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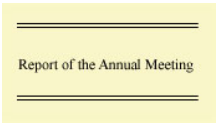

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G. M. Schwarz

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LIBERALISM IN GERMANY, 1871-1914: A PROBLEM IN POLITICAL TAXONOMY

G. M. Schwarz
Memorial University

I must begin this paper with two apologies: one for using an odd bit of jargon; the second for the relationship between title and subject matter. As to the first, I can only plead that I am using one clumsy term (drawn from biological science) to replace two, for "taxonomy" simply means the scientific exercise of classifying and naming objects of study. A second apology is called for because in scope this paper is both broader and narrower than the title promises. It is broader for raising questions about liberalism which transcend both German liberalism and the period 1871-1914; it is narrower in that the particular question it tries to answer — the connection between liberalism and economics — concerns but one narrow, though significant, aspect of the whole problem.

Biologists regard it as one of their very first tasks to identify their specimens by species, genus, phylum etc., and, if it be a species not met with before, to give it a suitable name. They are able to do this because members of each category or order have clearly defined features which they have in common with other examples of the order. It will be the task of this essay to point out and justify the use of a feature of economic liberalism as an aid in identifying this species when it is met with in source materials. Anyone who has tried to study German liberalism is only too painfully aware of the need for some such criterion. Were Heinrich von Treitschke or Sybel liberals? Can one still regard the National Liberal Party in 1914 as a liberal party? What happened to liberalism in Germany after 1866? These questions have put historians through agonies of doubt and hesitation. Although there is something close to a consensus among historians on these matters, there is little agreement on what the most appropriate terminology would be. Mere terminological fidelity, if that were all that is involved, would, however, scarcely justify more than a brief note in some learned periodical. There is something more at stake than that. Work on German liberalism that has appeared in the last 15 years or so shows a resort to much more refined and sophisticated methods than was the care earlier, even to disciplines, not previously exploited. Techniques of social analysis and careful studies of administrative procedures (and personnel) are coming

into play,[1] and the stage has been reached where it is now necessary to show just how ideas influenced events in order to show that ideas influenced events. For most problems of economic, social or administrative analysis historians can make use of the methods and tools of the relevant social sciences, but in relating ideas to reality our tool chest is very poorly stocked. What is needed, then, is not so much an agreeable set of terms, but tools of analysis, and it is as an attempt to provide one such tool that this effort at political taxonomy is to be understood. What I will try to do is to point out and justify the use of a feature of economic liberalism as an aid in distinguishing different varieties that appeared in Germany between 1871 and 1914 and also to help identify these species when they are met with in source materials.

Such an enterprise might seem a modest one, and perhaps not altogether necessary. Surely the tenets and in general the practice of liberal policy are understood well enough? But this is to overlook what happened to the liberal movement in the 19th century, and not in Germany only. It also involves assumptions about 19th-century liberalism that in any case all too often are accepted without critical examination. If our histories of liberalism tell us nothing else, they tell us that liberalism, especially after about 1860, cannot be seen as a single, unitary programme. It is, indeed, "the tragedy" of German liberalism[2] that already in 1848, and increasingly from 1864 onward, it was impossible to keep the various strands and interest groups, which gave classical liberalism its cohesion and strength, together in a single party. Liberal nationalists became reconciled to Bismarck's constitution; businessmen lost their interest in *laissez-faire* and free trade; those that remained true to the faith ended up in bitter and sterile opposition in the 1890's. All this was made possible, as some would have it,[3] because in Germany liberalism had been cut off from its ideology roots — usually defined as 18th-century rationalism and Natural Law — by a turn to idealism in epistemology and to romantic nationalism and positivism in politics. Furthermore, during the last quarter of the century a new kind of liberalism made its appearance: reform liberalism or neo-liberalism, and this raised a question as to who, if anyone, deserved the name of liberal

