

ROUTLEDGE STUDIES IN THE HISTORY OF  
ECONOMICS

# Macroeconomics and the History of Economic Thought

Festschrift in honour of Harald  
Hagemann

Edited by  
Hagen M. Krämer,  
Heinz D. Kurz and  
Hans-Michael Trautwein



# Macroeconomics and the History of Economic Thought

The essays in this Festschrift have been chosen to honour Harald Hagemann and his scientific work. They reflect his main contributions to economic research and his major fields of interest. The book is subdivided into three parts.

The essays in the first part deal with various aspects within the history of economic thought. All reflect Hagemann's interest in the question of how economic knowledge and ideas migrate between countries (mainly through émigrés) and in time (by studying the history of ideas). New aspects of the lives and works of well-known and lesser-known economists are presented by excellent historians of economic thought. Some essays are related to economic debates of the inter-war period, reflecting Hagemann's research focus on the years of high theory, especially in the field of business cycle theory.

The second part is about the current state of macroeconomics, which is critically examined in many of the essays. Several of them relate to the global financial crisis, and discuss why the current consensus view in macroeconomics faces fundamental problems in understanding its causes and consequences, in contrast to earlier economists such as Irving Fisher and John Maynard Keynes. Further essays set the focus on the problems of money illusion and understanding inflation.

The essays in the third part of the book cover topics on economic growth and structural dynamics. Most of them look at the Schumpeterian triangle of innovation, competition and institutions from different perspectives, dealing with such topical issues as the emergence of new sectors, market definition in technologically dynamic systems, innovation strategies in global manufacturing, offshore outsourcing and the consequences of soft budget constraints.

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# **Macroeconomics and the History of Economic Thought**

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**Edited by Hagen M. Krämer,  
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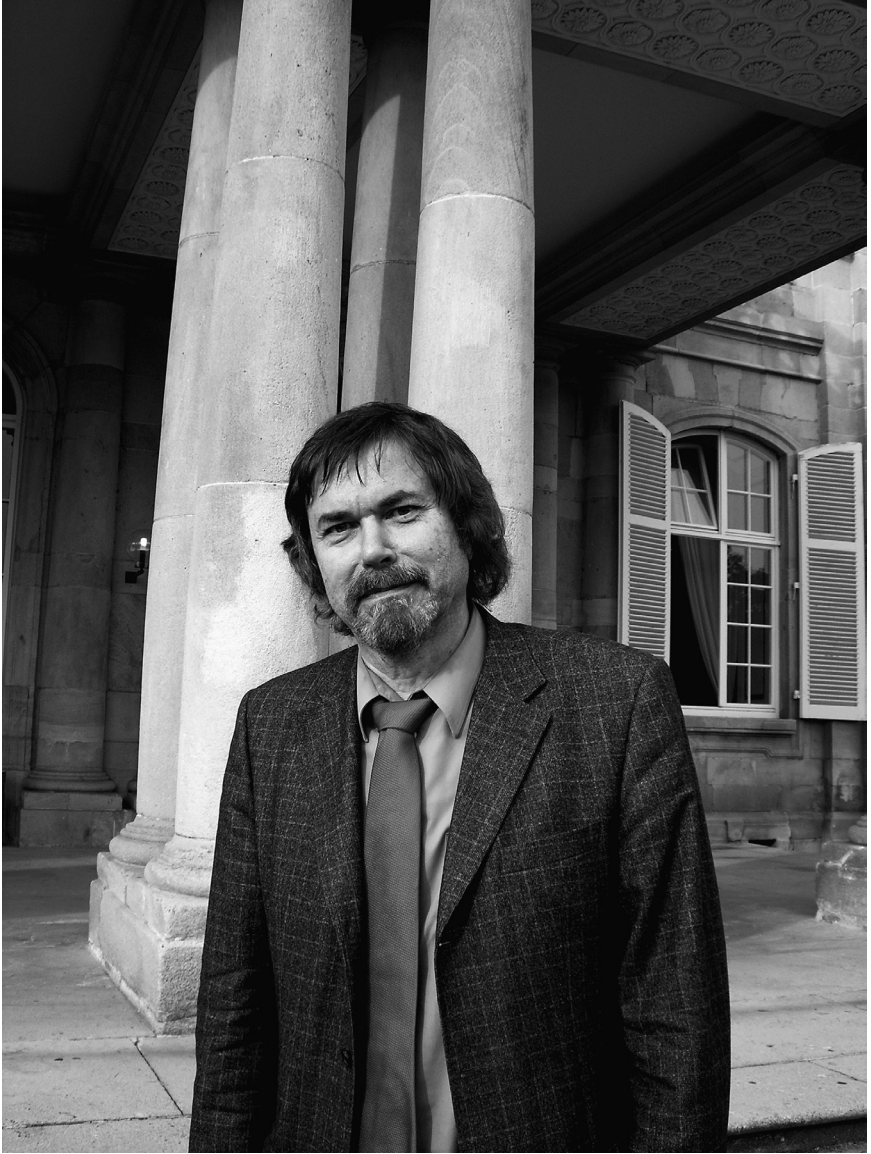
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# 1 Harald Hagemann at 65

## An introduction

*Hagen M. Krämer, Heinz D. Kurz and  
Hans-Michael Trautwein<sup>1</sup>*

Festschriften form a genre of celebratory publications that has a long tradition in the German language area. Apparently the first Festschrift was *Jubilaenum typographorum Lipsiensium: Oder Zweyhundert-Jähriges Buchdrucker JubelFest*, published in 1640 by Gregor Ritzsch, a Leipzig book printer who wished to honour the bicentennial of Johannes Gutenberg's introduction of the printing press. This was an appropriate starting point for the tradition, since Gutenberg's movable type page setting and printing had led to a technological revolution that helped to expand networks of knowledge formation far beyond the earlier confines of oral tradition and handwritten copies. Even if the employment effects of the technical change (a favourite subject in Harald Hagemann's research) are especially difficult to quantify in this case, Gutenberg's innovation certainly had a huge positive net effect in the long run – not to speak of the cultural externalities that the subsequent ages of Renaissance and Enlightenment brought along.

Most of the Festschriften do not honour innovations or institutions, but respected academic persons at a later stage in their lives and careers, often around retirement age. Their formats and contents vary a lot, ranging from slim and casual books of friends (*libri amicorum*) to multi-volume collections of strictly scientific papers. Yet, they all demonstrate that the researcher-teacher in question has managed to attract a circle of colleagues, who are willing to pay academic tribute to him or her. It has been pointed out that the Festschrift genre is prone to suffer from heterogeneity and a lack of quality of essays, as the selection of contributions tends to be a matter of personal relations rather than scientific progress. More acerbic critics characterize Festschriften as mixed assortments of leftovers and adulation, dutifully compiled by former assistants of pompous professors, or by colleagues who expect reciprocation. As the discipline of economics has largely moved away from the old hierarchies and changed its modes of publication and communication, the Festschrift tradition may soon come to an end. Harald Hagemann himself has sometimes warned his younger colleagues from burying their better publications in Festschriften, as they – regardless of their quality – are ranked as 'third-class funerals' in terms of professional attention.

