Adam Smith and German Social Thought

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THE REVERSAL Adam Smith's reputation suffered in the German-speaking world is an historical problem which commands our attention. The first foreign language translation of *The Wealth of Nations* was undertaken by a German resident in London, Johann Friedrich Schiller, shortly after the appearance of the English edition. Smith's major economic and ethical works were already studied and discussed in German universities, such as Göttingen and Königsberg, by the 1780's. At the University of Königsberg, for example, a young professor, Christian Kraus, was instructing future leaders of the Prussian civil service on the merits of a free market economy.[1] Kraus' mentor, Immanuel Kant, aided this educational task by noting the compatibility of Smith's economic ideas with his own stress on individual moral autonomy.[2] By the first decade of the nineteenth century, the new economics had become so popular among German thinkers and statesmen that one of its ultra-conservative critics, the publicist Adam Müller, complained of fighting a rearguard action against his opponents.

His complaint was, moreover, not without substance. Smith's arguments were invoked by advisors of the Prussian Chancellor von Hardenberg, to justify the abolition of guilds and seignorial privileges. An edict of October 9, 1807 made all land owned by aristocrats in East Prussia, saleable to the public and transformed peasants from servile laborers into tenant farmers. This was the work of Theodor von Schön, an avid disciple of Smith's, who had studied with Christian Kraus at Königsberg.[3] The edict's references to "the duty of the state to promote the fullest development of the individual commensurate with his talents" was certainly in keeping with the social philosophy of Adam Smith. Simultaneously in Bavaria the reform prime minister, Count von Montgelas, made heroic efforts to turn Smith's economics as well as Kant's ethics into a permanent aspect of his country's culture. Publicists and journalists willing to defend economic competition against guild monopolies and ecclesiastical prohibitions, often received generous state allowances. Much attention was paid to filling chairs in the cameral sciences at the electoral university in Landshut with scholars who taught the proper economic doctrines.[4]

Of course the definition of "proper economic doctrines" would start to change after 1815. Indeed from that time, down to the present century, except for a brief

renewal of German economic liberalism in the 1850's and 1860's, Smith remained generally in a kind of quasi-disrepute among most German economists and politicians. Following the Napoleonic Wars a wave of political reaction moved rapidly among the German princes. The free market became identified in Prussia, Austria, and other German states with both the French Revolution and radical nationalism. Many ministers who had been associated with social reform in the previous two decades, such as Hardenberg, Humboldt and Montgelas, were forced out of government service. It was not surprising that the rulers of this period, such as Francis of Austria and Frederick William IV of Prussia, turned to romantic conservatives, like Adam Müller and Friedrich Schlegel, for a defense of their policies. What such publicists offered was a glowing picture of an agrarian economy and of the familial ties that had once supposedly bound together aristocrat and serf, guildmaster and apprentice. For Müller in particular, who, like Schlegel, was ennobled by the Emperor of Austria for his polemical labors, the main threat to European order came less from the ideas of the French Revolution than from the allegedly anti-social economics constructed by Adam Smith. In the introduction to his *Elements of Statecraft* in 1809, Müller attacked Smith for lacking an aesthetic appreciation of the organic character of a well-rounded state. By 1812 Müller would also accuse Smith's disciples of trying to bring the entire world into "one factory empire." Later, as a widely honored journalist in Vienna, he would describe England as the prime victim of Manchestrian economics and as a land split into "two hostile economic camps," the rich and the poor.[5]

It is striking to what extent invectives against free market ideas which issued from the German left in the last century paralleled similar attacks which came at the same time from the right. For example, Marx and such Catholic conservatives as Josef Görres, Franz von Baader, and Karl von Vogelsang all saw in Adam Smith the personification of Protestant hypocrisy. Although Smith had denounced the servitude of the medieval worker, he had allegedly ended up "defending a factory system and a new form of slavery which yielded nothing to the old in its inhumanity and cruelty."[6] These words, although taken from Marx's *Outline to a Critique of Political Economy* (1884), might just as easily have been drawn from the pamphlets of Adam Müller or the sermons of Archbishop von Ketteler of Mainz, an early advocate of both workers' unions and collective bargaining. Remarking on the affinities between Marx and other German socialists on the one side, and romantic and Christian conservatives on the other, the philosopher, Shlomo Avineri, asserts that "Marx draws on a mood and a general malaise prevalent at that time in intellectual circles in Germany among radical and conservative romantics alike."[7]