[1] For example: Rudolf Morsey: *Die oberste Reichsverwaltung unter Bismarck.* Münster, 1957; Walter Bussmann: "Zur Geschichte des deutschen Liberalismus im 19. Jahrhundert," *Historische Zeitschrift* 186 (1958); Lenore O'Boyle: "Liberal political leadership in Germany, 1867-1884," *Journal of Modern History* 28 (1956); Theodor Schieder: "Das Verhältnis von politischer und gesellschaftlicher Verfassung und die Krise des bürgerlichen Liberalismus," *H.Z.* 177 (1954); Theodore S. Hamerow: *Restoration, revolution, reaction: economics and politics in Germany, 1815-1871.* Princeton, 1958; J. A. Schumpeter: *History of economic analysis.* London, 1955. Friedrich Sell's *Die Tragödie des deutschen Liberalismus* (Stuttgart, 1953) can now be seen as the culmination of an older approach, and as such is already a little dated, though he shows himself aware of its inadequacies.

[2] This is Sell's theme.

[3] Hallowell, J. H.: *The Decline of Liberalism as an ideology.* London, 1946; and Leonard Krieger: *The German idea of freedom.* Boston, 1957.

at all. This, by now commonplace, interpretation has merit in that it explains much of what happened to political parties, and it warns us that to find liberalism after 1864 we must look for pieces of it in a number of places. Most of the legal and many of the constitutional goals won by the influence of clasical liberalism continued on until 1933; as for ideas, some of them seem to have been renounced or become identified with a system which made no pretence at being liberal; some stiffened under Eugen Richter's care into fossils of a by that time extinct species; still others became so entangled with what passed for Wilhelminian progressivism that historians have scarcely bothered to make distinctions.[4] Now renounced ideas and fossils are hardly great forces in politics, but if there was any vitality left in those ideas which became associated with progressivism (a concept which itself needs careful scrutiny), then it is worth studying. It is precisely here that taxonomy can make its contribution.

Historians in their work on modern Germany have always been faced with particularly knotty problems of evaluation, even of relevance, of much of their source material. Progressive and left-wing intellectuals talked with and wrote for profressive and left-wing intellectuals; super-patriotic societies also took little interest in what anyone not of their ilk had to say; general and admiralty staffs laid their plans without reference to Foreign Office or other policy-making organs; industrialists and agriculturists managed their branches of economic life through their associations; and court dignitaries could feel themselves at the centre of all that mattered only because they lived in an isolated dream world and because that little dream world contained just about all that mattered to them. Only rarely did any of these care to see their most important concerns entrusted to a forum (the *Reichstag*) which embraced most of the disparate groups making up Germany's very pluralistic society. Drift, indecision, *immobilisme* were what awaited some of the most important political issues facing Germany, especially after Bismarck left. Fortunately for anyone dealing with matters of social and economic policy there was a forum which brought together, if not all, at least most of the trends in thought and which had the additional advantage of confronting (in very unequal representation, to be sure) people from different parts of society and different decision-making institutions: I mean the Social Policy Association (*Verein für Sozialpolitik*). Although made up mainly of academics, it also had as active members publicists, businessmen and civil servants. Of particular interest here is that the Social Policy Association attracted precisely those men and opinions with which this paper is concerned: reformers, liberals, progressives, so that most of the men who occur in what follows were members, and much of the evidence is drawn from Association publications. A successful effort in

[4] Exemplified in Koppel S. Pinson's *Modern Germany*. New York, 1954, pp. 168-72.

liberal taxonomy ought, therefore, also to straighten many of the confusions that exist about the relationships between the strands of opinion in that body.

Joseph Schumpeter in his *History of Economic Analysis*[5] has noted of Germany after 1871 that:

> "On the whole, the business class still had its way throughout the period, at least to the beginning of this century . . . But its serene confidence in the virtues of laissez-faire was gone and its good conscience was going . . . Economic liberalism became riddled with qualifications that sometimes implied surrender of its principles. Political liberalism, from the eighties on, lost its hold upon electorates much more rapidly than appears on the surface. . ."