At the same time, however, Harald has been a diligent user of Festschriften, and in many cases a contributor or even editor (the two Gedenkschriften in

memory of Adolph Lowe and John Hicks should be counted in – see [Chapter 32](#) in this volume). He has frequently referred his colleagues to classics in the genre, such as the volumes in honour of Gustav Cassel and Arthur Spiethoff, both published in 1933, and holding pathbreaking essays of Ragnar Frisch (on ‘Propagation Problems and Impulse Problems in Dynamic Economics’, in the former) and John Maynard Keynes (on ‘A Monetary Theory of Production’, in the latter), as well as numerous noteworthy contributions from other economists. Harald would also argue that many issues of refereed journals, sometimes highly ranked, suffer from heterogeneity and quality problems, too. He might, moreover, point out that some *Festschriften* of more recent origin contain relevant and much-cited articles; the book in honour of Edmund Phelps is a case in point (Aghion, Frydman, Stiglitz and Woodford, 2003; cf. Leijonhufvud 2004). Not all *Festschriften* are funerals, and some papers buried ‘third class’ have an interesting afterlife.

Whatever the current status of *Festschriften* in general, we think that Harald Hagemann deserves one of his own where papers will not be buried, but receive a wide readership. The reasons for commemorating Harald’s sixty-fifth birthday on 15 April 2012 with essays in his honour will become obvious in the course of the book, starting right here with the presentation of the man and his work. Since Harald is not an ordinary *Ordinarius*, i.e. does not at all conform to the stereotype of the pompous German professor, the style of presentation will deviate somewhat from the standard *laudatio*. The editors will present Harald in a triptych of their different perspectives on him as their colleague and friend. Heinz Kurz, who was Harald’s close colleague at Kiel and Bremen in the 1970s and 1980s, and has been close friend ever since, makes a start. Hagen Krämer, who was Harald’s student at Bremen in the 1980s and collaborates with him in various scientific and economic policy contexts, follows. Hans-Michael Trautwein, who was Harald’s assistant at Hohenheim in the 1990s and continues to cooperate with him, takes the final part.

### **Harald Hagemann, close friend for more than four decades**

I do not recall: was it yesterday or forty years ago that I (*Heinz*) met Harald for the first time? In September 2011, when these lines were written, it was an unbelievable forty years ago. I met Harald at the University of Kiel, where Albert Jeck had been appointed to the chair in economic theory two years before. Albert had been my teacher at the University of Munich. He invited me to become one of his research assistants. I visited Albert in order to talk over the details of the position. On this occasion he introduced me to his staff, including Harald, who at the time was about to finish his studies of economics and was employed as a student teaching assistant. After graduation, he too became a research assistant of Albert’s. We shared an office for several years.

It was the time of the two Cambridge controversies in the theory of capital. The papers of major economists filled the pages of the main economic journals. Harald and I shared a critical orientation in economics, and as students had received the ordinary marginalist fare provided by German universities with

reservation. We were on the lookout for alternative points of view. We understood that Piero Sraffa's *Production of Commodities by Means of Commodities* (Sraffa 1960) played a central role in the capital controversy, and so we decided, together with Albert and a few other young colleagues, to study the book in detail. This was a difficult but highly rewarding task. We also read the swiftly growing literature in the area and decided to focus, in our PhD theses, on topics of the capital debate. Harald wrote about the concept of the rate of return on investment. This, Robert Solow had introduced in the hope and expectation of escaping the criticism levelled at the neoclassical concept of capital as a magnitude that can be ascertained prior to and independently of relative prices and the distribution of income. In his PhD thesis, Harald showed that this was a will-o'-the-wisp (Hagemann 1977). I wrote a thesis on Sraffa's book, and especially on the roots of his approach to the theory of value and distribution in classical political economy (Kurz 1977). It was in those years that we both developed a deep interest in economic theory and in the history of economic thought – the two sides of a single coin.

We discussed a lot and benefited from one another. We also felt the need to bring into the open what we had concocted, and had plans to publish a number of papers and books – alone, together and also involving Albert and other colleagues. Not all our plans materialized, but some did. The first joint paper we published was devoted to the relationship between the theory of value in the classical economists and in Marx (Hagemann, Kurz and Magoulas 1975), followed by a piece on the return of the same truncation period of fixed capital in the von Neumann model and in Classical theory on the one hand, and in John Hicks's Neo-Austrian theory on the other (Hagemann and Kurz 1976). The paper was translated into other languages and reprinted in various books.

After my return to Kiel from a British Academy Visiting Scholarship in the academic year 1977–78 at the University of Cambridge, I found that the blackboard in our common office still carried our scribbles of several months previously. Truth is enduring.

Whilst still in Cambridge I was approached by Peter Kalmbach, a former teacher of mine in Munich, who urged me to apply for a newly established chair at the University of Bremen. In 1979 I was appointed, and it looked as if I would have to part company with Harald for an indefinite period. But, due to a ruse of history, the period lasted only three years. A quickly rising number of students led the Senator of the Hanse City of Bremen, who was in charge of the university, to install additional chairs in economics and business administration. Luckily enough, Harald applied for one of them and was appointed to it in 1982. We were now in three in the department, Peter, Harald and me – a critical mass of people interested in serious non-mainstream economic analysis, Keynes and the Classics in particular. We gradually managed to build up what could be called a research unit, which attracted some of the best students there, who wished to write their diploma theses and, later, their PhD theses with us.

While still in Kiel, Harald had established close contacts with Adolph Lowe (formerly Löwe), who in the 1920s had worked and taught in Kiel and then in

Frankfurt. Adolph was a leading German economist at the time, but when the Nazis came to power he left the country in order to protect himself and his family. He first moved to Manchester and then to the newly founded ‘University in Exile’ in New York, later the New School for Social Research. We visited Adolph in the Bronx, where he lived in a home for elderly people. After the company that ran the home went bankrupt, Adolph settled in the house of his daughter in Wolfenbüttel, Germany, where he stayed until the end of his life, in 1995. Wolfenbüttel was only a few hours drive by car from Bremen. We visited Adolph regularly, and had fruitful and inspiring discussions with him.

The encounter with Adolph had a deep impact on our lives, academic and otherwise (see Hagemann and Kurz 1990). First, due to Adolph’s influence we turned to the problem of the employment effects of different forms of technical progress. Second, we felt the need to pay tribute to Adolph, the man and the scholar, his intellectual integrity and wonderful character, his erudition and good spirit. Third, we felt that the story of the emigration of economists from Germany after 1933 had still to be told. In this latter respect, Harald deserves all the credit for having successfully tackled the issue in terms of a remarkable two-volume work edited together with Claus-Dieter Krohn (Hagemann and Krohn 1999). It was a huge achievement, and deserves to be translated into English. Harald summarized some of his findings in his presidential address on the occasion of the annual meeting of the *European Society for the History of Economic Thought* in Amsterdam in 2010 (Hagemann 2011).

As regards the second issue, in 1982 Harald and I proposed to the Academic Senate of the University of Bremen that an honorary doctoral degree be conferred upon Adolph. Alas, there was no legal basis for such an act, which several of the founding fathers of the ‘reform university’ had presumably considered outdated, to say the least. To our surprise we managed to convince the Academic Senate to pass the needed statutes, and in June 1983 Adolph Lowe was awarded the first honorary doctoral degree of the university (see Hagemann and Kurz 1984). The ceremony was attended by, among others, the Senator, representatives of the New School, and several of Adolph’s former students, including Marion Countess Dönhoff, editor of the weekly *Die Zeit*. It found a resounding echo in the media. Adolph gave a marvellous speech full of insights regarding the pressing problems of the day that it is still worth reading. After Adolph, honorary doctoral degrees were conferred *inter alia* upon Marie Jahoda, Benoit Mandelbrot and Kurt Rothschild.

