

***NON NOVA, NOVITER?* HEINRICH DIETZEL AND THE LAST BREATH OF  
CLASSICAL POLITICAL ECONOMY IN GERMANY**

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ABSTRACT

In the Germany of the last quarter of the nineteenth-century, the dispute between the German Historical School of Economics and the newly founded Austrian school dominated economic discourse. In this environment, one author stood out in his criticism of both sides: Heinrich Dietzel. Dietzel proposed a theory and method, his *Sozialökonomik*, as a solution for the *Methodenstreit*. The intention was detaching from, and building upon, the latest developments of classical political economy (such as John Stuart Mill's). This paper presents Dietzel's work as relates to all these concerns and to the idea of social science as existed at the time.

**Keywords:** Heinrich Dietzel; *Sozialökonomik*; Social Economics; *Methodenstreit*; Value Theory; History of Economic Thought; Wilhelm Dilthey

**JEL:** B13; B15; A12

Área 1: História Econômica, do Pensamento Econômico e Demografia Histórica

## I. Introduction - Classical Political Economy in Germany

Gottlob Heinrich Andreas Dietzel (1857–1935) was a German economist born in Leipzig. He studied law in Heidelberg and Berlin, where he also pursued a doctoral degree in Political Economy under the supervision of Adolph Wagner, a member of the second generation of the German Historical School of Economics (GHSE). Dietzel became full professor at the University of Dorpat in 1885 (the University of Tartu in the local idiom), today located in Estonia. Starting in 1890 and continuing until the end of his life, he taught at the University of Bonn.

Our primary intention here is to present the work of this forgotten author, who had a unique view of political economy, particularly when one takes into consideration that, during the last quarter of the nineteenth-century, German-speaking countries were largely divided between the historical method of GHSE and the position of the first Austrian economists, pupils of Carl Menger. Dietzel, on the other hand, came to the defense of classical political economy. He reformulated the position of several authors of classical political economy in order to build his idea of the discipline. He strongly criticized John Stuart Mill, but clearly followed him in several regards. Jean-Baptiste Say was another author that largely influenced him. And, of course, he showed a strong deference to Adam Smith and David Ricardo.

Although Dietzel was not the only one to put forth classical positions, as Erwin Beckerath (1944, p. 3) points out, he certainly went further than others (such as Wilhelm Lexis and Karl Bücher), in approximating method and theory to the classical doctrine. The Austrians also were much closer to the classics than the GHSE and criticized several misinterpretations and false accusation of the GHSE against them. The work of Richard Schüller (1895), a pupil of Menger, provides a good summary of this. This does not mean that the Austrians were supporters of classical political economy. They were critical of the classical political economy, but had a different perspective from this critic if compared to GHSE. Both GHSE's different perspective and their mistakes concerning the classical theory drove some of them—particularly Gustav Schmoller—to equate Austrians with the classical school, in several erroneous aspects.<sup>1</sup> Dietzel agrees with these critiques on GHSE's interpretation of the classics. However, he saw unnecessary detours in the Austrian attempt to bring a solution for the actual problems of classical political economy.

There are very few works on Dietzel, but his defense of political economy is something Carsten Kasprzok (2005) and Beckerath (1944) also brought forward. We here address some points the authors already covered, but we emphasize how Dietzel's attempt to rebuild political economy also was a solution to the *Methodenstreit* and how this was related to the social sciences in general, particularly with respect to new developments in the justification of its scientific character.

During this presentation, it will be possible to notice a parallel other than Dietzel's proximity to classical political economists: the closeness of his discourse to John Neville Keynes ([1890] 1999). Both thinkers endeavored to reform the method of political economy while, at the same time,

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<sup>1</sup> See the translation of Menger's 1891 journal article in occasion of Adam Smith's centenary (Carl Menger, Erwin Dekker and Stefan Kolev 2016). Bruce Caldwell (2004, p. 48) also emphasizes this in a comment on Schmoller's bad reception in Menger's *Principles of Political Economy*: "Because Schmoller was a fellow critic of the British classical school, his review of the *Principles* must have come as a shock to Menger. How could Schmoller possibly accuse him of being a follower of Ricardo? Both Schmoller and Menger felt that the classical theory was fundamentally flawed. For Menger, the solution was to invent a new theory. For Schmoller, the error was the premature use of theorizing in the social sciences."