Although not the last time extremes converged in German politics, the epoch under consideration offers intriguing cases of idea-swapping taking place across ideological barriers. A critical work for the propagation of socialist principles in nineteenth century Germany was Lorenz von Stein's *The Social Movement in France.* Tracing with considerable sympathy the emergence of revolutionary socialism out of the fringes of the French Revolution, Stein carries his three-volume narrative through the 1848 workers' uprising in Paris up to the point of its defeat. According to Avineri, it was Stein who among German writers most heavily influenced the young Marx in his journey toward socialism. And yet, Stein was himself a figure of the German right, a social monarchist still unreconciled to the disruptive effects of industrial capitalism. On the other hand, a seminal work for the German corporative thinkers, and later for the early National Socialists, was Johann Fichte's tract, *Der Geschlossene Handelsstaat,* composed in 1811. Aiming at national self-sufficiency and greater equality for the German people, the work calls for a total control by the state of all human and material resources. Although Fichte re-

garded himself as a political radical and, until his country's humiliation at the hands of Napoleon, expressed admiration for French Jacobin leaders, his later disciples would be attracted to his program of reform because of its nationalist thrust. In German politics it was the anti-capitalist right, rather than the internationalist left, which ultimately proved most responsive to Fichte's fervently patriotic brand of socialism.[8]

Why did the concept of the free market win so few converts among nineteenth century German intellectuals on either side of the political spectrum? Perhaps one should mention those reasons most often given by scholars: the horror, sometimes mixed with envy, inspired by the effects of the industrial system in England; the anxiety about establishing the same type of economy in Germany, especially felt by socially and materially threatened groups; and, finally, the misguided, though understandable, attempt of the Germans to protect their industrial development against foreign competition. Since this last concern was common to most prominent economists and to all political parties under the Second Empire, it might enable us to understand the growing resistance to free market ideas even among German liberals. This trend was anticipated by Friedrich List, a supporter of the German customs union, which was promoted by Prussia between the 1820's and the 1860's. List was a political liberal, indeed a democrat, who stood in awe of *The Wealth of Nations*, and yet he became increasingly convinced that Germany could not follow Britain to industrial greatness by emulating her economic policies. In view of their late economic start, the Germans would be impelled to restrict the blessing of free trade to their own people, while erecting for protection tariff walls against her neighbors. In the Prussian-sponsored *Zollvereinsblatt* between 1843 and 1846, List advocated a program of *Erziehungszölle* (educational customs duties) intended to put the Germans economically on their feet.[9]

Although List considered this measure only a *pis aller* to enable German industry to weather its infancy, many of his educated readers were more deeply committed to an interventionist state. One influential academic movement, led by Lujo Brentano, Gustav Schmoller, Wilhelm Roscher, Adolf Wagner and Rudolf Gneist, the last a tutor to William II, was *Der Verein für Sozialpolitik*, founded in 1873. It endeavored to study the history of German economic development and to explore the possible ethical implications of state social policy. It was not long before members of this movement, such as Brentano and Wagner, began agitating for a truly national, as opposed to a socially divided, economy. Intending to integrate the proletariat more fully into the fabric of German society, this group, at first contemptuously referred to as *Kathedersozialisten*, strove mightily for a veritable laundry list of social and economic programs: workers' pensions, collective bargaining, and of course a further extension of tariffs. The fact that this group transcended political divisions, drawing liberals and conservatives alike into its ranks, indicated the growing estrangement of late nineteenth century German scholars from the laissez-faire tradition.[10] Political condition in the German Empire after 1871 were also disheartening for defenders of the free market. While intellectuals exalted the ideal of social cohesion, German politicians and statesmen were working to overtake Britain as Europe's major industrial power. For both groups a treatise such as *The Wealth of Nations* was at best philosophically irrelevant. The appeal to competition was viewed by some of its critics as a plea to abandon the German worker to a capricious marketplace and the German economy to cheap foreign goods.