Finally, the concern Adolph had instilled into us regarding the problem of technical change and employment prompted Peter, Harald and me to submit a research proposal to the Stiftung Volkswagenwerk, one of Germany’s main research funding institutions. We were successful, and were given a substantial amount of money that allowed us to employ several young researchers. With the assistance of, among others, Reiner Franke, we elaborated a dynamic input–output model and studied the prospective employment effects of the introduction of computer-based instruments of production and of office automation in the West-German economy. In the 1980s, the employment effects of technical change were a heatedly

discussed topic. Yet when the results of our investigation were published (Kalmbach and Kurz 1989), they fell flat on the ground. The interest of the public and the economics profession was now entirely overwhelmed by German unification and its consequences. For a while we tinkered with the idea of reformulating our model and applying it to the transition process involved, because we felt that the model was well suited to studying the complex dynamics in terms of an approach that allows for structural change and varying degrees of capacity utilization in the different sectors. However, for reasons that will soon become clear, things went differently. Another project financed by research funds dealt with the productivity growth decline experienced in those times; the main work was done by Christian Gehrke, who had joined us from Kiel, and Christof Rühl, who had graduated in Bremen. Christian is now a professor of economics in Graz, and Christof the Chief Economist of British Petroleum.

We had engaged in the Volkswagen project not only for its own sake, but also as a means to propel a much more ambitious plan. Our success in attracting substantial external funds could be expected to indicate to the Senator of Bremen and the Rector of our university the fecundity of our theoretical and applied work, and prepare the ground for the establishment of the 'Adolph Lowe Institute of Economic Research' – a joint enterprise of our department and the Economics Department of the Graduate Faculty of the New School for Social Research. We were full of optimism. As a first step towards it, we established an exchange programme for students and members of the staff involving the two institutions. The programme still works today, and brought several students from Bremen to New York and a few vice versa.

Alas, things were not so good in Bremen. The city had accumulated what, by the standards of the day, was considered a huge public debt (in terms of today's standards it would be peanuts), and its politicians were myopic, as politicians typically are. We felt that we might support our case by attracting offers from other universities to join their ranks. This in fact happened, but it turned out to be a two-pronged weapon. Harald got an offer from the University of Stuttgart-Hohenheim and I one from the University of Graz. We were invited by the Rector and the Senator to negotiate the conditions that would keep us in Bremen, but the offers we received were not very promising and clouded by financial uncertainty. We both felt that in these circumstances we had no choice but to leave. This was a hard decision, and I remember us talking it over time and again, the two of us and Peter. We received a lot of support – especially from our students, who demonstrated on our behalf in the city and forced the Senator to leave his office building by the back door. (Hagen Krämer was one of those students, and it comes as a surprise that despite his earlier rebellious inclination he nevertheless became a professor.) Other events had further disenchanted us. The attempt to appoint to the chair of Public Finance a highly promising young scholar, Wolfgang Wiegand, later Chairman of the *Sachverständigenrat*, the German Council of Economic Advisors, was thwarted by a coalition of radical and business economists in our department. All this was sobering, and our hopes of being able to build up a strong centre of research with an international orientation became more and more frustrated.

In 1988 Harald and I eventually accepted the offers and moved southwards. This did not bring our friendship and collaboration to a close. We stayed in contact with Peter and other friends at the University of Bremen and the New School for Social Research. We both served as Theodor Heuss Professors at the New School, and taught there repeatedly. When Adolph died, we edited a set of essays in his memory (Hagemann and Kurz 1998). We are active in the section devoted to the history of economic analysis of the *Verein für Socialpolitik*, and both served as the section's Chair. We were involved in the establishment of the *European Society for the History of Economic Thought* (ESHET), and both served as its President. And we both contributed to academic journals, books, dictionaries and companions edited by one of us or both.

As the above shows, there are some striking parallels in our lives and careers, but also some noteworthy differences. Harald was a most talented soccer player. He is the proud proprietor of a red tie, which he loves to wear. Given the fact that the highest mountain of his home region Schleswig-Holstein, the Bungsberg, is 168 metres high, Harald is a remarkably good skier. When Harald abbreviates his name as HaHa, I always have the suspicion that this is directed at me.

Once in a while I seem to hear Harald talking in the office next to mine. I know that this is not possible. But I also know – as Doris, his wife, will certainly confirm – that his voice cannot easily be missed!

### **Harald Hagemann, man without conceit**

When I met him at the University of Bremen in the mid-1980s, Harald was a young professor in his late thirties, and I (*Hagen*) was an even younger student in my early twenties. I forgot when we met for the first time, but I remember exactly the first time when he impressed me deeply. It was shortly after 'Black Monday' in October 1987, when stock markets had crashed to an extent not seen since 1929. Sitting close to a fountain-head of economic expertise, my fellow students and I were very curious to learn more about this breathtaking financial market shock from our professors. Most of them did not mention this event at all, but went on teaching according to their syllabus: some kept lecturing about classical value theory (although highly interesting, it was not relevant at all in this context), others pontificated about the inevitable end of capitalism in general (not really helpful for understanding what was going on). This was deeply dissatisfying. There was, however, this young professor who, with his long hair, fluffy beard and casual dress, looked like a student rather than a typical German professor. He devoted his lecture time, out of sequence, to explaining the crash. It was Harald Hagemann who described in detail what had happened in Wall Street and analysed the determinants and potential economic and social consequences. What impressed me even more was that he used as his lecture notes the current issue of the weekly *Der Spiegel*. He was obviously able to read the lead story, while simultaneously providing an accurate synopsis of the most important arguments of this article. For most students in the class, it was exactly what was needed to satisfy their most pressing curiosity.

After the lecture, I and some others approached Harald with further questions about the Wall Street disaster and the functioning of (financial) markets in general. I remember him mentioning Keynes, Minsky, probably Fisher, and other names of past economists we had never heard of before. This provoked further interest in their theories. But what, above all, made a lasting impression was that this professor was accepting us as we were, not letting us feel that we were raw beginners in economics. He made us feel as that we could discuss matters with him on equal footing. At that moment I realized that one could learn a lot from this likable professor, and so I decided to not to lose sight of this man without conceit.

I decided to visit more of his seminars, and came into closer contact with Harald. What I could not anticipate at the beginning, of course, was that Harald would eventually become the second supervisor of my thesis (the first was Peter Kalmbach, another contributor to this volume). Harald came to make a major impact on the development of my personality and my career. He encouraged me to spend an academic year at the New School for Social Research in New York City in 1988–89. The positive effects for a young student of studying abroad and at such a place cannot be overestimated. After my return from the US, he was always ready to help and give advice regarding my dissertation in a way that cannot generally be expected from a second supervisor. Later on, Harald also played an important role as door-opener into several research networks and economic societies. Some years ago, and on the initiative of Jürgen Kromphardt (another contributor to this volume), Harald and I were founding members of the German Keynes Society ([www.keynes-gesellschaft.de](http://www.keynes-gesellschaft.de)). In 2009, we organized a conference of that society and edited the conference volume (Hagemann and Krämer 2011).