avoiding exclusion of competing perspectives. Dietzel was reformulating classical political economy, but always tried to bring forward all advancements within these other perspectives. Indeed, in his view, they all had something to contribute—mainly regarding the *Methodenstreit*. Along these lines, Gregory Moore (2003) underlines that Keynes found usefulness in the position of both sides in the British version of the *Methodenstreit*, that is, the historical and theoretical perspectives. Nevertheless, ultimately—as did Dietzel—he favored the theoretical perspective:

The method of political economy cannot adequately be described by any single phrase; and accordingly no one method will be advocated to the entire exclusion of other methods. It will, on the contrary, be strewn that, according to the special department or aspect of the science under investigation, the appropriate method may be either abstract or realistic, deductive or inductive, mathematical or statistical, hypothetical or historical. (Keynes, [1890] 1999, p. 20)

Dietzel, nevertheless, went further in his criticism and tried to erect a complete system of political economy that would replace the existing alternatives in Germany.

In order to discuss all that we have pointed out, in addition to this introduction and the conclusion, we present three other sections. In Section Two, we present Dietzel's definition of the basic concepts in political economy. His criticism was against all perspectives then existing regarding delimiting the economic phenomena and the disciplines of the science of political economy (which were designated to reach distinct objectives regarding the phenomena). He even changed the name of the discipline, accusing others of bringing unnecessary misunderstandings to the science. This is the reason he adopted the term *Sozialökonomik* instead of political economy or one of the other titles that the GHSE used.

In Section Three, we present how he formulated the structure of the discipline of *Sozialökonomik* and how he saw it as a solution to the *Methodenstreit*. In the last section, we present Dietzel's idea of value. This is a last example of how the author was close to classical political economy. Although this was not such a central topic for the GHSE, which had among its members both Marginalists (such as Eugene von Philippovich) and anti-Marginalists (such as Schmoller), this was key to the Austrians and the British. This thus makes it possible for us to demonstrate how, although Dietzel was closer to the Austrians (at least if compared to the GHSE), he diverged from them along several major points.

## II. Dietzel and the state of political economy in Germany

The GHSE-dominated<sup>2</sup> Political Economy in Germany and the biggest name during the last quarter of the nineteenth-century was certainly Schmoller. This feeling of domination, however, was not shared by all, and certainly not by Dietzel (1884a, pp. 115–118). His argument revolves around the fact that there was more than one understanding of what the historical method and the objective of

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<sup>2</sup> It is common to depict GHSE as largely dominant in Germany, mainly with Schmoller's generation, from the 1870's until their loss of influence in the beginning of the new century. This happened mainly because of the foundation of the *Verein für Sozialpolitik*, which had great influence on public discourse (see Irmela Gorges, 1980), and their positions in university and other governmental institution, something enhanced by what was called the Althoff System (see Jürgen Backhaus 1993).

the discipline were supposed to be.<sup>3</sup> The major point is that, for Dietzel, the theory of political economy had to be an abstract science—in this sense, going against Schmoller’s understanding—while the practical part of the discipline had no such requirement. Therefore, in Germany, one could find several interpretations, such as Adolph Wagner, Albert Schäffle, Wilhelm Lexis, etc., who tried to develop an abstract theory of political economy in some sense. This is also the way Dietzel positioned himself against Menger’s equalization of German political economy and the GHSE.

These questions follow the beginning of the *Methodenstreit*. Dietzel is mostly on Carl Menger’s side, mainly in his criticism of the possibility of obtaining exact knowledge using a purely inductive process, as Schmoller proposed. He, however, does not share with the Austrian the path through which political economy should be rebuilt. While Menger saw no use in returning to the classics,<sup>4</sup> Dietzel defended the reformulation of their perspective, trusting mostly in David Ricardo’s abstract theory, the closest one to the correct method for the discipline. In this section, we present the points regarding methodology and epistemology of economics in which Dietzel departed from both GHSE and Menger, bringing him closer to the British. Questions more specific to the *Methodenstreit* are presented in session three.

### *The science of economic phenomena*

In Section Three, we will present Dietzel’s entire system of political economy. Here, on the other hand, we discuss solely the part to which he gives the greater attention and where he sees the most urgent need for reformulation: the theory of political economy, or theory of *Sozialökonomik*. This nomenclature is the first step towards understanding his idea of reformulation.

