131] Seager goes on to state that Schmoller "has been able to make a showing of strength upon his side in the *Methodenstreit* which his position hardly warrants" (Seager 1893, 251).

[132] Von Halle is referring to Schmoller 1889 and 1890d.

[133] Von Halle is referring to Schmoller 1890e; 1890f; 1891a; 1891b; 1891c; 1892c; 1893a; 1893b.

career, noting that "in spite of never having been in America [I entertained] countless relationships to Americans […] and have sought to read as much about America as time and opportunity allowed" (Schmoller 1904, 1478).

Moreover, his allure was also rooted in the burgeoning development of the discipline in the United States. Noting that the United States did not traditionally have a significant impact in terms of a homegrown school of political economy, Schmoller praised the development of the past decades in which important professorships, scientific associations, and journals emerged that were more closely aligned with the German and Austrian style of political economy than with the British style (Schmoller 1911, 452).

Yet von Halle's recommendation never moved forward – neither did the translations of these articles proceed, nor did any translation of a different Schmoller article for the *Journal of Political Economy* ensue. It is not clear from the correspondence from von Halle to Schmoller what the reasons triggering the abandonment of this goal were, and since Schmoller's replies to von Halle are not preserved any hypothesis is historical conjecture. Only a few months later, however, von Halle and a co-translator would complete their work for a different journal. To the request for publication by the editors we shall now turn.

5.2 Edmund James and Leo S. Rowe Publish the "The Idea of Justice"

On October 17th, 1893, Leo S. Rowe, a lecturer in public law at the University of Pennsylvania who was affiliated with the *Annals of the American Academy of Political and Social Science*, wrote Schmoller a letter requesting permission to translate some of his work for the journal. Rowe had spent some time in Berlin in the early 1890s, as had Edmund James, the founder and president of the *American Academy of Political and Social Science* (AAPSS) which published the journal. James had studied historical economics under Johannes Conrad in Halle (1875–1877), and with Schmoller himself having been in Halle before departing for Strasbourg earlier in the decade, it is plausible to assume that James would likely have made the acquaintance of Schmoller at some point during his stay in Germany.[134] Influenced by his German teachers, he later penned an article that would first

[134] The seminar of Johannes Conrad at the University of Halle became a gathering place where many who would later become intellectual leaders in American economics were trained. For instance, Henry Carter Adams, Richard T. Ely, Simon N. Patten, Roland Falkner, Joseph French Johnson, Henry R. Seager, Frank Albert Fetter and Samuel McCune Lindsay all studied under Conrad at one time or another (see Herbst 1965, 14). James' connection to Schmoller dates back at least to 1883 when, while conducting research in Germany, he inquires whether Schmoller would be holding any lectures or seminars in Berlin which he could attend, adding that he was "keen on making the personal acquaintance of the excellent men from the

bring the German school of historical economics to an American audience (Solberg 1999, 813). Under James' editorship, Rowe suggested that they translate *Ueber einige Grundfragen des Rechts und der Volkswirtschaft* (Schmoller 1875a) posing the question if Schmoller wished to make any changes to the article before they began their work. Alternatively, he offered to hold off on the translation in the case that Schmoller was working on a new article pertaining to a similar topic which he may wish to have published in the United States (Rowe 1893a, 40).

Schmoller responded to Rowe in a letter that has not been preserved the following month, likely recommending a translation of *Die Volkswirtschaft, die Volkswirtschaftslehre und ihre Methode* (1894b) instead. Rowe's reply from December 4th, 1893, indicates that the journal was happy to translate the proposed article and that they would work "to make your writing available to the American audience after this publication" (Rowe 1893b, 37). This publication of the agreed-upon article never proceeded, but at the end of the letter Rowe inserts a postscript informing him of his intention to publish an article on Schmoller's "work and position in German Political Economy," adding that he had acquired "everything which was commercially available." He ends his letter by specifically requesting that Schmoller send him prints of three papers: "1) *Die Gerechtigkeit in der Volkswirthschaft* [the translation of which would become *The Idea of Justice in Political Economy*]; 2) *Der Preußische Staate und die Sociale Frage*, 3) the two final parts of 'Geschichte der Unternehmung'" (Rowe 1893b, 37).[135]

It was in this letter that the request was first made concerning the "Idea of Justice" article, which would appear in print in February 1894 only two months after Rowe's second letter. Why the editors chose to commission this particular article, as opposed to their original plan to translate different articles, is not entirely certain, but it is known from Arthur Spiethoff, one of Schmoller's well-known research assistants that "his essay on Justice in Political Economy was particularly important to him, and that he considered it to be his best work" (Spiethoff 1918, 24). Thus, it is likely that von Halle had already been working on the translation at the time of the request by Rowe, since Schmoller could easily have been interested in the publication of "his best work." Either way, von Halle, who translated the article together with the young German-American Carl Lincoln Schurz, the son of a German

world of Political Economy" (James 1883, 22–23). James was indeed grateful to Schmoller and his German professorial colleagues for "the extraordinary good-will and kindness which the German professors as a class have shown to American students as a class, who have had the opportunity to sit at their feet in so many departments of instruction" (quoted in Grimmer-Solem 2016, 419).

[135] The requested articles are Schmoller 1881b; 1874a; 1893a and 1893b.

emigré who had become prominent in American politics at the end of the nineteenth century, did not expound much on the completed translation in subsequent letters.[136] He did make sure that Schmoller received twelve copies of the translated version and sent Schmoller Schurz' address in the United States in case he wished to thank him for his work (von Halle 1894b, 20–21).

Von Halle touched on several other topics in his letters to Schmoller as well, ranging from his own academic research to inquiring about dates for meetings of the *Verein für Socialpolitik* on behalf of distinguished economists like Frank William Taussig and Francis Amasa Walker. He also inquired with Schmoller on behalf of William Ashley, an English economic historian and proponent of historical economics, about his attempt to receive a professorship in Edinburgh, Scotland.

5.3 William J. Ashley and the (Failed) Attempt for Further Schmoller Translations

On October 22nd, 1894, von Halle sent Schmoller a six-page letter that the AAPSS had not yet succeeded in soliciting a translator for the article "Volkswirtschaft" (1894b) which Schmoller had sent to Rowe in January of the same year. The academics associated with the *Annals* from the University of Pennsylvania, as von Halle notes, did not view themselves as sufficiently competent to undertake the task "since the majority of American economists […] know far too little German and philosophy" (von Halle 1894d, 15). Rowe and Samuel McCune Lindsay, also a later president of the AAPSS, were desperately looking for a suitable translator. Von Halle, however, was about to embark upon a research trip to the American South with the intention of gathering further information regarding the "cotton industry in the Southern states under slave and free labor" to be followed by voyage to Germany (ibid.; see also 1894c). Having to turn down the offer to translate additional writings of Schmoller, von Halle proposed that they contact Schmoller's "most sympathetic admirer" in the United States: William James Ashley (von Halle 1894d, 17).

As a British-born economic historian, William J. Ashley succeeded in attaining international acclaim as a scholar and teacher. Influenced heavily by his teachers Arnold Toynbee and Henry J. Sumner Maine at Oxford University, Ashley also spent significant

[136] In the translation of the article, von Halle's co-translator is mistakenly called Carl L. Schutz. Only an examination of the correspondence between von Halle and Schmoller (1894b, 21) sheds light on the circumstance that the second translator is indeed the son of the far more famous Carl Schurz. The elder Schurz fled Germany as a supporter of the 1848/49 revolution and would later first be elected to the United States Senate and then appointed Secretary of the Interior in the Rutherford B. Hayes administration.

time in Germany in the early 1880s where his thought was shaped by the German historical school (Usher 1938, 155). "With great gratitude and respect" for Schmoller, he describes his situation in England as not having "sympathy with the prevalent economic orthodoxy pursuing the abstract method, [and] feels himself very isolated" (Ashley 1887, 25).[137] A first professorship for Political Economy and Constitutional History at the University of Toronto, in which he dedicated his inaugural lecture – "What is Political Science?" – to Gustav Schmoller, would be followed by his move to Harvard University where the university first established a professorship for Economic History.[138] In the English-speaking world, where "economic history was tolerated rather than esteemed for its own sake," it was the first chair of its kind (Usher 1938, 159–160).