This was not at all predictable when I met Harald for the first time in the mid-1980s. Since then, Harald has gotten older – a necessary but not sufficient condition to be honoured with a Festschrift. However, I am sure that many who know him share my impression that he has stayed young in mind and attitude. Unlike many German professors, who keep a distance between themselves and their assistants, and in particular their students, Harald was never aloof in any way. I cannot remember that, during my time as a student in Bremen, he ever refused a chat in the corridors of the department building. His willingness to do so even increased when he became dean in 1986 and I was elected as students' representative on the faculty committee; at that time faculty members were fiercely arguing their differences and the majority situation in the committee was changing constantly.

It was a big disappointment for me and some of my fellow students when we learned that Harald Hagemann and Heinz Kurz were to leave us and move to universities very far south of my home town of Bremen. My bitterness about their abandonment of fascinating plans for the Adolph Löwe research institute and the 'Reform University of Bremen' was so big that I remember calling Harald, in a rather unreformed way, a *Vaterlandsverräter* (traitor to the nation).

In the summer of 1990 Harald invited me to his house in Delmenhorst, a small city in the vicinity of Bremen where he still lived with Doris and Simon,

his wife and his son, while commuting to Stuttgart. We agreed to combine the talk about my thesis proposal with a quick tennis match. We ended up playing for nearly three hours, thus almost losing out on the opening game of the 1990 football championships in Italy. If we had missed it, Harald would probably have quit our blossoming friendship. He never misses an important sports event on TV, except when sitting on a plane to some conference elsewhere in the world. I regard myself as a fanatical supporter of my home-town football club, Werder Bremen – a sympathy that is, by the way, shared not only by the jubilarian, but by all editors of this Festschrift. However, Harald's affinity with sports goes far beyond that. He is always informed about the results, whether for football, handball, athletics, tennis, racing or another sport. He is, moreover, always willing to share his brand new knowledge with others, be they interested in sports or not. Before Harald makes a phone call, he usually prepares a bullet-point list with all the topics he intends to talk about. When he calls me, at the top of the list is always a review of Werder Bremen's latest match, which he analyses in detail in a lecturer's style. One wonders why Harald, with all his analytical capabilities and knowledge of football, has never written a scientific paper on the economics of football. This is a great pity, since in my view he is simply a congenial game-theorist.

Harald's passion for sports is something I had already spotted in June 1988, during a summer school-like seminar in Kleinwalsertal (Austria) that was jointly organized by the universities of Graz, Hohenheim and Frankfurt. Unfortunately, the seminar week was scheduled in parallel to the European Football Championship in West Germany. There was deep disagreement among the responsible professors whether the lectures should be organized around the times of the most important matches. The situation escalated when a Germany match was scheduled for the afternoon, during regular seminar time. Harald's senior colleague, who clearly preferred economics to football, refused to reschedule and proposed to let the students vote, correctly anticipating that his students, forming the majority of the participants, would follow him. Harald did not, however, appear after the coffee break, and nor did I and some other football-addicted students. After the match, when we returned to the others, who were still studying hard, we received a rather disapproving look from Harald's senior colleague and more curious ones from most of the students. In an act of benevolence, and while a student was just presenting his paper, Harald raised his fingers to indicate that Germany had beaten Denmark 2–0.

This episode might help to illustrate what characterizes the jubilarian: Harald loves to collect and share information – a virtue that benefits his fellow human beings. Knowing Harald saves you time, as in many cases you don't have to go to the archives. Having Harald around saves you time, furthermore, as you don't have to spend much time reading the paper or watching the TV news yourself.

When I moved to Stuttgart some years later to work for a major car manufacturer headquartered in Stuttgart (a job appointment that Christof Rühl helped to arrange), Harald and I met more often, sometimes also with other people. One of the most fascinating encounters was with Heinz Kluncker, the former boss of Germany's powerful civil servants; union (ÖTV), who lived in Stuttgart as well.

Kluncker is famous in Germany for leading strikes in the 1970s, when his union demanded wage hikes of 20 per cent or more in several rounds, and once, after a three-day strike of garbage collectors and tramway employees, he managed to conclude a rise of 11 per cent (hardly conceivable nowadays). Heinz Kluncker, in 1991 already in his mid-sixties, approached Harald because he was a well-known expert in the history of economic thought. Kluncker had spent some months in the archives of Harvard University, where he found documents from and about Heinrich Brüning, chancellor of the Weimar Republic in 1930–32. Brüning is nowadays regarded as one of the main culprits in deepening the Great Depression in Germany through his strict austerity policy, thereby paving the way for Nazi hegemony. The *Brüningsche Notverordnungen* (emergency decrees) enacted severe wage cuts, especially for civil servants, reinforcing deflationary pressure in Germany in the early 1930s. Heinz Kluncker told us that he had found, in Brüning's Harvard legacy, some evidence for his hypothesis that the pay plan established for civil servants in Western Germany after the Second World War was rooted strongly in Brüning's anti-democratic and wage-depressing emergency decrees. On the occasions of our meetings we gained many insights into union policy and the political development in the eventful post-war period from an important activist of those times.

Another reason why Heinz Kluncker got in touch with Harald and why he then asked me to join the meetings was that Harald, like me, in his youth was an active member of the German Social Democrats (SPD). After some disenchantment with the 'pragmatic' policies of several SPD-led governments, we both withdrew from direct engagement in party politics. However, when our advice is asked for, we are both usually ready to provide it, and we have frequently done it together (e.g., Hagemann, von Hauff and Krämer 2005). We are currently working for the Friedrich-Ebert-Stiftung (FES), a thinktank closely tied to the SPD and at the same time an organization that provides scholarships for young talents. We conduct interviews, and Harald is in the committee that decides about the scholarships. We also organize conferences of the *Kocheler Kreis für Wirtschaftspolitik*, the economic policy circle in the FES, designed to bring together politicians with economists from universities, research institutes and the administration. During these conferences, the five members of the steering committee alternately moderate the discussion. When it is Harald's turn, it is one of the rare occasions I see him wearing a tie; it is a red one, in the party colours.

Although Harald from time to time loudly complains about how much time these voluntary activities for the foundation cost him, they are without doubt a matter of the heart for him. Not only is he a political animal; he is also convinced that it is the responsibility of a scientist to generate knowledge spill-overs from science to society.

### **Harald Hagemann, networker across time and space**

On 3 October 1990, East and West Germany were united – or reunited, as some would say. Two days earlier, I (*Hans-Michael*) had joined Harald's Economic

Theory team at the University of Hohenheim. I am not aware of any causal nexus between these two events; I came from the North, not the East, and Schloss Hohenheim, the idyllic palace in Southern Stuttgart, felt quite remote from and undisturbed by the ‘wind of change’ that was blowing elsewhere in the newly augmented Federal Republic. Yet even at Hohenheim it became soon obvious that ‘the times they are a-changin’ (Harald loves that kind of music), and that macroeconomists could not stay aloof. Harald set about doing research and lecturing about the macroeconomic consequences of German unification (e.g., Hagemann 1993). I remember that, in the middle of unification euphoria, he told an audience of functionaries from state ministries and local bankers that it might take up to thirty years to bring the capital stock and labour productivity in East Germany up to Western levels. Even though Harald presented fully plausible figures, laced with some learned hints from traverse analysis, various people in the audience were upset and accused him of unpatriotic negative thinking. With hindsight Harald’s early predictions look rather positive, given that labour productivity in East German industry is still 25–30 per cent lower than in the West and the speed of catching-up remains rather slow (Paqué 2009). Harald certainly irritated those patriots by describing some of the problematic circumstances of German unification as ‘the economic consequences of Mr Kohl’, his favourite phrase that echoed an earlier Cambridge economist. Even in that respect, history accords with him.

