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## DISCUSSION

WALTER EUCKEN, PHILOSOPHER-ECONOMIST

J. W. N. WATKINS

AT a time of bitter fighting, in 1944, an article appeared in an English learned journal<sup>1</sup> calling attention to a book published in Germany in 1940 and summarizing its contents. The book was *Die Grundlagen der Nationalökonomie*, by Walter Eucken, who was then in prison, suspected of being implicated in the plot to assassinate Hitler. His book was later translated into Spanish, Italian, and English;<sup>2</sup> and of all the books published in Nazi Germany his was, so far as I know, unique in winning international respect for its range and depth. Eucken was accidentally a German subject under a regime which tried to impose a terrible pattern on Western civilization; but he was essentially a European thinker in a tradition of patient, serious inquiry into the organization of civilized societies.

Unable to express his views on economic policy, which would have been anathema to the Nazi authorities, he turned to the deep-seated problems of method inherent in the attempt to apply general theories to that variegated flux of personalities and situations we call "society."

After the war he was free to apply his methods to the problems of economic planning and administration. From 1940 to 1945 he had had to be content with preparing new editions of his philosophic work on the methods of economic analysis. He had been like a carver who goes on sharpening his knife because the bird is delayed in the kitchen. But now it was before him, only waiting to be carved expertly along its natural joints, as Plato put it, for its bone structure to be revealed.

Eucken first analyzed the experiment in the central planning and direction of the German economy from its more or less acci-

dental inception in 1936 until its breakdown ten years later.<sup>3</sup> Then, lengthening his perspective, he set out to analyze the series of experiments in various sorts of economic control undertaken in Germany during the previous half-century and to base policy recommendations upon that analysis. In 1950 he agreed to state his findings in a course of lectures at the London School of Economics. He gave two, but the third was read for him, as he had fallen ill. A few days later he was dead. These lectures have now been published in book form.<sup>4</sup>

We have two exceedingly interesting and lucid diagnoses in Eucken's *histoire raisonnée* of Nazi economic planning and in his review of Germany's development from the comparatively free economy of the middle nineteenth century—via cartelization, the 1914–18 war, the great inflation, the great depression—to the period of fiscal experiments, full employment, suppressed inflation, central planning, and war. Eucken had always distinguished between the *form* of an economic system and the *process* of daily events which goes on within it, and he ends this book by summing up the chief lesson of German experience in the remark: "State planning of forms—Yes; state planning and control of the economic process—No!" Here, however, I shall not treat these two works on their merits. Apart from a brief mention of some of their ideas in a note,<sup>5</sup> I shall treat them only as illustrations of his methods at work. For my primary concern is the philosophy of economics that he set out in his earlier and, I think, most important work, *The Foundations of Economics*.

This book is a sustained criticism of the historical school of economists and a reformulation of the methods of the classical

economists. It is part of a general reaction against the nineteenth century's deification of history: against the belief that what is right is what is agreeable to the historical process and that what is wrong is what the historical process will not allow to succeed, and against the belief that wise politics means submission to laws of social evolution, laws which it would be futile to resist. Mr. E. H. Carr said recently that "what philosophy was to classical Greece and Rome, what theology was to the Middle Ages, what science was to the eighteenth century, that history is to our own time."<sup>6</sup> But this bold saying is, I believe, historically inaccurate—fifty to a hundred years behind the times. The Hegelian idea that history is a rational process which unfolds the categories of logic; Spencer's evolutionary ethics; Bury and the idea of progress; Maine, Savigny, and the historical school of jurisprudence; and the idea which united such diverse sociologists as List and Mill, Marx and Comte, the idea that societies advance in a predetermined way from one great stage to the next—all this has gone. We no longer live in the age of Darwin. Imagine the reaction of a resurrected nineteenth-century thinker to our contemporary intellectual scene. His whole thought would be colored by the idea of evolution and oriented by the idea of discerning laws of development, and he would be shocked by what he found—analytic philosophy, a formal, neo-Kantian legal science, analytic economics, abstract ethics, and a philosophy of history content to analyze the methods and assumptions of historians without trying to detect any grand design underlying historical events. He would feel buffeted by Professor Popper's "The Poverty of Historicism,"<sup>7</sup> and after reading Eucken's criticism of the historical school of economists he might feel the despair of a missionary who discovers, after a leave of absence, that his converted natives have lapsed into their bad old pagan ways.

Not that Eucken ignores history. Like *The Wealth of Nations*, *The Foundations of Economics* has a mass of brilliant historical illustration. The administration of the

ninth-century monastery of Bobbio, the system of international cartels in the Middle Ages, the character of the centrally directed economy of Paraguay in the seventeenth century—all this and much more is in his book. Indeed, Eucken's historical knowledge led to some of his most damaging criticisms of the historical school.