In April 1894, roughly six months prior to the AAPSS's search for a suitable translator to succeed von Halle and work on additional Schmoller translations, von Halle met Ashley at Harvard. Von Halle attended Ashley's "highly interesting lectures on economic history" (von Halle 1894a, 23) and translated together with Ashley the latter's inaugural lecture at Harvard – "On the Study of Economic History" – into German with the hope of publishing it in this very journal (ibid. 1894b, 20). Likely due to the collaborative efforts between von Halle, Schmoller and Ashley, Rowe and Lindsay sought to solicit the Englishman for the translation. Their efforts were, however, in vain. In correspondence to Schmoller, von Halle speculates that Ashley had severed all ties with the AAPSS because following the completion of a contribution from Ashley for the *Annals*, they responded to the Brit's inquiry that "it is not policy of the Academy to remunerate articles for the journal" (ibid. 1894d, 15). Von Halle was aware of this due to this involvement in the translation of "The Idea of Justice," but he nevertheless came to a biting verdict in his letter to Schmoller on October 22, 1894: "The Academy is a respectable institution, but gradually I have discovered that they run quite a lot of advertisements and that it behaves both commercially and scientifically quite *American*" (von Halle 1894d, 15; own emphasis). It requires only little imagination that the refusal by Ashley as well as von Halle's developing view on the AAPSS contributed to the fact that additional writings by Schmoller did not appear in the *Annals*.

In the same letter, von Halle informed Schmoller of his intention to work together with Ashley on a large volume of 500–600 pages to be published with Macmillan. The volume

[137] Ashley's opening in the letter to Schmoller is in German, only to switch to English following the first two sentences, explaining that "I can read German, but not write it without difficulties" (Ashley 1887, 25).

[138] Addressing Schmoller, Ashley notes in his dedications of *Surveys, Historic and Economic* (1900, vi): "I feel for a dozen years I have received more stimulus and encouragement from your writings than from those of any other."

was meant to entail translations of Schmoller's most important articles, such as *Die geschichtliche Entwicklung der Unternehmung*, articles on the division of labor as well as on the economic policy of Frederick the Great (von Halle 1894d, 16). These plans never came to fruition. Von Halle spent much of his time following his return to Germany with publishing his findings from his travels through the American South. In 1897, he completed his habilitation in Berlin and subsequently became a spokesperson for Admiral Alfred von Tirpitz in the navy. This was followed in 1899 by a non-tenured professorship at the University of Berlin.

Ashley, on the other hand, did translate a chapter from Schmoller's work on Frederick the Great under the title *The Mercantile System and its Historical Significance* (Schmoller 1896) with Macmillan.[139] The article was published in the series "Economic Classics," edited by Ashley, and is the longest of Schmoller's writings in English. In addition to *The Idea of Justice in Political Economy* (1894) and *Schmoller on Class Conflicts in General* (1915b),[140] this article constituted the third and final work by Schmoller to be translated during his lifetime. There were other attempts to make Schmoller's writing available in English, for example with Ashley's compatriot Francis Y. Edgeworth, who, as founding editor of *The Economic Journal*, had considered the publication of one of his articles in the journal he managed. A misunderstanding between the two and a third interlocutor associated with Edgeworth who had originally made the request for a manuscript, however, led to the abandonment of this plan (see Higgs 1894; Edgeworth 1895a; 1895b).[141]

As for Ashley, in 1901 he would return to England to take up a professorship at the University of Birmingham. He certainly holds a special place among English-speaking academics in that among all the English economic historians, "perhaps only Ashley was fully in sympathy with the German historicist aim of laying a foundation for a new and historical

[139] The original German title is *Studien ueber die wirtschaftliche Politik Friedrichs des Großen und Preußens ueberhaupt von 1680–1786* (1884b).

[140] The later article was translated and edited by Albion W. Small, who studied from 1879 to 1881 in Germany. His admiration for Schmoller is evident in the footnote by which the founder of the *American Journal of Sociology* introduces his translation: "The European war forces the sociologist to review some of his generalizations, and to consider to what extent major and minor incidents of the struggle confirm or impeach previous conclusions. It is in order therefore to publish this translation of one of Schmoller's most characteristic contributions to general sociological theory. […] For a number of years, the translator has found the passage a convenient basis for discussion of the conflict category with graduate students. It is the most general portion of the subdivision in which it occurs, entitled 'Relations between State and Social Classes in General'" (see Schmoller 1815b, 504).

[141] Schmoller had offered a manuscript which had already been published elsewhere in a different language. Edgeworth believed that he was receiving a new manuscript to be published in *The Economic Journal*.

economic theory to be derived inductively from patient historical research" (Koot 1980, 202). Similarly, Joseph Schumpeter (1954, 822) described Ashley as "more than any other English economist [similar] to the German professional type of that time." Indeed, he went on to receive an honorary doctorate from the University of Berlin in 1910 and – besides Henry W. Farnam (1908) – Ashley was the only English-speaking author who would contribute to a *laudatio* on behalf of Schmoller's 70th birthday.[142]

5.4 Reasons for Schmoller's Ephemeral Appearance in the English-Speaking Literature

Contrary to von Halle's and Ashley's intentions, the translation of a larger volume of Schmoller's collected works did not proceed. Neither have the *Kleine Schriften* (Schmoller 1985) which in six volumes of individual essays span more than 5000 printed pages, been translated into English, nor are the two volumes of his magnum opus *Grundriß der Allgemeinen Volkswirtschaftslehre* (Schmoller 1908/1978 and 1919/1978) available in English today. Up to World War I this paucity of English translations only had a marginal impact on Schmoller's international influence. As stated above, in the nineteenth century many American students of political economy spent time studying at German universities, about half of whom spent at least one semester in Berlin. From only 55 American students attending university in Berlin in the second quarter of the nineteenth century that number rose sharply in the succeeding decades – in the 1880s, for example, 1,345 American students were in attendance at the University of Berlin (Herbst 1965, 16). This circumstance as well as the requirement of competency in a foreign language for successful completion of a Ph.D. in economics in the United States at the time meant that most well-educated American economists were able to read Schmoller in the original German, thereby mitigating the acute necessity for English translations (Senn 1989, 262–263).[143] It is fair to say that despite the shortage of translations, in the early twentieth century Schmoller's thought had reached its peak of diffusion within the scientific community not only in Germany, but also in the United States.

Schmoller was *en vogue*, engendering considerable interest in the translation of his work. Intellectual luminaries like Alfred Marshall had communicated their support for the translation of works by Schmoller, describing it as "very important and desirable in English"

[142] See Ashley (1908): *The Present Position of Political Economy in England.*

[143] This is corroborated by the fact that we find references to and citations of Schmoller in the writings of John Commons, Edwin Seligman, Frank Taussig and Thorstein Veblen (Hodgson 2006b, 168).

(Swan Sonnenschein & Co. 1895) and noting that "the more I knew of the work of Sir W. J. Ashley and the late Professor Schmoller, the warmer became my regard for them (Marshall 1919, 8). Schmoller was held in such high esteem in the American academy that he had been voted to receive an honorary doctorate from Yale University in 1901, with Henry Farnam, a later president of the AEA, inquiring with Schmoller whether he would be able to travel to New Haven for the award (Farnam 1901). This intended accolade – never actually awarded to Schmoller – represents the general spirit of how he was regarded and aligns with the sentiment expressed by J. Laurence Laughlin (1908, 74) that he was as famous in America as in Germany.