The Austrian academy saw pro-capitalist responses to these views from Carl Menger in the 1870's and from his student Eugen Böhm-Bawerk, in the 1890's. Nonetheless one should not generalize from these figures or from later Austrian champions of the free market concerning the country's aca-

demic community as a whole. The most respected opponents of the socialists in Austria for the first three decades of the twentieth century were mainly corporatists, such as Othmar Spann, and various exponents of neo-Thomism. While such academicians attacked the Marxists for their iron law of class conflict and their rejection of social tradition, they had no more use for Manchestrian economics, which they perceived as secularist or anti-national and, in any case, amoral. The professional agonies suffered by Ludwig von Mises, as he searched vainly for a professorship in Vienna, tell much about the nature of that academic dominance being described here. The long unbroken ascendancy of the corporatists and neo-Thomists was probably considered a cross to be borne by most members of what would later be somewhat inappropriately called the Austrian School of Economics.

But lest this historical picture be rendered simplistic, some qualifications should be introduced at this point. Long after Smith's philosophical prestige had taken a downward turn in Germany, he continued to be respected as a technical economist. His labor theory of value and his understanding of capital formation left their mark on nationalists like Schmoller and Roscher and on the Marxists as well. Smith's most popular German critic, Friedrich List, frankly confessed his intellectual debt to English free market doctrine. The early assaults made by the *Verein für Sozialpolitik* upon Menger and other free market economists concentrated far more on historical methodology than on either economics or ideology. According to its criticism, the German followers of Adam Smith were lazily studying their country's trade and industry from the perspective of an eighteenth-century Scot looking at Great Britain. The methodological alternative which Schmoller in particular proposed for economists in his own country, was to investigate archival documents bearing on the course of German commercial development. At the same time, he continued to recommend Smith's works for their analytical framework, though not as an infallible guide to Germany's economic future.[11] What proved, in my opinion, ultimately most disastrous for free market economics in Germany was the passionate quest for political and social unity. A telling case in point is the social philosophy of Georg Wilhelm Hegel, one of the most significant German thinkers of all time. It should be noted that Hegel was generally sympathetic to, if not always in agreement with, Smith's economic ideas. In the 1790's, as a young tutor in Berne, Hegel had studied to obvious advantage *The Wealth of Nations*. Much of its influence was still apparent in the observations which he made about modern civil society almost thirty years later in his major social writing, *The Philosophy of Right*. Here he describes the interlocking material expectations and mutual needs that bring men together in a modern industrial society. While noting the often stupefying dullness engendered by specialized work and the tendency toward conspicuous consumption among the rich, he was far more impressed by the overriding advantages of the new economic system.[12] The investment of capital and the efficient harnessing of labor were both increasing the material well-being of all social classes. Hegel was heartened by the advance of technology, looking, for example, to steam-powered transportation as a means of liberating men from the drudgery of older forms of travel. Nor could one find a more contemptuous critic than this philosopher of any program of economic redistribution aimed at achieving greater social equality. In several noteworthy addenda to *The Philosophy of Right*, the socialists are mocked for ignoring the intractable fact that men are by nature unequal. Any governmental attempt to divide property permanently along egalitarian lines is viewed as an exercise in futility which must ultimately lead to injustice. For one can only ensure equality among people of "unequal talents and intellectual and moral possibilities" by accepting injustice as the result.[13]

Nonetheless, Hegel considered civil society, as the sphere of economic relations, to be morally and legally subordinate to the state. For him the state was an august institution hovering about particular economic interests. Because of their aloof devotion to the general good, its officials were the only ones fit to mediate the conflicts present in civil society. And although the state was shown as regulating rather than controlling the economy, except in extraordinary circumstances, the terms by which he designates the state often approach the mystical and rhapsodic. In *The Philosophy of Right,* he speaks of it as "the fulfilment of the ethical will" and the "moral substance" of world history.[14] Such reverence for political sovereignty can best be understood by calling to mind the condition of Germany as Hegel knew it: a patchwork of principalities proving helpless before the onslaught of Napoleon's armies, a conglomeration of social groupings which met in regional assemblies (*Landstände*) to loudly proclaim their medieval privileges, a land where aristocrats clung stubbornly to revenues which might otherwise have been used to defend their homeland. Such is the way that Hegel, Fichte, von Hardenberg and others characterized Germany at the time of the French ascendancy. It is also the bitter picture which Hegel draws in a proposal for German unity in 1802.