The "historical school"—List, Roscher, Bücher, Sombart, and others—did not, of course, abide by a single clear-cut doctrine. But from their writings the following main tenets can, I think, be extracted. (1) Economic systems, like people, evolve through a succession of distinct stages, from barter to mature capitalism and beyond. (2) The effect of politics on economic evolution must be small, since that evolution proceeds according to an inherent law of development which is immune from human control. (3) The economist's job is to depict the essential character of each typical stage of economic evolution.

On this view a comprehensive economics textbook should consist of an introductory chapter explaining the fundamental idea of a broadly determined evolution in the face of which politics is comparatively powerless; and then a series of chapters with titles such as "Subsistence Economy," "Guild Economy," "Market Economy," and so on. These chapters would unfold the evolution of a typical economy. They would display neither concrete history nor abstract theory but what may be called "theoretical history."

Eucken believed that this attempt to overcome the antinomy between history and theory by merging them into a hybrid was fruitless and misleading. *He* wanted a fertile marriage between *real* history, the history of individual events, and *real* theories, theories which reveal surprising connections between events. But before arranging such a marriage he had to show that the basic ideas of the historical school (still dominant in Germany) were untenable. He did this by confronting the school's generalizations with counterexamples, and by revealing the weakness of its method.

Take the generalization that economic

systems mature from a simpler stage to a higher and more complex stage. Eucken points out that under the Roman Empire the reverse took place: a Roman banking system existed during the second and first centuries B.C. This collapsed. Then, during the first century A.D., the monetary system also collapsed. Coins were used less and less until, by the third century A.D., barter had become once more the prevalent form of economic exchange.

Or take the generalization that politics cannot seriously influence economic development. Eucken shows that this is palpably untrue of the modernization of Turkey under Kemal Atatürk and of the industrialization of Russia under the five-year plans and of the economic changes under the French Revolution. (At the outset of the Revolution the privileges enjoyed under the old mercantilist system were swept away. But in 1793 the new free-exchange economy was suppressed by the Jacobins, who fixed prices, commandeered supplies, imposed rationing, and conscripted labor. Then with the overthrow of the Jacobins in 1794 this policy was reversed in favor of *laissez faire*. Within a few years three great changes in the French economic system had been politically induced.)

The fact that contrasting forms of economic life may follow in rapid succession led Eucken to a criticism of the historical school's method. That method was to define the essential characteristics of a whole economic epoch. But, he says, to lump the various economic systems of France during the Revolution under the label "early national economy," or to lump fifteenth-century Lübeck, with its closed guild economy, and fifteenth-century Nürenberg, with its competition, immigration, and expansion, under the label "city economy," would be to throw a blanket over all the interesting differences.

The historical school tried to reconcile history and theory by merging them into a theoretical history of the stages through which economic systems were supposed to develop, and Eucken, as we have seen, showed that this meant doing violence to facts and covering up contrasts.

His own way of reconciling history and theory was quite different. The economist, he said, should not *withdraw* from the detailed ingredients of an economic system in order to get a bird's-eye view of it as a whole. Eucken regarded every economic phenomenon, from the Babylonian banking system in 2000 B.C. to the German cigarette currency in 1945, as a historical manifestation of a particular configuration of basic economic forms. The economist, he says, has to *penetrate* these phenomena and disentangle and isolate the forms which comprise them.

Eucken never mentions Galileo, and he was probably unaware of the interesting parallel between Galileo's method and his own. In Galileo's world every event is an intersection of universal principles. The scientist has to dismantle events in order to isolate and define the universal principles which make them up.<sup>8</sup> Galileo did not regard a cannon ball's trajectory, as Eucken did not regard a city economy, as an entity which has to be treated *en bloc* because it shares no universal features with other systems. On the contrary, he regarded it as a complex of universal principles, and he dismantled the trajectory into an upward and downward motion and a horizontal motion and then ascertained the universal principles—the law of gravity and the law of inertia—which govern these components of its motion.

The economist's job, according to Eucken, is likewise to dismantle historical situations and to lay out for inspection the basic economic forms which comprise them. Although these forms occur in a great variety of combinations, they are comparatively few in number, just as the letters out of which a great variety of words can be constructed are comparatively few in number. It is therefore a manageable task, which Eucken claimed to have carried out himself, to analyze economic history in order to discern and define all the basic economic forms: the various types of central control, the various types of monetary system, and the various types of supply and demand which give rise to various types of market.