World War I changed the situation completely. Direct connections of American economists to members of the German historical school came to an end as "[t]he Great War dismembered university communities in literal and figurative ways" (Irish 2015, 196), and in the 1930s Schmoller's thought would receive an attack in the Anglophone literature through Lionel Robbins and Friedrich Hayek, who "established [the belief] that Schmoller and his followers were largely against theoretical approaches in economics" (Hodgson 2006b, 172). This ascription was sustained in much of the twentieth century, as English became the *lingua franca* and foreign language competency was struck as a requirement for aspiring doctoral students in economics in the United States. As a result, the number of academics who could actually read Schmoller in the original German dwindled in the English-speaking world. Nevertheless, it would be mistaken to undervalue the influence of Schmoller's focus: he was of interest at the time because of the importance of the topics he investigated; the theoretical focus of inductive methods; his dominance in the development of German economics; the circumstance that many would-be American economists were studying in Germany during that time; and his social attitudes which appeared to be a moderate mélange of reform while being respectful of the value of existing social institutions. As a result, it is fair to say that economists with vastly different commitments are building upon the foundations Schmoller helped to lay, even though they may not know any of Schmoller's work itself (Senn 1989, 283–284).

Precisely these reasons are likely also the motivations why there was such significant interest in translating Schmoller's work in the 1890s. Laughlin, James and Edgeworth – all managing editors of respected academic journals – were focused on making his writing accessible to English readers because they recognized his contributions to the discipline. Yet, in part, we find answers to the question as to why the translations were limited in scope in personal explanations. The number of persons displaying the required language abilities

and academic credentials to undertake such a task were limited to begin with. Among those who were in question, von Halle was preoccupied with his aim of receiving a professorship in his native Germany and thus did not have the time to work on further translations; Ashley's personal vendetta with the AAPSS ensured that he was not available to conduct translations for the *Annals* and sought other venues to make the work of the man he admired better known; and a general sense of the "Americanness" of the journal's operating procedure made those with the necessary competences queasy of collaborating with their American publishing counterparts.

But it would also be a gross exaggeration to suggest that it was *merely* these personal explanations or the language difficulties which impeded translations of Schmoller into English. Scientific paradigms or schools of thought can be intensely durable and offer a "stickiness" within the academy, making their replacement altogether unlikely – or at least difficult – to achieve. When a paradigm *does* decline, however, as in the case of historicism in economics, the speed with which "old thinking" can fall out of favor, be viewed as obsolete, no longer be properly understood, and then forgotten can itself be surprising (see Caldwell 2004, chapter 4 for a discussion of the decline of the historical school). Hence, the changes the war brought about and the more restricted interaction this led to between German and American intellectuals is a remarkably important point. But looking a few decades further we can determine that while reasons pertaining to language contribute to the dearth of translations, so does the circumstance that increasingly few people will likely still have *understood* Schmoller, even only a short time after historicism was disregarded for the study of economics.

This has self-reinforcing consequences. Both these individual circumstances as well as the development of the discipline as a whole in the direction of increasing mathematical formalization led to the absence, for the most part, of translations of Schmoller's writing. This, in turn, certainly also contributed to and accelerated his disappearance in academic discourse in the second half of the twentieth century. The non-availability of his writing in English meant that far fewer academics could have engaged his thinking, even if they had been so inclined. Isolated calls for the translations of Schmoller's writing (e.g., Balabkins 1987) during this time largely went unheard. But with this backdrop, it may be surprising that he now appears to be making a comeback. Especially in the fields of business administration and business history, he is being rediscovered for both his thinking on the role of entrepreneurship as well as his influence on the development of case methods, the latter of which would be developed more systematically at the Harvard Business School,

where one of his doctoral students, Edwin F. Gay, was the first dean (see Wadhwani 2010; Kipping et al. 2017; Störring 2023). More than a hundred years after admirers of Schmoller first initiated translations of his work, he is now receiving a further look – and with that the discussions of the usefulness and feasibility of translating his work may arise anew.

6 Contextual Liberalism

To grasp the definition of ordoliberalism, it may prove helpful to contrast its renowned thinkers, both of whom are understandably icons of liberalism: Bernard Mandeville and Friedrich Hayek. In his commemoration of Mandeville in 1966, Hayek assessed the Dutchman's achievement as grounded in being the first to explain that "in the complex order of society the results of men's actions were very different from what they had intended, and that the individuals, in pursuing their own ends, whether selfish or altruistic, produced useful results for others" (Hayek 1978, 253). In that sense, it was Mandeville who established this important element of liberal theory, namely, that "the twin ideas of evolution and the spontaneous formation of an order" (ibid., 250).

Yet when one examines the texts of ordoliberal scholars, one quickly discerns that – contrary to Hayek – classical liberal thinkers like Mandeville and Adam Smith hardly played significant roles, and if they are mentioned in passing, they generally are regarded critically. It would be mistaken, however, to suggest that ordoliberals failed to understand classical liberalism. Somewhat in contrast to the usual perspectives in the predominant literature (Horn 2019; see also Tribe 2008), they were far more concerned in their criticisms of liberal thinkers like Mandeville and Smith that their ideas unintentionally led to a development in which individuals' actions were removed from their social settings and respective contexts. To formulate it differently: ordoliberals did not deny that individual action based on self-interest was the necessary driving force of market and societal forces; but they worried that an excessive focus on individual action and the positive effects that such action brings about for society were inflated, thereby overlooking the necessary embedding of individual action in a societal and moral order. Such an order is indispensable for ordoliberals to ensure that individual action does indeed serve to benefit the public.

Unlike Mandeville, for whom even individual vices confer public benefits, ordoliberals require the presence of public benefits in terms of a societal order *ex ante* so that individual action can be assumed to function in a desirable way. Thus, ordoliberals seek to invert the perspective of classical liberalism: only an order that embeds the individual sufficiently can secure durable liberties both for society and the individual. Otherwise, the degeneration of society and developments antithetical to the intentions of classical liberals – i.e., the Wealth of Nations – would ensue. Alexander Rüstow, a progenitor of ordoliberalism, got to the heart of the matter in formulating the following:

> Adam Smith and his school of economic liberalism no longer depreciated egoism as "vice" – as had Mandeville in his puritanical asceticism – but rather identified it as the real motive force of the market economy; they viewed it as altogether legitimate […] and sanctified it because of its highly beneficent effects – a development that also contributed to the "transvaluation of values" that was to culminate in the nineteenth century. (Rüstow 1980/2014, 477)

In light of that focus on values, virtues and collective welfare, the ordoliberals extended their economic analysis far beyond "economics proper" into what can be called the (societal) environment in which economic activity takes place. They anchored their specific concept of liberalism in societal notions of norms and justice – in short, in its context.

6.1 The Philosophical Foundations of Ordoliberalism: A Liberalism without Liberal Roots?

With all its peculiarities, ordoliberalism commonly is regarded as the German variety of neoliberalism (Bilger 1964; Riha 1986; Barry 1989; Kolev 2015; Biebricher 2017). Ordoliberalism in large part dates back to an interdisciplinary research group of economists and legal scholars, the so-called *Freiburger Schule* [Freiburg School]. It was founded at the University of Freiburg in the 1930s by the economist Walter Eucken (1881–1950) and the two jurists Franz Böhm (1895–1977) and Hans Großmann-Doerth (1894–1944). As the name implies, ordoliberalism emphasizes the necessity of establishing an economic *order* above all that must be created and maintained by the state as a legal framework in order to guarantee a free, prosperous and humane society. In contrast to other currents of liberal thinking, that characteristic shapes ordoliberalism as a school of thought; it was promoted further by other important scholars beyond the Freiburg School, namely, Alexander Rüstow (1885–1963), Wilhelm Röpke (1899–1966), Alfred Müller-Armack (1901–1978) and Ludwig Erhard (1897–1977).

It is indisputable that the ordoliberal thinkers surrounding Eucken always considered themselves to be true liberals, but their characteristic emphasis on the idea of order and the prominent role that the state has to play in it is not the only aberration from classical liberalism's roots. The incompatibility of the two schools was quite obvious as early as in 1938 at the *Colloque Walter Lippmann*. The participation of Alexander Rüstow and Wilhelm Röpke was formative in the sense that it forced them to discuss and further confront their differences with respect to economic policy and liberal foundations (Reinhoudt and Audier 2018). In general, the ordoliberal thinkers chiefly were concerned with a *new* and properly interpreted liberalism; hence, it is not surprising that the creation of the term *neo*liberalism

supposedly is attributed to Rüstow during the Colloque (Mirowski and Plehwe 2009, 12–13).