Looking back on the 1990s, the ten years that I spent at Harald’s chair doing my habilitation and working as assistant professor, I think of them as a decisive decade (quite apart from my own formation). The times were exciting, not only because of German unification but also due to the greater sensitivity about Modern German history that this in turn brought about, and in view of the speed at which European integration and globalization were making progress. Harald was working on all these themes, building and reconstructing networks across time and space, and at different levels of teaching, coaching and research.

Let us begin with German history. One of its darkest chapters was the rise of the Nazis to power and its disastrous consequences, eventually leading to the Second World War and the holocaust. An early subsection in that chapter was the expulsion of Jews, political adversaries and others from their academic positions, forcing most of them into exile, inner emigration or – in some cases – death. Heinz has mentioned above that, by the early 1990s, the story of the emigration of German-speaking economists after 1933 had still to be told, and that it was Harald who shouldered that task. With some funding from the DFG, the German Research Foundation, and supported by Claus-Dieter Krohn and Hans-Ulrich Eßlinger, he went to work after his return from Cambridge in 1990. It was a crucial time for doing such research. The number of *Zeitzeugen*, i.e. contemporary witnesses of the events in the 1930s and 1940s, was rapidly diminishing due to age, while, on the other hand, the change to a ‘new Germany’ made many emigrés and their families more willing to share their memories. Furthermore, much archive material that had been classified, beyond reach on the other side of the Iron Curtain or hidden in private legacies now became accessible.

The general purpose of the project was to understand how academic communities in Germany and Austria were destroyed and transformed in exile, and what was lost in terms of scientific progress in the German language area and what gained by the corresponding immigration elsewhere, in particular in the United States. Assembling all the biographies by digging in archives, contacting relatives and colleagues, tracing references, addresses, correspondences, publications and various lost records, and then making the connections between the individual cases was the nitty-gritty work. I witnessed how Harald, in the course of his research on emigration, turned into a passionate detective of academic networks of the past – naturally far beyond the core group of emigrés. This work required the memory of an elephant, and Harald has one. I did not know this when I started to work with him, and I got quite irritated during the first months, when he kept repeating his latest findings and other news with great excitement and often in exactly the same wording several times a day or a week. At first I suspected that this youngish looking man was on his way into early dementia, until I began to understand that this was Harald's way of training his memory – and not only his. Everybody in Harald's team got his or her dose of 'oral history' that way, and Harald transformed this into a network business itself as he convinced all of us to 'adopt' a number of emigrés and write the corresponding entries for the handbook. I am sure that this dual network formation, in the past and present, had a lot of positive external effects.

Another of Harald's mnemotechniques became increasingly visible on the shelves, desk and floor in his office. The desk is actually the main battleground for the inner conflicts between Harald the researcher and Harald the policy networker. With the natural distaste of the academic mind for administrative paperwork, Harald kept piling up stacks of mails and minutes, reports and questionnaires, forms and other ephemera, until they looked like the Great Wall of China. The paper wall has aged graciously, shifting to darker shades of yellow and grey throughout the 1990s, and it was still there whenever I came back and visited Hohenheim. It has even been photographed for an article in the local newspaper, with Harald figuring somewhere behind it (I don't remember whether the article was about economic matters or the precarious state of higher education). Yet, even though the local stability of the paper stacks on Harald's desk cannot be taken for granted, he has often surprised me with the accuracy with which he seems to control what more ordinary and orderly people would describe as chaos. When he needs certain papers, he thinks for about three seconds and then picks them carefully from the stacks, thereafter running off with the relevant bunch to the next faculty meeting or other business. Doris has told me that Harald would sometimes phone her at home and direct her with great precision to a certain book or paper, often hidden in the second row of a top shelf or deep down in a paper stack, and then ask her to give him a specific quotation from a specific page. I am sure that Mrs Eisenbraun, Harald's efficient secretary, now and then faces similar challenges when he calls her from his home desk. I suspect that he has memorized all those quotations perfectly well, and only wants to check whether the sources still are where they are supposed to be.

Despite his frequently expressed dislike for administrative exercises, Harald knows how to play by the rules and how to run the department, the faculty, if not the university. It should not be forgotten that he has served as head of department, dean, member of the academic senate and university council, and in many other functions. This part of academic networking is often underestimated, but it is integral to the production of a common good: the quality and reputation of the teaching and research in a place. There is no doubt that Harald has provided many essential inputs to that production process at Hohenheim.

In this context, a very important aspect of Harald's manifold networking activities is the integration of young researchers. He has a keen eye for talent among his students, and attempts to recruit the best among them for doctoral studies. Early on, long before graduate schools and research training groups were installed at German universities, he emphasized that work on doctoral theses should not be done in isolation but in teams with other PhD students, and oriented towards international networks at the research frontier. He organized PhD seminars and reading circles, introduced his mentees to international research networks, sent them out in our Erasmus networks of intra-European student and staff exchanges, and helped them to get invitations to summer schools and conferences. When I came to Hohenheim, there was a lively group of assistants and doctoral students, among them Christof Rühl, Bernhard Hübner, Stephan Seiter, Gerhard Mauch and Ulli Eßlinger, shortly thereafter joined by Karin Knottenbauer, Margit Kraus and Bertram Melzig-Thiel. We spent long hours in the common room in the former stables of Hohenheim Palace, discussing our projects, all and sundry – often late into the evenings and at weekends, testing our stomachs with strong coffee and other beverages. Many more young researchers followed (there is not enough space here to name them all), and most of them socialized in the common room. Since 1998, Harald, Peter Spahn and I have been running an inter-university PhD programme on *Globalization and Employment*, sponsored by grants from *Evangelisches Studienwerk* (the Protestant Churches' scholarship fund) and other agencies; the programme's website ([www.globalization-and-employment.de](http://www.globalization-and-employment.de)) provides information about the variety of projects and involved persons, which I think is quite impressive.

In his work with young researchers Harald not only seeks to generate network externalities. He also makes demonstrative use of comparative advantage and encourages specialization, even if that comes to be slightly outside his domain. With me, for example, he ran a division of labour, where the real sphere and the long run were his domain, while I was 'in charge' of the monetary sphere and the short run. To motivate me, he used to point out that 'money brings the worst out in people', and that this is why he himself would keep away. He let me acquire the necessary insights on my own, though not completely detached from his work, as our meeting ground was business cycle theory. In a joint paper on Hayek's monetary theory of the trade cycle, for example, he would deal with the Ricardo effect and I with the Cantillon effect (Hagemann and Trautwein 1998). But both of us were (and are) sceptical of attempts to argue that real economic activity is essentially independent of what happens in the monetary (and financial) sphere, and that

‘the trend’ is independent of the cycle. Nowadays Harald feels more at home in the monetary sphere, whatever that says about his character.