Beginning his tract with the line that "Germany is no longer a state," the author goes on to argue that the Germans could only become one "by being willing and able to fight collectively for their property." The state is here linked to the protection of property, and though given the power to levy both armies and taxes, Hegel makes no attempt to extend its authority beyond defense. All the same, his invocation of a national savior and his praise of Machiavelli's political realism at the end of this work, show a desparate yearning for leadership, one almost incompatible with his proposal for a limited German government.[15]

In *The Philosophy of Right* Hegel describes the state in an even more adultory fashion, going so far as to insist that "only its concrete existence in world history, and not any general thought held as a moral imperative, can serve as its guiding principle."[16] Perhaps Hegel and many of his German contemporaries spoke so lavishly of the state not so much because they worshipped power, but because they feared, with reason, its absence. Political sovereignty was necessary for military and national unity. Without it, Germany would remain, as she had been in the past, the plaything of her neighbors. Moreover, according to Hegel and later German nationalist economists, a nation state could no more afford to be overwhelmed by rancorous internal division than by hostile foreign force. Although a necessary moment in the political evolution of mankind, civil society was ultimately identified by Hegel with "accident and contingency." Lacking any unified ethical direction, its members could rise above their limited economic interests only by becoming part of the state.[17]

Such ideas came to shape the increasingly ambiguous legacy of Hegel's social thought. Already in the lectures of his brilliant successor at Berlin, Eduard Gans, his view of civil society is allowed to assume the appearance of a Hobbesian state of nature. Although Gans alludes to Adam Smith's prophetic vision, he denies any moral basis whatsoever to the new industrial economy. The free market is equated with "caprice and contingency," for, unlike the state, merchants and industrialists "view with total indifference who is rich and who is equal." Because of its insensitivity to social questions, modern industrial society permits "extreme wealth on the one side and utter dearth on the other" to a degree that "antiquity would never have endured."[18] In a complaint reminiscent of Fichte, but partly dismissed by Hegel, Gans indicts the new economy for producing an insatiable appetite for sybaritic living. Production is coming more and more to serve the bizarre whims of the very rich, while offering nothing to the indigent. Like Adam

Müller and Karl Marx, Gans pointed to England, the forerunner of industrialization and the home of free market economics, as the European country most afflicted by "the extremes of luxury and privation." Returning from one particularly traumatic journey to England, Gans asks rhetorically: "Shall the liberated worker be allowed to abandon the guild for modern despotism, and to plunge from the control of the guild-masters into the hands of the factory owners?" The only ways to avert this disaster, Gans concludes, are "the free corporations (of workers) which Hegel advocated and (in some cases) the nationalization of industry."[19]

The proposals cited indicate one direction which Hegel's social philosophy was taking already during his lifetime and with increasing rapidity after his death in 1831. One of Gans' lifelong admirers was Karl Marx who, according to Isaiah Berlin, was "profoundly affected" by "his free criticism of legal institutions and of social legislation in the light of reason."[20] But Gans also attracted German nationalists who looked to the Prussian monarchy or, like List, to a unified nation state to remove all signs of social dissonance. Gustav Schmoller, surveying the development of a German national school of economics from the year 1900, gives credit to both Hegel and Gans for helping to lay the groundwork for this movement. Yet Schmoller, writing during the heyday of the Second Empire, saw in Friedrich List the most inspired precursor of his own group. Schmoller wrote on List:

> Inasmuch as he replaced the value and quantitative theories of Smith with a theory of productive activity for individual and social personalities, he rendered superfluous the materialist view of a purely mechanistic economic process, and inasmuch as he fought for protective tariffs as for a national railway and canal system, he moved back to a proper understanding of the political and social organizations upon which economic life is built.[21]

My point here is not to disparage Schmoller as a scholar, and certainly not his magisterial studies of Prussian economic history, which one can still study today with profit. I wish only to bring into focus the almost mystical faith in the healing power of the state, which characterized him and other German political economists of his time. Through the alchemy of political intervention, they believed, Germany would somehow be spared the supposed horrors which had accompanied British industrialization. The English experience about which Smith wrote had allegedly only a limited relevance to German economic development, for the Germans, according to this view, shared a tightly knit communal organization and a deep reverence for strong government as a source of their national unity. Consequently they would urge the state to act as their bulwark against violent economic change.