The ordoliberals criticized classical liberalism for failing to provide an adequate response to the cultural and social problems of modern mass societies. Their impression was that classical liberalism tended to decontextualize the individual and economic processes, thus presenting a colorless perspective on society. It was the end of totalitarianism after WWII, in particular, that led ordoliberals to consider freedom to be an integral and practical research project. The contradiction between perceptions of living in times of cultural and social crisis, combined with liberal convictions that the crisis could not be overcome without a market economy and economic competition, could be seen as *differentia specifica* between ordoliberalism and other (neo-)liberal schools of thought, especially those of the classical Anglo-Saxon tradition (Kolev and Goldschmidt 2020, 215–216).

In order to differentiate themselves from the latter, they applied the term *paleo*liberalism to distinguish antiquated liberalism from the ideas they sought to develop (Rüstow 1961). As Horn (2019) has argued, ordoliberals have not always bothered to dig deeply into Smith's works to fully appreciate the nuances of his positions. One can argue á la Horn, but our point is different: it is not so much misinterpretation by the ordoliberals that leads to a different assessment of the classics, but rather that the focus on individual behavior (quite in the sense of the Enlightenment), which was understandable in the eighteenth century, neglects the necessary embedding of individuals in a society. Institutional context matters. Furthermore, the ordoliberal approach does not contain a "liberal" philosophical underpinning. Instead, their philosophical influences can be found in German idealism, for Eucken especially in the person of Edmund Husserl (Goldschmidt 2013; Goldschmidt and Rauchenschwandtner 2018) and Immanuel Kant (Klump and Wörsdörfer 2009; Audier 2013) as well as – in the case of Rüstow in particular – the Greek classics (Rüstow 1952).

6.1.1 A Reverse Perspective on Liberalism: Order First, Followed by Individual Freedom

The German variety of neoliberalism did not wish to separate itself from the "liberal family," but willingly was engaged in the early and mid-twentieth century project of redefining liberal ideas and searching for institutions that would enable societies to preserve economic and civil liberties over time (Kolev et al. 2020). The important role of ordoliberals during the *Colloque Walter Lippmann* or later on in the *Mont Pèlerin Society* seem to confirm that assessment. Nevertheless, ordoliberal thinkers were drawn to their liberal convictions in somewhat different ways, focusing on diverging strategies for achieving their vision of an

ordered and at the same time free society. Ordoliberalism does not emphasize the process of free exchange as the essence of liberalism inasmuch as it focuses on the interactions of free individuals within a legal order. Within that legal framework, individuals are free in the sense that rules define scopes of lawful action, while the economic order ensures efficient economic performance.[144] The main argument that led the ordoliberals to that conviction was:

> […] the question of private power in a free society. It necessarily leads to the question of how an order of the free economy is constituted. From there one arrives at the question of what types and possibilities there are at all, what role power plays in them, both the power of the government and the power of private individuals and private groups, and what disturbances of order occur when a different distribution of power develops within the state and society than that which is in conformity with the respective economic system. (Böhm 1957, 99)

In that sense it becomes obvious that "free order is a task" (Eucken 1952/2004, 360) and not something that will emerge from spontaneous forces: "The 'invisible hand' does not easily create forms in which individual interest and overall interest are coordinated" (ibid.), a conclusion ordoliberals perceived to be the decisive difference of their approach to classical liberalism. It is not the pursuit of individual interests and competition per se that leads to advantageous economic and societal outcomes; on the contrary, competition itself is to be understood as a task (Miksch 1937), something that can be realized and preserved only by crafting an adequate order that serves the interests of the individual. The ordoliberals do not deny that self-interested individual action is the necessary driving force of economic and social progress, but they are concerned that sole reliance on the action of the individual overlooks its necessary integration into a social and moral order. For them, however, order is indispensable for ensuring that individual actions really do best serve the common interest. In that conviction they rely on the incentivizing effect of a proper institutional framework that establishes the "rules of the game" for each individual. Preserving the formal aspects of those rules is the primary task of social and economic policy – interpreted as *Ordnungspolitik*.

> They [the Classics] have failed to appreciate the degree to which socio-cultural achievements have been important for the development of mechanisms of ordering, believing instead that it would suffice

[144] As Ludwig Erhard (then Federal Minister of Economic Affairs) wrote in 1949 in a letter to the first Chancellor of the Federal Republic of Germany Konrad Adenauer: "The Social Market Economy means much more than a return to liberalistic forms of economy; it does not mean a laissez-faire, but a very alert, sensitive economic governance which leaves the principle of freedom untouched, indeed highlights it more strongly and more emphatically than the abuses of a past capitalist system" (Erhard 1949/2019, 203).

> to remove privileges, to establish the freedom of trade, and to refrain from state intervention to create a politico-social framework which enables leaving everything else to "nature". (Böhm 1950, 52)

Yet, that argument is not to be understood as a reproach to the Classics. Historical developments only highlighted, the ordoliberals argued, that an ordering of the economy was necessary to guarantee its functioning—experiences classical liberals had not had when they formulated their politico-economic proposals. Thus, the novelty of neoliberalism in ordoliberal *façon* was to "refine the market economy to a competitive order and to realize it in the economic-social cultural sphere of "ORDO" (Böhm 1950, 52). For ordoliberals, the idea of freedom (literally) comes second to the notion of a well-ordered society, but that interpretation certainly is not to be understood as a devaluation of freedom. In ordoliberalism – unlike in other liberalisms – it is order that makes freedom possible in the first place. On that basis, one might be led to believe that the idea of liberty does not in itself have supreme value for the ordoliberals, but the tension vanishes if one comprehends that their concept of liberalism is deeply rooted in their cultural values.[145]

6.1.2 Liberalism as a Cultural Ideal

The idea of (classical) liberalism often is associated by ordoliberals with the conception of laissez-faire and "Manchesterism," which, as immanent features of the economic system, are seen as causing undesirable social phenomena such as impoverishment and economic inequality and therefore are downright counterproductive to human flourishing. According to Rüstow (1949, 131), the great demerit of "Manchester liberalism" is that it "could not stop the degeneration of the market economy." The insistence on a "weak state" (Rüstow 1942, 275) ultimately led to the fact that the actual economic policy prerequisites of a market economy – a "pure efficiency competition" for performance (ibid., 274) – could no longer be regarded as given. As a solution to the real economic problems that existed in the mid-twentieth century, ordoliberals had in mind a "Third Way" that openly addressed the grievances of the market economy and attempted to renew liberalism in such a way that it "takes into account all the legitimate objections and demands of socialism" (Rüstow 1949, 131; see also Röpke 1944/1979, 51–52). In other words, it cannot be doubted that the

[145] Eucken summarizes the idea in his *Grundsätze der Wirtschaftspolitik* [Principles of Economic Policy]: "The principles outlined here are sometimes called 'liberal' or 'neoliberal'. But this term is often tendentious and not apt […]. The liberals of the nineteenth century were mostly supporters of a policy of laissez-faire. They were based on a great tradition; but some of them were epigones. On the whole, the liberalism of that time is only a branch of the great tree of European culture which has been based on freedom ever since it existed, and which was threatened or decayed only when freedom decayed. The new historical context makes it necessary – and it is precisely this idea that has forced us to do so – to avert the massive threat to freedom posed by new, positive means" (Eucken 1952/2004, 374–375).

ordoliberals share the goals of classical liberalism – a free society of sovereign individuals. From the perspective of the ordoliberals, however, strong focus on individual self-interest and the underestimation of processes of economic power have not drawn sufficient attention to the legal and cultural preconditions for achieving a successful liberalism.

In that regard, classical liberalism seemed to them to suffer from an "emptiness of the senses." Nobody made that point better than Röpke, who charged classical liberalism with "economism," only aiming at "stimulating performance" while neglecting the crucially important non-economic aspects of human existence (Röpke 1958/1979, 136). Ordoliberalism, on the other hand, claims that the market economy "must be embedded in a higher overall context which cannot be based on supply and demand, free prices and competition" (ibid., 131). Rüstow likewise deals extensively with "liberal criticism of liberalism" (Tönnies 2009, 159) and contrasts it with his own vision of a more contextual version. Furthermore, classical liberalism could be found guilty of "sociological blindness" [*Soziologieblindheit*] and, correspondingly, overlooking of the institutional prerequisites for and regulatory forces of a market economy (Rüstow 1945/2001, 90–112). Accordingly, Röpke writes in his *Civitas humana* (1944/1979): "The liberalism which we reach could be characterized as sociological, and against it the weapons which have been forged against the old, purely economic liberalism remain blunt" (ibid., 51).