Last but not least, it should be mentioned that Harald’s research and conference networks are at the core of his academic life. They are many and overlapping, stretching throughout the world and filling his airmile accounts at a tremendous speed. He hardly ever misses a conference, unless another network has one running at the same time. I will not attempt to list all of the networks; Heinz has already mentioned those that have their roots in Kiel–Cambridge and Bremen–New York connections; Hagen has named others. I would like to set the focus on ESHET, the European Society for the History of Economic Thought. In my view this is a vivid example of successful European integration, and Harald is one of the founding fathers. He served as pioneer treasurer (not at all keeping away from the money!) and in many other functions. He is the present president of the society. In conflicts, people trust his diplomatic personality to find constructive solutions. His red tie functions as a continuous exclamation mark, and with his resounding voice he wakes the most notorious conference sleepers. Even though my office at Hohenheim was several rooms away from Harald’s, and across the corridor, I could usually tell when he was making international phone calls. Moreover, with some training, I could make out the pitch difference between a call to Italy and one to the US. I often wondered whether he needed a phone at all to make himself heard across the Alps or the Atlantic. So maybe Heinz does not hallucinate.

Another decade has passed since I left Hohenheim and returned to the North of Germany. Yet I keep meeting Harald frequently at conferences all over the world. My wife has observed, half-jokingly, that I travel more often with Harald than with her, and sometimes even to nicer destinations. Harald manages much better in taking the family along than I do. He may be absent from home very often, but Doris and Simon have travelled the world with him while he has worked on the networks in Cambridge, New York, Bologna, Nice, Brasilia, Tokyo and elsewhere. Probably one of the few things that Harald regrets not to have learned is the art of bilocation, which would further increase his networking productivity. So there is a project for the years to come.

### **The contributions**

The following thirty essays in honour of Harald Hagemann, to which friends from thirteen countries have contributed, are just a small sample from Harald’s networks. They are not necessarily fully representative, but they make a good selection. The essays are arranged in three different parts that correspond to Harald’s research interests and work over time: growth and structural dynamics, the current state of macroeconomics, and the history of economic thought. In a retrospective on a standard career in economics the parts would come in exactly this order, corresponding to the dedicatee’s development from his first contributions to a special field (such as growth theory) to achievements in general macroeconomics at a more mature stage, and finally to doctrinal history, often

considered as the domain of the ‘old and left behind’. Yet, as the previous sections should have made amply clear, Harald Hagemann is not a standard economist. For him, the history of economic thought is an integral part of constructing, understanding and testing modern theories and their application to the real world. Hence, the historical part comes first.

The chapters in Part I, ‘The history of economic thought’, are arranged in the chronological order of their subjects. *Bertram Schefold* (Frankfurt) traces the origins of the idea of development in German economic thinking back to the late fourteenth century, and takes the reader on a grand tour from Matthew of Cracow to Gustav Schmoller and his followers. *Christian Gehrke* (Graz) scrutinizes David Ricardo’s criticisms of Adam Smith’s views on gross and net revenue, and finds them not fully justified. *Ragip Ege* (Strasbourg) examines Friedrich Engels’ epistemological contribution to the construction of Marxism as a doctrine and a science. *Pascal Bridel* (Lausanne) explores the theoretical connections established by Walras and Pareto between their similar general equilibrium models and their very different trade cycle theories. *David Laidler* (London, Ontario) surveys competing monetary explanations of macroeconomic stability before 1936, with quantity theoretic approaches on the one hand, and investment-centred approaches on the other. In Laidler’s survey, Ralph Hawtrey and Dennis Robertson are the main representatives of the two camps, but Friedrich A. Hayek figures prominently as well. Together with Gottfried Haberler and Oskar Morgenstern, Hayek is also in the foreground in the piece on the Austrian economists and academic politics in the inter-war period, written by *Hansjörg Klausinger* (Vienna). Supported by archival material, it provides a close-up picture of the environment in which young talented researchers had to make their careers, and it shows vividly that the circumstances were quite depressing even long before Austria was annexed into the German Third Reich in 1938. *Mauro Boianovsky* (Brasília) sets the focus on the postwar period and explores the connections and differences between the works of Ingvar Svernilson and Petrus Johannes Verdoorn on the positive effects of output growth on labour productivity, often described as the Kaldor–Verdoorn Law. Among other things, Boianovsky draws attention to a pathbreaking paper by Svernilson, which was hidden in a 1944 Festschrift (for Eli Heckscher) and written in Swedish. *Pierluigi Porta* (Milan) highlights Italian connections with and within the Cambridge School, discussing the roles played by Nicolas Kaldor, Piero Sraffa and Luigi Pasinetti. While the Cambridge tradition is often seen as having a strong influence on Italian economics, Porta emphasizes that the Italian tradition of Political Economy had some influence on the development of the themes characteristic of the Cambridge School.

The final three essays in Part I relate to more general themes in the history of economic thought. *Earlene Craver* (Los Angeles) discusses how ideas migrate through the influence of middlemen – such as the teacher, the textbook writer, or the closeted scholar – and suggests that the diffusion of ideas through emigration may work through ‘the strength of weak ties’ in the interlocking circles that emerge with it. In his ‘Wandering thoughts on the migration of knowledge’, *Axel*

*Leijonhufvud* (Los Angeles and Trento) follows up that idea, asking what migrating scientists carry with them that is not transmitted by their published works. He points out that the art of scientific research requires some specific training and tacit knowledge that is better conveyed by the vagueness of natural language than by strictly formal reasoning. It is the inconsistencies between pre-existing patterns of knowledge that, by such ‘life transfers’, often stimulate new insights and ideas. Finally, *Maria Cristina Marcuzzo* (Rome) reflects on the styles and trends that have shaped work in the field of history of economic thought in the past decades, describing the outcome of its development as a slender trunk with many branches.

The chapters in Part II discuss ‘The current state of macroeconomics’. *Geoffrey Harcourt* (Cambridge and Sydney) argues that ‘the great recession’, which was started by the global crisis in the financial markets in 2007/08, has revealed a crisis in macroeconomics. He explains why the explanatory power and relevance of the current ‘new consensus macroeconomics’ (NCM) have been found wanting. *Volker Caspari* (Darmstadt) provides a brief sketch of the NCM in terms of the New Keynesian DSGE framework, and confronts it with the core ideas of John Maynard Keynes. Like Harcourt, he points out that the DSGE framework does not deal with the intertemporal coordination failures that were at the heart of Keynes’s theory. *Philip Arestis* (Cambridge and Bilbao) provides a further critique of the NCM. Starting from a small open-economy model, he demonstrates the weaknesses in its conceptualization of and strong reliance on inflation targeting. *Ingo Barends* (Darmstadt) draws attention to the confusion of mainstream economists, such as Olivier Blanchard, when they regard the notion of a ‘liquidity trap’, interpreted as a *zero* bound of the *short-term* nominal rate of interest, as Keynes’s central contribution to the understanding of problems in monetary policy. Barends points out that the ‘zero bound’ problem was well known before Keynes who, by contrast, set his focus on the problem of liquidity preference becoming ‘virtually absolute’ at a low but *positive* level of the *long-term* rate of interest.