And, a little farther on:

> ". . . without as yet becoming definitely hostile, the bureaucracy began to look upon the business class in a different way — to consider it as something to be controlled and managed rather than let alone."[6]

Civil servants and businessmen certainly felt that they were living in a post-liberal age, and their actions showed that this was of more than academic interest to them: those pillars of the German *Militär- und Beamtenstaat* worked out what was for the time Europe's most advanced body of social legislation; industrialists proceeded after the depression of the 1870's to organise themselves into Europe's most thoroughly developed system of cartels and trusts. But classical liberalism consisted not only of what for a generation or so was the interest of industrialists and traders and the willingness of governments to stand back from intervention in economic decisions; it also rested on a coherent body of economic theory. Governments refrained from intervening because they thought that intervention would be either futile or damaging, and they thought this because the teaching of the world's foremost economists told them so. What was the state of economic science in Germany, what happened to it, and what relevance did it have for liberalism generally? With few, not very important, exceptions post-1871 economics in Germany generally, and in the Social Policy Association exclusively, came under the designation *Kathedersozialismus* (professorial socialism), a designation that seems to offer little promise of liberalism.

Historians and economists have had some little trouble disentangling the twisted and interlocking threads of professorial socialism, and unfortunately despair at ever being able to come to some definable taxonomy of the different ideas on social policy that met under that umbrella has descended too quickly on those who have tried to make something of it. Franz Boese, who, as secretary of the Association for many years and its official historiographer, was better placed than anyone else to clear up the confusion, is no help at all,[7] putting what

[5] P. 761.
[6] *Ibid.*, p. 763.
[7] Boese, Franz: *Geschichte des Vereins für Sozialpolitik, 1872-1932.* Berlin, 1939.

he calls "liberals" on both the far left and the far right of the Association. This is not uncommon usage, and within another political spectrum would have its justification. There was a group in the Association, men such as Johannes Conrad and Rudolf Gneist, who were impressed by the arguments of classical economists, and felt that it was only futile to interfere with the working of ancient and immutable laws. Such men would be on the right once classical doctrine ceased to prevail. But such a classification puts liberals of this sort cheek by jowl with state socialists, like Adolf Wagner, who were at the time and since thought of also as on the far right. Similarly, Boese defines the left as those who "prophetically saw in reform something radically new" and looked forward to a recasting of society. Such a classification offers no grounds for distinguishing left liberals from orthodox conservatives or state socialists or radical progressives, all of whom saw in reform "something radically new"; it only distinguishes classical liberals from . . . what?

Before about 1870 economics as it was known in England, that is, an investigation both deductive and inductive of the uniformities in economic life, of generally valid principles, laws and causal connections, can hardly be said to have existed in German universities. Because of the concentration of scientific work in universities in Germany, this is to say that a science of economics hardly existed there. This is not to discount either the rigour of method or the originality of Friedrich List, Hans von Mangoldt (a real economist in the English manner) or Karl Heinrich Rau. It is only that these men are very rare exceptions, and the popularity of classical economics in government offices and among the educated public was due not to economists, but to popularisers such as John Prince-Smith and Frédéric Bastiat. Academic economics remained until mid-century within the confines of cameralism, or *Polizeiwissenschaft,* that is, concerned mainly with public administration and budget management. When an independent discipline of economics did finally emerge in the forties it was not in the form of deductive and analytical theory, but in that of the (older) historical school, represented by Roscher, Knies and Hildebrand. This school gave way during the seventies to what is often called the new historical school led by Gustav Schmoller, though it would be more accurate to call it empiricalpragmatic or ethical than historical. Like the older school and like cameralism Schmoller's type of economics eschewed deduction and generalisation; it took its direction and devised its methods with immediate, practical policy objectives in mind. In Germany economics never did quite cease to be pragmatic; it never, as in England, produced men who were interested in it as a pursuit of knowledge which might lead them away from some predetermined ethical or even selfish purpose. As Schumpeter points out about theoretical economics in Germany:

> "In the historical circle hardly any attempts were made to penetrate into it or to reform it but it was laid aside and condemned to death in general terms."[8]