In order to understand the significance of

each basic form, the economist, says Eucken, has to display it at work in a precise model with which he can perform intellectual experiments. These experiments are very important for the economist for whom controlled empirical experiments are practically out of the question.<sup>9</sup> The economist is normally in the position Galileo *would* have been in if he had been unable to experiment with real bodies when he set out to refute the Aristotelian theory that bodies fall at speeds proportionate to their weights. He could still have refuted it by conducting the famous intellectual experiment in which he *imagines* a large stone tied to a small stone. He supposes that, on the Aristotelian theory, the large stone by itself should fall at eight and the small at four. Therefore, when tied and dropped together, the small stone should retard the large and the combination should fall at less than eight; "but the two stones tied together make a stone larger than that which before moved with a speed of eight. Hence the heavier body moves with less speed than the lighter, an effect contrary to your supposition."<sup>10</sup> Sitting in his study, Galileo could show that the theory that bodies fall at speeds proportionate to their weights is untenable because it means that a body regarded as a single unit should fall faster than the same body regarded as a collection of units. Similarly, an economist in his study can refute the labor theory of value by imagining the outcome of a bargain between a man with an abundant supply of an unwanted and laboriously produced article and a man with a small supply of an article produced with little effort which the other is eager to possess.<sup>11</sup> But let us return to Eucken.

Each economic principle, he says, is never more than one ingredient among many in any actual situation, and a model which displays it at work will display a pure case which, by itself, has no counterpart in the real world. Similarly, Galileo depicted the law of inertia at work in the imaginary model of a body gliding along a flat, frictionless surface and the law of gravity in the imaginary model of a body falling in an ideal vac-

uum. These correspond to nothing in our experience. We have never met a frictionless surface or an absolute vacuum. Galileo's models show what would happen if a body obeyed a single principle, although actual bodies obey several principles simultaneously. But by combining the laws of inertia and gravity Galileo showed that a cannon ball would describe a parabola if there were no medium. Add the effect of air resistance and you have the shape of the path of real cannon balls. The pure principles of gravity and inertia lose their ideality in a combination which does have a counterpart in the real world. Eucken used the pure principles of economic theory in a similar way: he fitted them together into combinations which did correspond with the historical situations that he wanted to reconstruct.

The historical school held that each great stage of economic evolution—agricultural feudalism, for instance, or mass-production capitalism—has a distinct character which has to be defined in an autonomous theory peculiar to that stage. But Eucken held that the basic economic forms which the economist depicts in his simplified models occur in various combinations throughout history. He may find his idea of monopoly manifested in a village store or in a medieval monastery supplying its locality with wine or in a cement cartel or a public corporation; his idea of central planning may materialize in a prisoner-of-war camp or among the Incas or in the Egypt of the pharaohs.

While Eucken's methodological ideas are obviously interesting and illuminating, they are not, I think, wholly satisfactory as they stand.

First, they suffer somewhat from the inductivist fallacy that the scientific investigator must simply scrutinize reality, without any preconceptions, framing his theories consequently. Eucken continually speaks as if an open-minded and thorough search through economic history had revealed to him those basic economic forms which he described and no others. True, the search meant not passive contemplation of numerous complex facts but their active disman-

ting and analysis; but it never occurs to Eucken that the reason why he found no other forms may have been that he *started* with an a priori classification of economic forms<sup>12</sup> which was logically exhaustive. For example, he claims to have found in history only the following forms of supply: competition, partial oligopoly, oligopoly, partial monopoly, and monopoly. But no form of supply is *conceivable* which is not in the hands of either many or few or one. I am criticizing Eucken not for having analyzed economic history with the aid of an a priori conceptual scheme but for believing this to be a bad procedure of which he was not guilty.

Anyone who erroneously believes that an open-minded, nonspeculative, inductive procedure is psychologically feasible and logically justifiable will be prone to suppose that *his* generalizations are impregnable because they have simply grown out of the facts; and this sort of overconfidence manifests itself in *This Unsuccessful Age*, in which Eucken often puts forward what is in fact a hypothesis which will account for the facts he has been describing as if it were an inductive certainty dictated by the facts. For example: "The results of the 1923 Cartel Act enable us to *establish* the following principle: monopoly control . . . is *bound* to fail."<sup>13</sup> Indeed, the whole book presumes (not that universal hypotheses can be *tested* against a limited range of facts but) that universal conclusions can be *derived* from an analysis of a short stretch of the economic history of a single country.