The next chapters deal more directly with aspects of the financial crisis and imbalances in ‘the real world’. *Peter Kalmbach* (Bremen) compares Irving Fisher’s 1933 theory of debt-deflation with Richard Koo’s 2003 theory of balance-sheet recession, and examines to which extent the two theories can be applied to the present situation. *Hagen M. Krämer* (Karlsruhe) and *Peter Spahn* (Hohenheim) scrutinize the views of Hans-Werner Sinn, a German economy pundit, on income distribution, capital flows and current account imbalances in the European Monetary Union (EMU). Sinn is both leader and representative of the German discourse on EMU, where (simplistic) barter views of capital flows mix with (partly justified) fears of an unsustainable politicization of market-based budget constraints. *Georg Erber* (Berlin) takes a fresh look at the problem of money illusion in economics. He argues that money illusion is an essential ingredient of financial markets that reflects intrinsic inconsistencies in the valuation process of financial assets. *Edward Nell* (New York) contributes ‘Some notes on understanding inflation’, in which he demonstrates that the conceptual

foundations of the Phillips curve debates lack logical coherence and empirical relevance, particularly with regard to the underlying assumptions of a well-behaved neoclassical (aggregate) production function and an exogenous supply of money. *Jürgen Kromphardt* (Berlin), too, takes issue with the standard notion of a vertical Phillips curve. Based on an econometric study of six industrialized countries (USA, Germany, UK, France, Italy and Spain) over four decades, he provides empirical evidence for a flattening of the Phillips curve. Contrary to frequent warnings from monetary authorities in recent decades, this indicates that a better overall performance of the economy does not generally entail great dangers for price level stability.

Part III contains chapters on ‘Economic growth and structural dynamics’. *Stephan Seiter* (Reutlingen) reflects on the links between economic development in the short run and the long run. Highlighting the relevant developments in growth theory, he sets the focus on aggregate and structural changes in the input of capital and labour that offer integrated explanations of cyclical fluctuations and trend growth. *Roberto Scazzieri* (Bologna) outlines a conceptual framework to address the issue of strategic decisions under conditions of structural economic dynamics. He presents a taxonomy of trajectories of structural change in terms of invariance, irreversibility, increasing and decreasing returns, and other characteristics. *Richard Arena* (Nice) questions the standard ‘Schumpeterian’ model of innovation and competition in evolutionary dynamics. He contrasts its rather mechanistic conception of organizational change with Schumpeter’s original distinction between the rationality of the observed and the rationality of the observer, which helps to understand the emergence of institutions as well as their unintended social consequences. Arena concludes that the two rationalities can be reconciled only if ‘pure economic theory’ is combined with ‘economic analysis’ that includes insights from economic history and sociology.

The next four chapters provide further explorations of the triangle of innovation, institutions and competition. *Muriel Dal-Pont Legrand* (Nice) reflects on the contribution of the Soft Budget Constraint approach in the tradition of Janos Kornai. She shows that this approach is complementary to Schumpeterian models, particularly as it can explain failures to innovate in the presence of ‘softly financed’ organizations, which eliminates the destructive side inherently associated with any wave of creation. *Andreas Pyka* (Hohenheim) and *Pier-Paolo Saviotti* (Grenoble and Nice) see more creation than destruction in the course of economic development. Differing from standard Schumpeterian models, and designed in the spirit of Luigi Pasinetti (and Harald Hagemann), their model and numerical experiments take into account both the emergence of new sectors and the growing product quality and differentiation within existing sectors. *Ulrich Schwalbe* and *Tone Arnold* (Hohenheim) discuss the issue of market definition in technologically dynamic markets. Their example, a most spectacular one, is the market for telephony. Due to the bundling of mobile data services and communication, with rising demand and economies of scope in the supply, formerly disjoint markets have merged into a unified market for mobile communication, which should also be treated as such by the competition authorities. *Alexander Gerybadze* (Hohenheim)

describes innovation strategies and evolutionary dynamics in global manufacturing, with some reference to the terminology of sporting competition. He sets the focus on new patterns of industry creation, restructuring and technology transfer, where R&D and (other) knowledge-formation processes have gained importance, and where Asian locations have been catching up at a high speed.

In their chapter on offshore outsourcing, *Deborah Winkler* (Washington) and *William Milberg* (New York) also deal with evolutionary dynamics in global manufacturing. Rather than describing the process as such, they are concerned with its theoretical foundations. They find classical trade theory better suited to deal with the distributional issues related to offshore outsourcing than the prevalent neoclassical approach. Hence, they discuss a number of contemporary extensions of the classical model, including international capital mobility, vertical disintegration and financialization. *Theo Schewe* (Halden) presents the theoretical foundations of modern macroeconomic policies in a Small Open Economy with reference to the case of Norway. Scandinavian policy mixes of coordinated budgetary, monetary and wage policies are no longer the role models for stabilization policy that they used to be. However, Schewe shows that a reformed mix works well in the specific case of Norway, particularly with regard to avoiding the Dutch Disease. While many of the essays in honour of Harald Hagemann are concerned with understanding the present in the light of the past, and vice versa, *Michael von Hauff* (Kaiserslautern) brings in the perspective of the far future. Asking how to realize sustainable growth, he discusses various sustainability indicators and compares the concepts of weak and strong sustainability. von Hauff concludes with an appraisal of the concept of balanced sustainability, which demands that natural capital, the limiting factor of the system, be kept constant and that the social impacts of growth be taken into account.

All these chapters can be studied in the light of Harald Hagemann's own writings, which are listed in the last chapter. Even though the mere register of his *oeuvre* is as long as the average essay in this Festschrift, it is just a preliminary bibliography, comprising the period 1975–2011. We expect more to come.

## Note

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**Part I**

**The history of economic  
thought**



## 2 The idea of development in German economics

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### 1 Is there a German economic tradition?

Modern development economists are often unaware that they are teaching in one of the oldest subdisciplines of economics. I here want to argue that development economics has been one of the key issues – if not the most important field – in German economics for centuries. In order to prepare the ground, we first have to consider in how far we may speak of German economics in a long historical perspective.

German political economy<sup>1</sup> is for most foreigners a *terra incognita*, as it were, with some touristic destinations which have been much visited and of which everybody has heard, while vast territories are known only by hearsay or not at all. All foreign economists know the basic concepts by Böhm-Bawerk, in particular the ‘period of production’, and most have heard of Friedrich List – to this day, one asks in developing countries whether protective tariffs for nascent industries would be appropriate or whether what List wanted to attain would be better achieved by means of subsidies. Karl Marx does not lack followers even after 1989, and his scientific work at least is almost generally admired.

But where are the borders of German political economy? It is not a question of demarcating Germany in the political sense. Marx wrote in London, and Böhm-Bawerk was a minister of finance and director of the central bank in the Danubian monarchy. Only List wrote for the preparation of the customs union with national aims, and through this and his work towards the construction of the railway network between the German states, he did much to prepare for the foundation of the German empire, conceived as an industrial state open for innovations (Schefold 2011a).