Against that backdrop it is obvious how ordoliberalism's criticism leads away from an economistic view and locates the true problem of liberalism in another place, namely on a level that lies, in the words of Röpke, "beyond supply and demand" (Röpke 1958/1979). The surrounding institutions or – as they themselves called it – the "border of the market" which represents "the actual domain of the humane, [and is] a hundred times more important than the market. The market itself merely has a serving function" (Rüstow 1961, 68). In a similar vein, Eucken criticizes classical economics' – implied is the ever-present connection with classical liberalism – failure to explain events in the real world by abstracting too much from them:

> We can appreciate the efforts of the classics to discover a rational natural order by studying the diversity of economic institutions, but all the same they did not satisfactorily explain economic life as it actually was. Their analytical powers were applied essentially to the *one* case which they considered "natural," the system of free competition in all markets […]. We know that the classical economists did not feel this divergence between theory and reality so strongly, because they were mainly concerned to look for the "natural," rational and workable economic system, but we, if we wish to understand economic reality, cannot tolerate it. (Eucken 1950/1992, 49)

In Röpke's (1947a, 12) dichotomy of fleeting [*vergänglich*] and lasting [*unvergänglich*] liberalism, ordoliberalism's unique view on the liberal order and its issues with classical liberalism become most evident: a distinction must be made, he thought, between liberalism as the political and social movement of the nineteenth century and the true, imperishable liberalism. The economic and sociopolitical liberalism of the time actually was a transient liberalism that did not do justice to the "cultural ideal" (ibid., 1) that should inform lasting liberalism (see also Goldschmidt and Dörr 2018).

6.2 The Fight for Freedom in Response to the Tyranny of the Nazi Dictatorship

Despite their criticism of classical liberalism, the real freedom of the individual – the cultural ideal of liberalism – is essential for ordoliberals, and has become more important to them over the years. While it is clear that a noteworthy liberal outlook existed amongst many ordoliberals prior to 1933, their first-hand experiences with the thoroughly illiberal regime of National Socialism from 1933 to 1945 sensitized ordoliberals to the necessity of liberal political and economic institutions and the value of freedom as such. The connection can be illustrated with the ordoliberals' publication history. While their early writings clearly were centered on narrow economic questions such as business cycles and capital theory (Röpke 1929), trade theory (Rüstow 1925) or detailed descriptions of various business sectors (Eucken 1914; 1921), which then turned into questions about the good economic order (Eucken 1938b/2005; 1950/1992), their scope and aims changed further in the late 1930s and 1940s, increasingly linking economic questions to matters of political organization and social philosophy.[146] The very concept of "freedom" and clear statements about the desirability of maintaining it can be found from that point onward. Practical experiences with a very concrete loss of freedom led to deeper reflections on the prerequisites of an economic and social order that reliably would prevent such deprivations in the future. To achieve that aim required extending the realm of analysis from merely economic topics to broader issues, as is evident from the titles of their publications at the time – *Die Gesellschaftskrisis der Gegenwart* [The Social Crisis of our Time] (Röpke 1942/1979), *Civitas humana* (Röpke 1944/1979) or *Freedom and Domination. A Historical Critique of Contemporary*

[146] Blümle and Goldschmidt (2006b) argue that the rise of dictatorship in Germany also taught ordoliberals that attempting to solve small, technical problems of economic life might not be the proper domain of analysis. While those technical problems were challenging in isolated analyses, a well-ordered overall economic order was useful to address them.

Civilization (Rüstow 1980/2014)[147] – do not sound like titles of economics textbooks, and that certainly was not what they were.

The change in appreciation of a *liberal* social and economic order can be linked directly to experiences with the Third Reich. Naturally, the experiences of the proponents of ordoliberalism during that period differed sharply depending on their personal relationships with the Nazi regime. In the cases of Alfred Müller-Armack or Ludwig Erhard, for instance, connections to National Socialism are not always entirely clear, especially in the earlier years, even though they generally distanced themselves from active politics during those years.

For others, most notably Alexander Rüstow and Wilhelm Röpke, the coming to power of the Nazis impeded freedom in a very concrete sense: it forced them into exile. In both cases, the experience of National Socialism triggered deep reflection about the cultural prerequisites of free societies and instilled in them the conviction that economics alone could not prevent disasters like the Nazi regime from happening again. The issue at hand was viewed as a cultural malaise requiring that solutions to the problem also were to be found on the level of social and cultural influences. In the case of Röpke, for instance, many of the sentiments he expressed during his exile in Istanbul and later in Geneva can be detected in the collection of essays *Against the Tide* (Röpke 1969). It not only demonstrated Röpke's initial reaction to the difficulties of the Weimar Republic and "Brown Totalitarianism," but also reveals how the experiences of those years informed his later attempts to help (re-)construct an economic and social order that would not succumb to the same type of totalitarian seduction ever again. While Röpke's writings in the early 1930s already are permeated with pessimism about the future, the dire outlook (among which totalitarian tendencies clearly were included) always is seen as a consequence of faulty economic policies, especially regarding money and trade (Röpke 1929; see also Eucken 1923). Shortly after the National Socialists' takeover, we find much broader criticisms of the current state of affairs and a political climate "that prepares itself to reforest the garden of culture and transform it back to the old primeval jungle" (Röpke 1933/2009, 68).

The case of the Freiburg School is perhaps even more instructive in that respect, especially given the characterization of the ordoliberal's liberalism of one as a cultural

[147] The book is a condensed, translated version of Rüstow's three-volume *Ortsbestimmung der Gegenwart* (1950; 1952; 1957) edited by his son, Dankwart A. Rustow.

ideal.[148] Franz Böhm and Walter Eucken, for instance, both raised in homes where Christian faith played prominent roles, were active in all three of the so-called "Freiburg Circles," which aimed at reflecting on the importance of the believing citizen in the face of an evidently unjust political order during the times of the Third Reich. Ultimately, they took part actively in promoting the overthrow of the Nazi regime.[149] Moreover, the activities in and contributions to the so-called Freiburg Bonhoeffer Circle provide a good illustration of the connections between the resistance against the Nazi regime and the development of ordoliberalism:

The Bonhoeffer Circle was created at the behest of the Berlin pastor Dietrich Bonhoeffer (1906–1945) and also was influenced heavily by the ideas of the Confessing Church. The Circle produced a clandestine paper titled *Politische Gemeinschaftsordnung: Ein Versuch zur Selbstbestimmung des christlichen Gewissens in den politischen Nöten unserer Zeit* [Political and Communal Order: An Attempt at Self-Determination of the Christian Conscience in Our Politically Difficult Times], which dealt with questions of how Christians ought to act in the Third Reich. More important, it also featured an essay written by Eucken and his two Freiburg colleagues Constantin von Dietze and Adolf Lampe, included in the document's appendix, which deals with the "Wirtschafts and Sozialordnung" [Economic and Social Order] to be implemented after the war had ended. The appendix proposes an economic order for the postwar area that not only focuses on material aspects, but also offers "the strongest resistance possible to the power of evil" (von Dietze et al. 1943/2008, 100).

[148] Research on the important roles of Freiburg economists in the resistance has of course been conducted almost exhaustively in recent times (Rieter and Schmolz 1999; Rüther 2002; Goldschmidt 2005, 2011; Maier 2014; Dathe 2018). The aim here is not to contribute to actual historical study of the so-called Freiburg Circles (see below), but rather to identify the sense in which the ordoliberals' commitment to resistance against the Nazi regime contributed to their growing appreciation of freedom as a value to be actively pursued.

[149] Three Freiburg Circles must be distinguished: The *Freiburg Council* (First Freiburg Circle), the *Bonhoeffer Kreis* (Second Freiburg Circle) and the *Arbeitsgemeinschaft Erwin von Beckerath* (Third Freiburg Circle). A detailed description of the members of the Freiburg School in all three circles can be found in Goldschmidt (2005).