For ethically-minded university teachers, civil servants or businessmen the most striking feature of classical economics was its bloodless abstraction, its seeming incapacity to offer any guidance toward solving those problems of national weakness and social injustice which forced themselves on the attention of thinking men in 1870. Looking back after some thirty years at the men who founded the Social Policy Association and their motives Lujo Brentano — one of those founding members himself — had this to say:

> "We would have been poor professors and had we not raised a protest against this [Manchester liberal] doctrine. The whole German intellectual tradition stood opposed to it. Had we remained silent it would have meant the abdication of the universities from their responsibilities. Any theory which takes the business egoism of man as its initial premise was bound to fall short of an edaquate description of reality . . . Naturally, with our ideas went an entirely different conception of the state . . . Not only our conception of the state as an autonomous personality standing above and beside the individuals who make it up, but also our tendency to put ethical and political considerations above purely economic ones made us advocates of state intervention where purely economic interests would otherwise prevail over ethical and political ones."[9]

For men who thought in this way theories of rent, interest and wages or formulations of the laws of supply and demand and diminishing returns were pretty thin gruel. It was not their validity that was questioned, but their usefulness. Such concern for immediate utility, however, blinded most German economists for over a generation to the problem with which English economists in their concern for theory were struggling: that modern economic life, which made its appearance in England a full two generations earlier than in Germany — had become too complex to be understood or dealt with by means of good intentions and copy-book maxims. Mediation by means of deductive theory was needed in order to come to grips with how a nineteenth-century economy functioned, in order to discover causal connections too complex or too remote to be visible to direct observation. German economists tended to concentrate their attention upon accumulating data and then proceeding directly to commonsense recommendations of a sort that any layman could make if presented with the same information. The whole vast corpus of 187 volumes turned out by the Association consists of such statistically ordered data accompanied by suggestions as to possible courses of action, without refinement of theoretical analysis.

[8] *Economic Doctrine and Method, an Historical Sketch.* London, 1954, pp. 161 f. For its bearing on what comes later it is interesting to note that this plea for more theoretical economics in Germany was originally published in German in 1912.

[9] *Schriften des Vereins für Sozialpolitik,* vol. XCVIII (Munich, 1901), pp. 3 f. Address to the Association meeting in Munich in 1900.

What was not visible to these men at Eisenach in 1872 as they organised their Social Policy Association, was that at that very time economic theory was itself overcoming the very objectionable qualities in it against which they were protesting. Particularly obnoxious, not only to German university professors, but to the general public in most countries, was the wage fund theory and the iron law of wages. To treat human labour as an ordinary commodity seemed pernicious and immoral as well as demonstrably false. That this theory was under sustained attack in England by professional economists such as Mill and Stanley Jevons went almost unnoticed in Germany and testifies to what degree English theory had become distasteful there. Yet it was in the May, 1869 number of the *Fortnightly Review* that Mill published his famous "recantation" of the wage fund theory, and English theorists had been moving toward a greater empirical content for some years.[10] David Harris has shown the extent to which by the 1880's English theory had been infused with ethical purposes as well.[11] Theoretical economists were prepared to construct models that were both more realistic and more satisfying than had been the case in the past.

This change of complexion in theoretical economics had remarkable effects on the composition of the Association. When Brentano in 1872 felt that there was no justification for espousing liberal doctrine either in science or social policy, thirty years later he proudly described himself as a liberal and in his memoirs he freely and pointedly acknowledged his debt to Adam Smith, Ricardo and the whole English school.[12] Max Weber, who came to maturity and started his productive life in the early 1890's pleaded from the start for unfettered operation of a free-enterprise economy coordinated by market forces and especially by free stock and futures markets.[13] By the turn of the century there was — for the first time in German history — a large, respectacle and respected body of free or liberal traders holding leading posts at German universities and in the Association. In the debate on trade policy at the 1900 conference of the Association (Caprivi's tariff treaties were about to expire and the Association debated what should replace them) the sentiment was on balance heavily in favour of liberal trade, and the case was argued by most of its younger advocates in terms of liberal, scientific analysis.[14] What is equally striking is that these advocates of economic liberalism were also strongly attached to the cause of an active, government-ordered social policy.