Should we therefore take the language as the criterion in order to define a German political economy? Marx often wrote in foreign languages, mainly in French and English, like modern economists. Earlier, at the time of cameralism, German economists occasionally wrote in French – like the excellent Ernst Ludwig Carl (Carl 2000 [1722–23]), who also anticipated physiocratic ideas. One of the German best known cameralists abroad, Bielfeld (1767), a high-ranking official in Prussia, also wrote in French and was, moreover, translated into several other European languages. The masterpieces of the first cameralists

were still written in Latin, as was generally the case for writings on the ethics of business at the end of the Middle Ages. Shall we treat Matthew of Cracow (Matthäus 2000) as a German author, since his origins were, on the one hand, in the royal Polish city, while he was, on the other, a Bishop of Worms, who wrote reports for the Holy Empire? Jerome Adolphe Blanqui (1860 [1837], Ch. XII) deals extensively, in his *Histoire de la pensée économique*, with the *Capitularium de villis* of Charles the Great, and with his administrative procedures. They give an idea of the economic life in the Carolingian empire, which imposed a State on a plurality of German peoples (Franks, Saxons, and others). Is this work not as much part of the German heritage as of the French?

Hence, neither the political history nor the criterion of language provides unambiguous principles for the definition of German political economy. In fact, it is clear that any attempt to define German political economy would have to be based on the internal coherence, the content. But this in turn raises difficulties. Which is the decisive trait of German political economy which List, Marx and Böhm-Bawerk would share? Are we not used to including Marx in English political economy and Böhm-Bawerk in the Viennese School, as one of the branches of neoclassical economics, and should we not be content with counting List as one of the precursors of the German historical school?

One would probably consider the latter as the primary representative of a German political economy. Some of its exponents saw themselves in this light, like Roscher and Schmoller, and the historical school was, for them, the incarnation of German political economy. However, Heath Pearson, both in his book of 1997 and in a paper (Pearson 1997, 2002), has contested these three characteristics on the basis of extensive readings and an analysis of citations: according to him, the German historical school then was not based on a historical approach, it was not a school and not German. Pearson is of the opinion that the main followers of the German historical school often had no direct link with the historical disciplines. One also finds there statisticians, geographers and sociologists. And did not Schmoller conclude from the quarrel about methods that economics should also use methods of the natural sciences? Hence it would not be justified to qualify this group as historical. In order to constitute a school, they would have had to ask the same questions, use the same references and arrive at identical answers. His analysis of citations leads Pearson (2002: 25) to the discovery of a diversity such that it seems impossible to him to speak of a school. And finally, Pearson does not see anything specifically German in the doctrines which they professed. He shows that the authors used foreign references extensively, that they were in contact with foreign authors, and that there were frequent exchanges of students who went to study in foreign countries or who came to Germany in order to study there. These economists were occupied in comparing the economic life in different countries and in different periods. They were thus interested in the evolution of institutions, in social development and in progress. Pearson is especially interested in the links they established between law and economics. They also were curious to see how psychological dispositions varied from one country to another. But such concerns were shared by the economists

of other countries, in particular in the United States, even if the tendency was more pronounced in Germany.

This suggests that the conventional interpretation can at best be defended on the basis of a less strict definition. Let us consider the main concerns of the school.

First of all, it had, from the start, the experience in common that Germany was a latecomer in its industrialization and in its political unification, while German culture and science had already achieved international recognition at the beginning of the nineteenth century. Another experience shared by the members of the school was the education in the classical *Humanistisches Gymnasium* with its rigorous teaching of Latin and Greek and with extensive readings of the authors of antiquity in the original which confronted each pupil with the diversity of the ancient world.

The contrast between the seemingly linear development from the Middle Ages to the contemporary period, passing through the beginnings of modernity, and the great swing, the rise and fall of the world of antiquity, suggested comparisons and highlighted the particularity of the present. Many adherents of the historical school attempted analyses of this historical pattern;<sup>2</sup> their efforts eventually culminated in the work of Max Weber.

What are the differences in economic ethics and in economic behaviour which so often lead to early forms of capitalism – in antiquity, in China, in India – without, however, constituting a *modern* capitalism? Following Weber (Scheffold 2011b), modern capitalism develops not from but alongside mercantilism. Mercantilism still comprises many ‘irrational’ elements, according to Weber, like the adventurous forms of long-distance trading associated with conquests and piracy. Weber would also consider the picturesque but inconsistent multiplicity of forms of taxation in mercantilism as premodern.

Weber’s thesis does not consist in the pretention that Protestantism has engendered capitalism in general, but it relies on a distinction between a modern capitalism, fostered by Calvinism, the archetype of which appears in Great Britain, and many other forms; Weber’s theory therefore implies that the early capitalist development in northern Italy at the end of the Middle Ages and in the period of the Renaissance was essentially different from ‘modern capitalism’.<sup>3</sup> Weber was a highly competent historian of ancient economy, and used the contrasts with the modern economy in order to visualize and explain the peculiarities of both. In the spirit of the Weberian analysis, we might no doubt say that modern capitalism has begun to diversify in our day. There is no consensus as to whether Weber posed the problem correctly and whether he solved it, but it is obvious that representatives of the German historical school prepared the ground for his analysis, even if their methods and analyses differed in various ways. They shared the interest in the diversity of forms of economic development.

If we are looking for further characteristics of a German political economy in a long historical perspective, we have to identify still more general traits which at first are hard to discern but which eventually manifest themselves in the German historical school; here, I mention three.

- 1 We know that the Austrian variant of the neoclassical school had been prepared within the German historical school in the discussion on the subjective theory of value (Streißler 1990). Menger himself recognized his indebtedness to Roscher. Marshall admitted that the coming of the neoclassical school had been prepared by German authors – without speaking of Gossen – and considered von Thünen in particular as his preferred master. One finds elements of the subjective theory of value in antiquity, and this theory afterwards expanded in different forms in different countries; its most remarkable representative in the eighteenth century was perhaps Galiani in Naples. But it seems to me that there was a special preference in Germany for the explanation of value by means of simple concepts of supply and demand; these would be – according to the expression of Marx – the predecessors of vulgar economy. Going back to the fourteenth century, I shall speak of a representative of the Holy Roman Empire who provided such an explanation of value in terms of utility. Whether it is possible to demonstrate that the idea remained continuously present in German economic thought down to the nineteenth century would be a difficult task; at present I can offer this only as a hypothesis (see section 2 below).
- 2 The regulation of competition is another subject of political economy of great importance in modern German economic thought. It cannot be denied that *ordo-liberalism* has played a particular role in the German speaking area since Eucken and the Second World War. One can find the origins of these preoccupations in the Weberian conception of modern capitalism as conditioned by the existence of a rational State, and, more generally, in the comparison of different forms of development of economic systems, the concern which was essential to the German historical school. These discussions were preceded by comparisons of development in *cameralism*, and these in turn by debates in German parliament at the time of Emperor Charles V; the corresponding popular discussion is reflected in lively exchanges of pamphlets which attacked or defended the great commercial companies of the period. The idea that competition must be regulated, accompanied by much dispute as to the degree to which this could be done, is a second element of continuity of German economic thought, and it showed already in the late Middle Ages (see section 3).
- 3 The need to compare different forms of economic development became manifest in the Holy Roman Empire well before the nineteenth century. The empire was a geographically, linguistically and economically divided country, with populations living in very different conditions, but encircled by nations which realized their unity earlier, while the Reformation led to new internal divides and reinforced pre-existing differences in a painful process of which the contemporaries were fully aware. They would emphasize their special concerns and merits in passionate speeches and writings which, at first sight, seemed to express nothing but religious fanaticism or local patriotism, and perhaps the interests of a local prince. However, deeper examination shows how social characteristics were being connected with