While in this chapter I mostly refer to the Second Freiburg Circle, a brief description of the two other circles will be given here: The first Freiburg Circle, the so-called Freiburg Council, was founded after the events of the *Reichskristallnacht* [Night of Broken Glass]. The members, all of whom had strong ties to Christianity, wrestled with the question of what their role vis-à-vis the Nazi regime should be. The Third Freiburg Circle was an economics working group associated with *Klasse IV der Akademie für deutsches Recht* [Class IV of the Academy for German Law], in which many of the Freiburg economists came together – with other leading German economic thinkers of the time – to discuss questions of economic policy. The reports of the meetings played an important role later on within the scientific advisory body of the federal ministry for economy under the first Federal Minister of Economic Affairs in the newly founded Federal Republic of Germany, Ludwig Erhard (Grossekettler 2005; Klump 2005). Indeed, many of Erhard's advisors had belonged to the same working group.

Throughout the text, the authors stress the ethical and religious pillars of a future economic order, at the heart of which stood the individual human as a free and moral being. They motivate their endeavor in the following way, which clearly demonstrates the strong religious underpinnings of the project:

> Our work is primarily concerned with the overall order of economic life, rather than with the duties and commandments which, according to Christian teaching, apply to the behavior of the individual in economic life. As much as we are imbued with the fact that the observance of the eternal basic demands of individual economic ethics founded on Christian values is of utmost importance for healthy economic and social conditions, we think that we should not deal with them in detail here. For the Christian foundation of individual economic ethics, everything that is contained in the commandments of love for God and love for one's neighbor (Matth. 22, 40) seems to us to have been worked out sufficiently clearly. On the other hand, it is a particularly urgent task to give a Christian foundation to the foundations of social-economic ethics, especially according to the Protestant understanding. What has been done for this so far is not enough and therefore has not found general approval. (von Dietze et al. 1943/2008, 99)

As such, the appendix likewise offers very concrete practical guidance for economic policy: The discussion of the promotion of competition and the avoidance of monopoly – characteristic of ordoliberalism – is found there, along with extensive treatment of the role of the state, given the necessity of embedding the economic order of a society in a safe and stable legal framework. In that sense, it is no surprise that the appendix has been described as "containing the essence of ordoliberal thinking" (Horn 1996), and its content neatly illustrates that the ordoliberal's conception of liberalism is indeed rooted in strong ethical and cultural underpinnings. However, the ordoliberals' participation in the resistance also carried with it immediate practical consequences that placed their lives in serious danger. After the failed attempt to assassinate Hitler on July 20th, 1944, the activities of the Bonhoeffer Circle became known and its members frequent targets of police questionings and SS investigations. Some of its members, for instance Constantin von Dietze and Adolf Lampe, were sentenced to death, but the verdicts were not carried out (Goldschmidt 2011).

Thus, the Freiburg School's program for economic policy ultimately also became – as Eucken later described it—a "program for freedom" (Eucken 1952/2004, 370). With its opposition to Nazi ideology, it becomes clear why it evolved into a positive program for real individual freedom. The threatened loss of freedom spurred the development of an economic and social order that could defy power and coercion. As Michel Foucault wrote about the ordoliberals:

> But I think we can say that Nazism was, in a way, the epistemological and political "road to Damascus" for the Freiburg School. That is to say, Nazism enabled them to define what I would call the field of adversity that they had to define and cross in order to reach their objective. (Foucault 2010, 106; see also Goldschmidt and Rauchenschwandtner 2018)

Their practical experiences with unfreedom during that time, and the constraints they had to suffer because of them, also sensitized the ordoliberals towards appreciating freedom as a value in itself. It does not imply that a school of thought similar to ordoliberalism would not have emerged without those experiences, but it suggests that its focus on individual freedom and the necessity of searching for an economic and political order that would limit the activities of the state and render a reappearance of a Nazi-like regime impossible would have been far less pronounced without the crucial experience of National Socialism.

6.3 Ordoliberalism as Contextual Liberalism

6.3.1 The Historical Foundations of Ordoliberalism's Contextual Approach

Having seen how historical context helped instill particular appreciation of freedom in the ordoliberals, we now turn to how they integrated the broader context into their thinking about economic activity. In order to do so, it is necessary to first take one step back. As has been demonstrated in *chapter four*: one of the strongest factors influencing early ordoliberalism undoubtedly was the German historical school of political economy.

It often is overlooked that the founders of the (older) historical school stood firmly on the ground of the German political liberalism of their time. Even so, they had a dispassionate confidence in the abilities of state intervention to remedy social problems (von Bruch 1985b, 138). But to justify obvious deviations like that from the liberal doctrine of classical economics in their own country, they developed a pronounced historical awareness within their political economy – a relativist economic approach taking the context and specificity of time, place and culture into account. Such a contextual – or rather sociological – understanding of political economy also is strongly reflected in ordoliberal theory, and it is not coincidental that this tradition of economic thought originated in Germany in the middle of the nineteenth century (McAdam et al. 2018, 185–189): Compared to England or France, the onset of industrialization was a relatively late development, so Germany was one of the first latecomers in Europe to undertake catch-up development. Classical political economy

in the wake of David Ricardo implicitly presupposed what Germany – like most other societies – had not yet sufficiently achieved.[150]

As such, one can distinguish explicitly between contextual economic approaches that concern the interactions between the economic order and other societal orders, and other approaches that isolating economics focus on the processes within the economic order itself (Goldschmidt et al. 2016; see also Kolev et al. 2019). That classification does not imply a static relationship between contextual and isolating economics, but rather that their interrelationships vary or should vary as economic reality changes (Kolev et al. 2019, 648). Hence, contextual economics is first and foremost research on transitions; its comparative advantage lies in understanding profound structural changes (ibid., 649). However, given their own historical context in nineteenth century Germany – in the midst of a major societal transformation and increasing integration into the world economy (Rieter and Zweynert 2006) – it appears reasonable that the research program of the German historical school almost was exclusively devoted to contextual economics.

That conclusion applies in particular to the works of Gustav Schmoller, the *spiritus rector* of the younger German historical school. Central to his approach is the economy *in its entirety* – i.e., economy and society (and each of their interdependent components) are conceptually integrated (Shionoya 2006).

> The term "economics," adopted by the Americans and partly by the English, instead of political economy […] seems to me even more impractical, because it also wants to eliminate the people, the society, the social side of the economic process by using the economy as a mere material process. (Schmoller 1911, 429)

Schmoller's contextual concept can best be described as *historico-ethical political economy* (Nau 2000). It is an attempt to move beyond pure economics, because for Schmoller economics "can only be a science if it expands to a societal doctrine [Gesellschaftslehre] and to the extent to which it does so. Its entire starting point must no longer be the individual and one's technical production, but rather society and its historical development, its narratives must be inquiries into the societal manifestations of economic life" (Schmoller 1882, 1382).

Methodologically, Schmoller's approach primarily was derived empirically by individual studies of economic history in which institutions constitute the tangible object of research. He preferred to "first explain the development of the individual economic

[150] From the perspective of the history of economic thought, the conclusion certainly does not apply to the beginnings of classical political economy. Especially the system of Adam Smith remained firmly concerned with understanding economic processes in their societal embeddedness (Evensky 2005).

institutions" (Schmoller 1908/1978, 120) in order to embed it in specific overall economic and societal contexts. Even though the later ordoliberals rejected the allegedly anti-theoretical method of Schmoller in their effort to overcome the predominant historicism following the decline of the historical school – quite tellingly they refer to themselves as "Ricardians" in that respect (Janssen 2009b, 34–50; Köster 2011, 222–233) – they clearly share its genuinely contextual approach.[151] Eucken's *specific holism* (Zweynert 2007), according to which it is necessary to concentrate first on the analysis of suborders in order to be able to comprehend the overall order, is remarkably similar to Schmoller's institutional approach. It therefore is not surprising that Eucken, on the other hand, also rejects classical economics with a quite Schmollerian argument: classicism failed to him "not simply because of defects in its theoretical system, but mainly because its theoretical solutions did not fit the existing historical variety of economic life" (Eucken 1950/1992, 48).