[10] Hutchinson, T. W.: *A Review of Economic Doctrines, 1870-1929.* Oxford, 1953, pp. 7-18. The fate of the wage fund theory in particular is dealt with pp. 13 f.

[11] Harris, David: "European Liberalism in the Nineteenth Century," *American Historical Review* 60 (1955), p. 515.

[12] *Mein Leben in Kampf um die soziale Entwicklung Deutschlands.* (Jena, 1931), p. 98.

[13] Weber, Max: *Die Börse* (Göttingen, 1894), *passim.*

[14] See the debate in *Schriften* XCVIII (Munich, 1901).

What separated Asquith from Gladstone in England separated Brentano, Weber and others from Gneist and Prince-Smith in Germany. Neo-liberalism came into being as a tendency distinct from both classical liberalism and orthodox professorial socialism *(Kathedersozialismus)* when some of the older doctrines ceased to be binding. From some time shortly after 1870 Lujo Brentano began to urge that, as the wage fund was not as rigid a concept as had been thought, wage increases need not damage the economy, even if such increases should exceed existing capital resources for paying wages, and even if they should be gained by artificial means such as collective bargaining by trade unions or by legislation, nor would they necessarily lead to corresponding reductions in other people's incomes.[15] By 1879 he has broken completely free from the wage-fund theory and proclaims openly that any increase of purchasing power for the workers, however brought about, would bring not economic dislocation and depression of other people's living standards, but a general stimulation of the economy and rising well-being all round, thus anticipating Keynes by fifty years.[16] So close was the association between classical liberalism and classical economics that it was widely construed by people in Britain and Germany (and by historians since) as a refutation of liberalism when certain teachings of the classical economists were discarded. As we have seen, Brentano himself saw it this way at Eisenach in 1872. What happened in fact, however, at least in Germany, was a new and indigenous vigour for liberalism, a vigour that was sustained by a new link with scientific economics. From about 1880 liberalism in Germany — well before western Europe — was able to move ahead toward a welfare state concept which yet preserved individual freedom in business and in economic life in general. It was a turn in affairs, however, to be particularly expected in Germany, where a long tradition of state leadership and governmental intervention had left a much less pious attitude, even among these newly-converted liberals, toward laissez-faire; German liberals were never prepared to see in economic knowledge only proof of one's helplessness before immutable economic laws.

Since liberals in Germany only came to their new faith when it promised to realise their ethical purposes, and since those ethical purposes were shared by the whole profession of academic and bureaucratic social scientists, one cannot get very far in distinguishing liberals from others by their conclusions and recommendations. It is by their

[15] *Zur Geschichte der englischen Gewerkvereine* (Leipzig, 1871), p. 328. Brentano had apparently read Mill's recantation and seen in it — rightly — a modification, not a refutation of the theory, for he finds nothing remarkable in it, which he would have done had Mill completely overturned it.

[16] *Die Arbeiterversicherung gemäss der heutigen Widtschaftsordnung* (Leipzig, 1879), pp. 3-17; also *Meine Polemik mit Karl Marx* (Berlin, 1890), pp. 6 ff.; and *Mein Leben,* pp. 82 ff.

arguments that they can be known. When Gustav Schmoller, the arch-professorial socialist, argued for a relatively liberal trading policy he did so because he saw ethical value in the greatest possible trade between nations;[17] when Brentano, Max Weber or Heinrich Dietzel did so, it was because their theory told them that freer trade would have certain predictable consequences in economic efficiency and in the economic condition of those with low incomes.[18] Where state socialists on the far right dreamt of a state-organised organic harmony in society, and only agreed to allowing free scope to trade unions as a poor second best,[19] and orthodox *Kathedersozialisten* spoke in terms of eliminating the class struggle by raising living standards for workers, those who can be identified by their method as liberals argued for letting trade unions fight their battles uninhibited by regulation as this would ensure workers' getting what they want, or at least what they can extract from employers, who, in turn, are the best judges of what they can afford to concede.[20] The difference between liberals and others may be briefly summarised as the difference between a faith in a harmonious social order, however achieved, and faith in the virtues of a free, pluralistic society in which struggle is not eliminated, but rather seen as a motor for further progress. On a more general level, the differences show up strongly in the different attitudes toward capitalism as such. State socialists, deriving their political values from a conservative authoritarian tradition, were doctrinally anti-capitalist,[21] while professorial socialists, true to their cautious pragmatism, were critical and unsentimental, favouring governmental intervention and even large-scale nationalisation of selected industries.[22] It was, again, Max Weber, Lojo Brentano, Heinrich Dietzel and the younger liberals who defended capitalism, without sentiment, but in principle.[23] A most striking example of this distinction between doctrinal liberals and pragmatic professorial socialists can be seen in comparing the attitudes of the brothers Alfred and Max Weber. These two are often lumped together as belonging on the radical fringe of the Social Policy Asso-