A rational decision presupposes two factors: (a) the objective situation in which the decision-taker finds himself<sup>14</sup> and (b) his subjective preferences and personal dispositions. And my second main criticism is that Eucken emphasizes *a* at the expense of *b*. Underlying *This Unsuccessful Age* is the im-

PLICIT assumption that any person or government (Nazi or democratic) facing a certain kind of economic situation will respond in the same determinate way. Eucken was not a historical fatalist; he did not believe in inevitable trends. But, believing that a certain objective situation will inevitably evoke certain responses which will create a new situation which will determine further responses, etc., he does arrive at something surprisingly like fatalism: "Man, with one freely taken step, finds himself entangled and is no longer free."<sup>15</sup> He argues, for example, that a freely undertaken policy of full employment leads inexorably to totalitarianism, for it causes inflation and an unfavorable balance of payments which have to be repressed and corrected by central controls which dislocate the price mechanism, which must consequently be supplemented by further controls, and so on. (Here Eucken is universalizing, in the manner criticized in the previous paragraph, a sequence of events which occurred in Germany.) But one situation does not automatically give rise to another, irrespective of people's and government's preferences and dispositions, any more than one great stage of economic development gives rise to another. A government may prefer (as in Britain) full employment and a certain amount of suppressed inflation and economic inefficiency to either unemployment or full employment and full-fledged economic planning.

These criticisms do not affect the main structure of Eucken's thought, and it would be most misleading if I were to end on a critical note. For Eucken was a great man. He was not a path-breaker, but he was a brilliant, lonely spokesman for a humane and rational tradition of thought in a country at war with that tradition.

LONDON SCHOOL OF ECONOMICS  
AND POLITICAL SCIENCE

#### NOTES

1. F. A. Lutz, "History and Theory in Economics," *Economica*, n.s., Vol. XI (1944).

2. *The Foundations of Economics*, trans. T. W. Hutchison (London: Hodge & Co., Ltd., 1950).

3. Walter Eucken, "On the Theory of the Centrally Administered Economy: An Analysis of the German Experiment," trans. T. W. Hutchison, *Economica*, n.s., XV, 79-100, 173-93.

4. *This Unsuccessful Age*, Introd. by John Jewkes (London: Hodge & Co., Ltd., 1951).

5. I cannot describe his main arguments in a note, so I will only mention some of his *aperçus* and suggestions which particularly appealed to me. (a) Initially, the German authorities graded factors of production according to their *aggregate* utility for the war effort (thus screws for tanks had priority over screws for agricultural machinery). By 1944, however, hard experience had taught them what theoretical economists had discovered seventy years before, namely, that it is *marginal* utilities which have to be compared (thus a few screws may be more valuable allocated to a screw-hungry agricultural industry than to an almost screw-sated tank industry) ("On the Theory of the Centrally Administered Economy," *Economica*, pp. 86-87). (b) The art of quantitative planning is to spot tomorrow's bottleneck; and in a world of bottlenecks a black market is essential to allow firms to acquire components which have not been delivered to them (*ibid.*, p. 98). (c) Bottlenecks and overemployment in a planned economy result from disproportions between different lines of investment, while unemployment in an exchange economy results from a disproportion between intended saving and intended investment. Eucken urges economists to subsume modern trade-cycle theory under a generalized theory of disproportionalities (*ibid.*, p. 180). (d) Modern technology *increased* competition in Germany—by cheapening and accelerating transport and communications and thereby widening markets, by stimulating the development of competitive substitutes, and by enabling firms to switch rapidly to a more profitable line of manufacture (*This Unsuccessful Age*, pp. 42-46).

6. *The New Society* (London: Macmillan & Co., Ltd., 1951), p. 1.

7. *Economica*, n.s., Vols. XI and XII (1944-45).

8. For a historical account see John Herman Randall, Jr., "Scientific Method in the School of Padua," *Journal of the History of Ideas*, Vol. I (April, 1940).

9. This view is repeated in *This Unsuccessful Age*: "Economic science investigates the problem of saving [for instance] *theoretically*. The complex of facts is taken to pieces and only one quantity is varied" (p. 86).

10. Galileo Galilei, *Dialogues concerning Two New Sciences*, trans. Crew and Salvio (New York: Macmillan Co., 1914), p. 63. Although he disproved the Aristotelian *theory* by logic, Galileo did not, by logic, establish any truth about the external world; for the theory could be rendered logically watertight by making the *ad hoc* assumption that adjacent bodies behave as one body, and this amended theory could be refuted only empirically.

11. Provided, of course, that the labor theory of value is interpreted empirically as a theory about the determination of exchange value and not metaphysically as an assertion about the intrinsic value of things.

12. This point was suggested to me by T. W. Hutchison, Eucken's English translator.

13. P. 35. (my italics).

14. For simplicity's sake I have omitted the distinction between his situation and his beliefs about his situation. I have treated the whole matter more fully elsewhere. See J. W. N. Watkins, "Ideal Types and Historical Explanation," *British Journal for the Philosophy of Science*, III (1952), esp. pp. 35 ff.

15. *Op. cit.*, p. 92.