Consequently, the ordoliberals sought to distance themselves to a certain extent from both the (contextual) German historical school *and* (the seemingly context-free) classical economics. At the same time, Eucken explicitly identified questions about economic processes *and* those about economic order as the two main subjects of political economy (Eucken 1938b/2005). What appears to be a contradiction nevertheless makes sense when condensed to the fundamental notion of context-free and contextual economics in general.

The early ordoliberals claimed to emancipate themselves from their predecessors who in their eyes had failed by exaggerating the historicist method (Böhm et al. 1936/2008, 38; Eucken 1938a, 207). Their aim was to bypass the "ruins of the historical school" (Janssen 2009a, 104) by providing its guiding questions with an epistemologically solid foundation (Gander et al. 2009) and by reconnecting German political economy to the modern international mainstream of economic science in favor of a more (neo-)classical theoretical approach. But in the end, the German historical school's successors instead tried to offer a new perspective and a new theoretical foundation (Schefold 1994, 222). Therefore, one could say that ordoliberal thinkers wanted to pursue modern economics, but also sought to include contextual thinking into their analyses. They attempted a new form of deductive abstraction but wanted to remain grounded in the real world. According to Alfred Müller-Armack (1949/1981, 539), "we are not entitled to view economic development in isolation. It is deeply connected to general intellectual history, which we thus have to address as such."

[151] Schmoller never ruled out the possibility that an economic theory is possible under realistic basic assumptions. The almost ubiquitous accusation of Schmoller's hostile attitude to economic theory, emerging at a later point, therefore needs to be put into perspective (Plumpe 1999, 262).

In other words, ordoliberalism's economic approach tries to bridge context-free and contextual economics without becoming bogged down by the inherited burdens of the respective approaches. Condensed to the notion of a contextual approach, ordoliberalism certainly can be understood as the most recent German historical school (Peukert 2000; Schefold 2003). The ordoliberals not only maintained heavy emphasis on social policy (Blümle and Goldschmidt 2006a) or the conviction that the prerequisite for a free, prosperous and humane economic and social order has to be a strong and assertive state.[152] Their strong ethical-normative convictions and their appeal for including cultural values in economic analysis (already discussed in the previous section) broadly are to a considerable extent rooted in the rich legacy of the historical school's intellectual endowment (Häuser 1994). In particular, those convictions seem evident with respect to their attitudes toward value judgments. According to Eucken, above all, economics is tasked with "find[ing] an effective and lasting system, which does justice to the dignity of man" (Eucken 1950/1992, 314). His scientific aim was a *functional* and *humane* economic order (ibid.; see also Eucken 1952/2004, 14).

Probably the most important contextual domain within the scientific agenda of ordoliberalism is the issue of social cohesion in modern market societies. That ethical line of reasoning on the contextual interactions of markets with social order is anchored deeply in German economic thinking (Priddat 1995, 310). Schmoller (1875a, 86) once compared the economy to the mechanical gears of a clock driven by egoism and quantitative relations that must be regulated by ethics and law in order to achieve a prosperous outcome. Insisting on the need for an institutional framing of the economic order, he suggested that it is not a "natural product," but rather that it is most of all the consequence of "respective moral views on what is right and justice in the relationship of the various social classes" (Schmoller 1874a, 337). In his 1894 essay *The Idea of Justice in Political Economy* he explains that social stability derives from subjective perceptions of social conditions based on certain predominant mental models rather than from objective economic indicators alone (Schmoller 1894). In the view of ordoliberalism (e.g., Röpke 1956/1981, 448) one could read Schmoller as follows: the market economy operates based on prerequisites that it cannot by itself guarantee.

[152] The ordoliberals adopt the term "strong state" not in the sense of an authoritarian or totalitarian one. For them it is a state that, by operating under general rules as opposed to establishing privileges, rises above private interests and is not vulnerable to being captured by then (Eucken 1952/2004, 327–332). Misinterpretation of the term "strong state" is a permanent irritation of the critics of ordoliberalism (e.g., Ptak 2009; Bonefeld 2017; Innset 2020).

Such a holistic view of the interdependent relationship between the economic order, along with other societal orders and the recognition that the economic reality is continually evolving and driven by changes in the social environment, makes ordoliberalism still particularly relevant for the twenty-first century (see Zweynert et al. 2016). The new societal fragility is characterized by an entanglement of factors that stem from the economic, legal, political or even religious domains (Kolev 2018, 86). For if ordoliberalism is not considered simply as a merely (neoliberal) approach to economic policy, but as an approach to a rather sociological and therefore contextual understanding of political economy, its continuing scientific value becomes apparent (Kolev et al. 2019, 655). If current economic research aims to provide explanations for economic processes in the real world it has to deal with the same questions that drove the early ordoliberalism of the 1930s and 1940s. As we will show in the next section, such contextual ordoliberalism also can enhance contemporary liberal approaches.

6.3.2 Contextual Liberalism and Constitutional Political Economy

While isolating economics has its merits in times when the interrelations between various societal orders is fairly stable, it does not do justice to recent changes in (economic) reality. However, it is for those problems that contextual approaches reveal their comparative advantage. Ordoliberalism likewise can reveal its significance, but in order to do so it is (again) necessary to reconnect with current economic discourse to achieve mutual gains from exchange between suitable context-free *and* contextual approaches. Such exchanges become even more important because in the past the search for integration in Anglo-Saxon academia was pursued sporadically at best (Feld and Köhler 2016).

The linkage between ordoliberalism and the research program of constitutional political economy (CPE) pioneered in the extensive work of James M. Buchanan appears to be most suitable in that respect. How close the two approaches are in their very own "thinking-inorders" tradition is, of course, already well established in the detailed examinations of Vanberg (1988) and Leipold (1990). Both – the exponents of ordoliberalism and CPE – share the essential conviction that a sound liberal society needs a well-defined legal framework that establishes the rules for individual action; especially with respect to the issue of power in a market economy.[153] In contrast to classical liberalism, ordoliberalism and CPE consider

[153] With regard to their normative convictions, the founders of both approaches pleaded for an active shaping of the institutional (respectively constitutional) order, but they had different emphases: Eucken was primarily concerned with a competitive order which was intended to prevent private concentrations of

mere reliance on the rationality of action by single individuals to be insufficient. Instead, they plead for an effective design of a superior (constitutional) order – defining the "rules of the game" – as necessary for self-interested actions to serve the common interest.

Like ordoliberalism, Buchanan's work clearly is directed to the entangled interfaces between the political and societal orders, on the one hand, and the economic order on the other (see Wagner 2017, 2018a). With his approach of combining ordoliberal thought with the works of Buchanan, Vanberg already has shown how the Virginia School can revitalize ordoliberalism, e.g., by providing a more realistic concept of the functional and performance capabilities of politics in a democracy (see Vanberg 1997, 1999, 2014, 2015). The essential distinction between "choices over rules" and "choices within rules" has become a central element of modern "*Ordnungsökonomik*" [economics of order]. Picking up on that concept, Kolev (2018) recently has outlined how the ordoliberal tradition can benefit from Buchanan's comprehensive contributions to the fields of CPE and public choice to promote a research program addressing the "*New Economics of Order*" (see Zweynert et al. 2016). I suggest that such a synthesis certainly also would be a great asset for *contextual liberalism*.

Moreover, in that respect CPE surely would benefit from ordoliberal insights as well. It has been argued that Buchanan's notion of a functional CPE is no adequate way of ensuring the self-set goal of facilitating the construction and sustainability of a free and liberal society (Haeffele and Storr 2018, 113). Buchanan's project ultimately would have very little to say precisely in those cases for which it should be needed most – in societies filled with unreasonable and heterogeneous actors, i.e., most real-world societies. Similarly, Goldschmidt (2006, 181) asks what the "culturally and socially transmitted conditions [are] that make an agreement between citizens possible," concluding that CPE falls severely short of a conception of economics as a cultural science.