[17] *Schriften* XCVIII, pp. 264-71.

[18] *Schriften* XCVIII, pp. 248 ff.; Brentano, L.: *Die deutschen Getreidezölle* (2nd ed. Stuttgart, 1911), *passim;* Dietzel, H.: *Kornzoll und Sozialreform* (Berlin, 1901), p. 3; and *Retaliatory Duties* (London, 1906), *passim.*

[19] See Adolf Wagner's speech on labour policy to the Association meeting at Cologne in 1897, *Schriften* LXXVI (Cologne, 1897), p. 390, and his more systematic presentation in his great *Lehrbuch der politischen Oekonomie* (Leipzig, 1876), vol. I, Chs. IV and V. Also speeches by Hasbach and Neumann, *Schriften* LXXVI.

[20] See Weber's speech to the Association at its Mannheim conference, *Schriften* CXVI (1905), p. 217, and Brentano's detailed defence of his policy at the same meeting, pp. 148 f.

[21] Weber, Alfred: "Neuorientierung in der Sozialpolitik," *Archiv für Sozialwissenschaft und Sozialpolitik* XXXVI (1913), pp. 3 f.

[22] Gierke to the Association at Cologne, *Schriften* LXXVI (1897), p. 398; Schmoller, in *Schriften* CXVI, Mannheim (1905), the main report; and contributions by professors Wilbrandt, Schumacher and Cohn, *Ibid.*

[23] See Brentano, *Meine Polemik;* and *Der Unternehmer* (Berlin, 1907). Also Weber, *Die Börse; Wirtschaftsgeschichte* (Munich and Leipzig, 1923).

ciation because they agreed on so many matters. Yet, Alfred, schooled in pragmatic *Kathedersozialismus,* looked forward to "massive nationalisations" of industries,[24] while Max denounced official intervention beyond a bare minimum, and nationalisation in particular, placing his faith in the price mechanism, competition and the countervailing forces of a pluralistic society.

The revitalising of liberalism which took place in Germany between 1871 and 1914 has left its legacy to us today. A list of the promising young economists of the first decade of this century who gave resonance to the pronouncements of Weber, Brentano, Dietzel, Julius Wolff reads like a list of today's doctrinaire liberals: Ludwig von Mises, Friedrich Hayek, Wilhelm Röpke and, greatest of all, Joseph Schumpeter. It also raises problems of historical interpretation. German liberals are often castigated for not remaining true to classical British liberalism — a demand, incidentally, not made of British liberals. Now tenable is this? But more important than this question is another: was liberalism in Germany anything more than a matter of professional method, and did it have any influence beyond the Social Policy Association? Rudolf Martin, for many years a high official in the Interior Ministry under Count Posadowsky, has said that public opinion was much influenced by the opinions of the Association, and that *"Geheimräte* and Ministers study their professors' views very carefully before they go to work on legislation . . ."[25] These possibilities have yet to be investigated, and it is hoped that the taxonomy suggested here will prove helpful in this task.

[24] *Schriften* CXVI, p. 356.
[25] Cited by K. E. Born: *Staat und Sozialpolitik seit Bismarcks Sturz.* Wiesbaden, 1957, p. 45.