Like Hegel, Gans and List, Schmoller looked wistfully to the state bureaucracy to produce the desired social unity and prosperity. Throughout his scholarly career of sixty years, he repeatedly criticized Smith for underestimating the productive energies and ingrained honor of political bureaucracies. For Smith most office-holders were no better than public parasites; for Schmoller, on the other hand, they appeared as nation-builders, and, particularly in the case of Prussia, as the historical guardians of the common good. Schmoller's early scholarship on Prussian mercantilism and grain trade aimed at discrediting the application of Smith's view of bureaucracies to the German past. Later, as a member of *Der Verein für Sozialpolitik*, he advocated a "bureaucratic economy (*Beamtenwirtschaft*)," which would be able to shape the emerging German industrial system.[22]

It might be difficult for us to read without some cynicism the praise of state officials which emanated from thinkers like Hegel and Schmoller. Yet lest we grow too contemptuous of their proposals for a bureaucratically regulated economy, let us re-

call that the historian's duty is to explain what happened and not to try to appear more clever than his ancestors. It was only natural that Germans in the past, fearing social division and the impact of industrial modernization, listened to Schmoller and List more often than to Adam Smith. To German industrialists tariffs seemed a surer and more direct path to profit than did the operation of an international marketplace. And there were those who were disturbed by the poverty and unemployment of the lower classes; for them, what speedier alleviation of these problems could there be than that offered by the German state? Neither the concerns evoked nor the responses given were very different from the way social questions are generally perceived in our own society. At least we can be comforted by the fact that the erroneous theories of our own politicians and intellectuals were not unknown to an earlier generation and were shared by otherwise profound thinkers.

[1]*Cf.* the discussion of Kraus' activities in Franz Schnabel, *Deutsche Geschichte im neunzehnten Jahrhundert*, I (Freiburg im Breisgau, 1964), pp. 93 and 94; and in E. Kuhn, *Der Staatswirtschaftslehrer Johann Christian Kraus und seine Beziehungen zu Adam Smith* (Königsberg, 1902). [2]For Kant's views on Smith, see August Oncken, *Adam Smith und Immanuel Kant* (Leipzig, 1877) and C. W. Hasek, *The Introduction of Adam Smith's Doctrine into Germany* (New York, 1925). [3]See Schnabel, *Deutsche Geschichte im neunzehnten Jahrhundert*, I, pp. 94-97. [4]See the second chapter of my monograph, *Conservative Milennarianism: the Romantic Experience in Bavaria* (New York: Fordham, 1977). [5]*Cf.* my article "The Eschatology of the Eos Circle," *Church History*, Vol. 39, No. 2 (June, 1970), pp. 187-197. [6]*Marx-Engels Studienausgabe*, ed. Iring Fetscher (Frankfurt am Main, 1966), II, p. 17. [7]Schlomo Avineri, *The Social and Political Thought of Karl Marx* (London and Cambridge, 1968), p. 56. [8]An exhaustive treatment of this problem is available in R. H. Bowen, *German Theories of the Corporative State* (New York, 1947). [9]For a brief examination of List's tariff proposals in the context of German economic development, see Agatha Ramm, *Germany 1789-1919*, (London, 1967), pp. 150-155. [10]For a worthwhile analysis of the aims and interpretative methods found among members of the *Verein*, see J. A. Schumpeter, *History of Economic Analysis*, ed. Elizabeth Schumpeter (New York, 1960), pp. 800-825. [11]*Cf.* Gustav Schmoller, *Grundriss der allgemeinen Volkswirtschaftslehre*, I, (Leipzig, 1900), pp. 70-72; 90 and 91. [12]For an explanation of Hegel's critical comments on modern civil society, see Schlomo Avineri, *Hegel's View of the Modern State* (reprint, Cambridge University, 1974), pp. 87-99. [13]C.W.F. Hegel, *Werke in zwanzig Bänden*, ed. Eva Modenhauer and K.M. Michel (Frankfurt am Main, 1970), 7, pp. 113 and 114. [14]*Ibid*, pp. 398 and 492. [15]*Werke in zwanzig Bänden, op. cit.*, 1, pp. 577-581. [16]*Ibid*, 7, pp. 489-493. [17]*Ibid*, p. 353. [18]Eduard Gans, *Philosophische Schriften*, ed. Horst Schröder (East Berlin, 1971), p. 106. [19]*Ibid*, pp. L I and L II. [20]Isaiah Berlin, *Karl Marx* (third edition, Oxford, 1968), p. 68. [21]Gustov Schmoller, *Grundriss der allgemeinen Volkswirtschaftslehre*, I, pp. 118 and 119. [22]For a clear statement of Schmoller's advocacy of a "bureaucratic economy," see his tract *Über einige Fragen der Sozialpolitik und der Volkswirtschaftslehre* (second edition, Leipzig, 1904).