To develop concrete constitutional rules (based on unanimous consent), Buchanan stresses the rationality of the individual and his or her accountability to society. In claiming, furthermore, a cultural environment that sustains such a self-imposed order, ordoliberals take an additional decisive step. To them, methodological individualism and individual rationality alone are too indeterminate; they require a cultural (and thus contextual)

power in the form of cartels, monopolies etc. (see Eucken 1952/2004, 241–324). Buchanan's considerations, on the other hand, are primarily aimed at limiting the power of the state, either through finding the appropriate framework for people to agree on which responsibilities they want to delegate to government (Brennan and Buchanan 1985/2000) or through exposing governments to competitive pressures themselves (Sinn 1992, 187).

embedding. Although it did not find much consideration in his theory, Buchanan seemed to be aware of that particular shortcoming of his approach. It is easy to show that "Virginia-style" CPE is not completely blind to that issue. Indeed, some of Buchanan's work on moral orders and moral community (Buchanan 1981/2001) actually can be interpreted in a similar vein: while a moral community can serve to facilitate and maintain agreement among small and relatively homogenous societies because "individual members of the group identify with a collective unit" and do not "conceive themselves to be independent, isolated individuals" (ibid., 188), they create issues for governability in larger societies. To the contrary, a moral order – defined as conditions under which "participants in social interaction treat each other as moral reciprocals, but do so without any sense of shared loyalties to a group or community" (ibid., 189) – was seen as a much more preferable underpinning of a contractarian political order. Precisely because "each person treats other persons with moral indifference, but at the same time respects their equal freedoms with his own" (ibid.), the prospects for peaceful cooperation and exchange are magnified greatly.

However, the major challenge was how to overcome the problem that "it is not rational to participate actively in any discussion of constitutional change or to become informed about constitutional alternatives" (Buchanan 1989/1999, 371). In other words, treating other members of a society as moral equals imposes a cost on citizens. A cost that they will be much more likely to bear in the presence of some prevalent – as Buchanan called it – "Madisonian vision" (ibid., 372); namely, "some ethical precept that transcends rational interest for the individual" (ibid., 371). Without what Buchanan (1986/2001) called a "*heritage of experience* that embodies some understanding of the central logic of effective constitutionalism, any implementation of constitutional democracy will be difficult to achieve" (ibid., 234; own emphasis). Indeed, Buchanan (1983, 98) acknowledged that, historically speaking, large parts of human evolution and progress could be described as a gradual extension of mutual respect between persons from the original setting of tribal communities to much more inclusive forms of organization. While he thought that religions historically had been at the forefront of granting a status of morality including to (former) outsiders, letting go completely of distinctions between in- and outsiders of course rarely happened. Nevertheless, Buchanan (ibid.) mentions "humanism, considered as a great religion" as one such attempt to extend inclusiveness of traditional moral communities to humanity as one giant group, which thus could serve as the basis for an all-encompassing moral order, in turn making agreement between diverse groups of people much easier.

It is worth noting that CPE also does not seek solutions to perceived policy problems exclusively within the domain of trying to change formal institutions: *The Reason of Rules* (Brennan and Buchanan 1985/2000) – considered by many scholars to be the most comprehensive account of CPE – ends with a section that calls for "a new civic religion" (ibid., 165). CPE will not, as Brennan and Buchanan stress in abundantly clear terms, be successful by "proffering advice to this or that government or politician in office" (ibid., 167), but indeed only by the gradual advancement of constitutional understanding on the part of a state's citizenry. Once "the relationships between individual utility functions and the socio-economic-legal-political-cultural setting within which evaluations are made" (Buchanan 1991, 186) are understood, Buchanan thought, would it be possible to "invest […] in the promulgation of moral norms" (ibid.), revealing a further contextual layer of the CPE project. While those ideas usually are presented as "side notes," their mention shows that the contextual sphere is at least partially present in Virginia-style CPE, implying the possibility of broadening its scope to a CCPE – a *Contextual Constitutional Political Economy* – at some point.

While the ordoliberal tradition generally is more concerned with the properties and characteristics of the non-economic preconditions deemed necessary for the implementation of a functional market and societal order, its hinted presence within CPE highlights one further overlap between the approaches of Freiburg and Virginia, which favors a fruitful collaboration in the search for adequate rules to promote human flourishing under the heading of "contextual liberalism."

6.4 Merging two "Thinking-in-Orders" Traditions: Both Better Together

Not unlike Friedrich Hayek, James Buchanan also sees Bernard Mandeville as "one of the first social philosophers to demonstrate that the result emerging from interaction of many persons need not to be those intended or planned by any one person or group of persons." Instead, "under some situations […] qualities of private individual behavior that might seem vicious or self-seeking may be precisely those required to produce desirable social results when persons interact in a complex environment" (Buchanan 1970/2001, 302). The extent to which private interests produce public goods depends largely – as ordoliberalism and CPE concur – on the corresponding environment; i.e., on the rules of the game. In what sense classical political economy actually acknowledged it (Buchanan's interpretation) or merely presupposed such an environment unknowingly (the ordoliberal interpretation) is a dispute that will have to be settled by historians of economic thought.

However, with the neoliberal project that emerged in the late 1930s, it became the ordoliberals' aim to restore a properly interpreted liberalism. That was not because they did not share the liberal basic assumption of classical liberalism that individual self-interested action is the necessary driving force in economic and social progress, but because they realized that individual actions require embedding into a social and moral order to unfold desirable public benefits. Grasping that insight proves to be the significant difference between the *ordo*liberals of neoliberal stamps and the exponents of classical liberalism. It became the ordoliberals' profound conviction that without a proper "spiritualmoral bracket" (Röpke 1958/1979, 160) neither society nor its wealth-serving market economy are viable. Thus, the purpose of ordoliberalism always has been the "consciously shaped" (Eucken 1950/1992, 314) economic order that manifests itself as *humane* and as *functional*. The ordoliberals' crucial insight that such an order can thrive only on the soil of a liberal society was reinforced by their own experiences of totalitarian oppression during the years of the Nazi regime. That is the reason why freedom turned into a real project for them.

Moreover, that real project of freedom and the reception of contextual factors are keys to understanding the strong influence that ordoliberalism managed to exert on policy-making in post-WWII Germany. While ordoliberal ideas were not debated heavily in international academia, their reception in policy-making circles directly helped to construct the main pillars of the German model of the Social Market Economy (see Hesse 2010). If one contrasts that influence with the relatively modest impact of constitutional political economy on practical policy-making in most places,[154] one is tempted to conclude that the ordoliberal approach has proven to be more fruitful in some respects.[155] I suggest that ordoliberalism's influence can be explained in part by the more contextual perspective it brings to bear, which leads to never losing sight of the ultimate goal of its efforts: a humane and self-determined life for as many people as possible. To achieve that goal, the ordoliberals always have been willing to recognize that reality is more important than abstract principles. While Buchanan probably would not have disagreed with that premise about the political process itself,[156]

[154] Richard E. Wagner – one of Buchanan's most influential students himself – even suggests that Buchanan's political economy must be seen as a "failed effort to square the circle" (Wagner 2018b, 9), given that he – whilst being interested in the continuously ongoing "game" of societal rule-making – could, on an analytical level, "never escape the hold of closed-form theorizing" (ibid.).

[155] The statement should not be interpreted as a criticism of CPE, the aim of which does not lie precisely in its direct influence on policy-making. However, it also is proper to mention that even Buchanan himself was aware of a "basic indeterminacy" (Buchanan 1987, 249) in CPE; even though he did see it as a necessary, and not even detrimental, feature of the approach.

[156] For a comprehensive summary of Buchanan's conception of democracy, see Thrasher (2019).

ordoliberalism is more proactive in realizing the (sometimes messy) heterogeneity of contemporary societies and the corresponding need for compromise and reciprocal discourse already present at the theoretical level, thereby suggesting one key area in which CPE actually could benefit from the ordoliberal approach in order to gain more relevance in the political arena itself. If CPE as a traditional “thinking-in-orders” approach is – according to Gaus (2018) – and “not a completed artifice to be admired and defended, but an ongoing project, constantly refining its assumptions and analysis” (ibid., 139), the same can be said of ordoliberalism. The two approaches can benefit from mutual interactions based on their particular insights and thereby make valuable contributions to current socio-economic discourse.

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