As Klaus Lichtblau (2011, p. 207) shows, *Sozialökonomik* is the German translation, which Dietzel popularized, of Say’s concept of *économie sociale* (Social Economy). However, the word Dietzel first uses to identify his "social economics" is *Sozialwirtschaftlehre*. The name *Sozialökonomik* will appear only later. He changed the nomenclature of his discipline after Wagner (1892, p. 265) criticized the term *Sozialwirtschaft* as a tendentious one due to the vulgar use of the word; this, Wagner felt, could lead to misunderstandings. After this criticism, in a paper intended to introduce the German universities to an audience in Chicago in 1893, Dietzel started to use the name Wagner had suggested: *Sozialökonomie* (Heino H. Nau, 1997, p. 199). He later changed this to

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<sup>3</sup> This is related to a more contemporary challenge on the existence of a German Historical School of Economics. Authors, such as Erik Grimmer-Solem and Roberto Romani (1998), David Lindenfeld (1997) and Heath Pearson (1999), are against this nomenclature due to lack of unity among the supposedly members of a GHSE, while one of the major arguments is the different understanding on the historical method. One can find counterclaims to this position and defenses of the existence of the school in Horst Betz (1988) and Caldwell (2001). Despite Dietzel seeing the same inconsistencies, he does not doubt the existence of a GHSE.

<sup>4</sup> “All these circumstances combined to cause a reform of our science, in the sense of the older view of it, to appear just as difficult as unalluring. The theory of economics, as the so-called classical school of English economists shaped it in the main, has not been able to solve the problem of a science of the laws of national economy satisfactorily. But the authority of its doctrine is a burden on us all and prevents progress on those paths on which the scholarly mind for centuries, long before the appearance of A. Smith, sought the solution of the great problem of establishing theoretical social sciences.” (Menger, [1883] 1985, p. 29)

*Sozialökonomik*, with the intention of making a distinction between the phenomenon (*Sozialökonomie*) and the discipline (*Sozialökonomik*).

In choosing the term “Social Economy,” Say intended to dismiss the confusion, inherited from the physiocrats, of mixing economic analysis (“the independent investigations of the science of human wants”) and the art of administration (Evelyn Forget, 1999, p. 127). This is not to be confused with the mixing of theoretical and practical political economy. Here Say argued that the State should be the object of analysis of the independent science of politics. Smith, he continues, does not fall for this mistake, but continues using the misleading term of “political economy.” Dietzel (1884a, p. 107) agrees with this view, but also has the intention of separating practical and theoretical political economy properly—just as Menger did during the *Methodenstreit*. He makes a great effort to clear up the nomenclature. He does so by criticizing several definitions of the discipline in order to establish robust basic concepts and eradicate innumerable misunderstandings that brought avoidable mistakes to the discipline. In Germany, for example, there were several terms used by authors to denominate the science of economic phenomena.<sup>5</sup> Firstly, there is the simple translation of political economy, *politische Ökonomie*. Members of the GHSE, despite criticizing the term, also it. However, some appealed to denominations that better underlined the ethical questions missing in classical political economy. Closer to their understanding of this science were the following denominations: national economy (*Nationalökonomie*<sup>6</sup>), people’s economy doctrine (*Volkswirtschaftslehre*) and state’s economy doctrine (*Staatwirtschaftslehre*). Furthermore, although the names were connected to certain positions regarding the object of study—and authors were aware of that.<sup>7</sup>

A second question is the objective of the discipline. For Dietzel (1883, p. 14), given the way the GHSE established it, it unavoidably crossed the boundaries of other fields of knowledge. In point of fact, there was no clear sense of how much of social reality the discipline should encompass. Even when the authors intended to clearly delimit the phenomena under study, there was no agreement on what “economic activity” or “economic good” were supposed to mean.<sup>8</sup> This happened because, unlike Dietzel and the view of classical political economy, GHSE’s intention was not to “understand the essence of the economic side of social life and to determine it in its causality” but to “reveal norms or ‘laws of development’ of the people’s economic life” (Dietzel, 1884b, p. 17).<sup>9</sup> This objective would necessitate dealing with ethical questions—something which, in his view, was undesirable for theoretical purposes. These ethical questions are the reason for such a broad understanding of the realm of the discipline, which makes every contribution and theoretical analysis of limited depth—and certainly less efficient than the proposed method allowing the isolation of strictly economic phenomena and the subsequent division of academic

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<sup>5</sup> For a more encompassing understanding of the changing names of “economy” and its science see Keith Tribe (2015).

<sup>6</sup> This term is the same for the phenomenon and the discipline, just as happens in several Latin languages. It was not very common, but it is possible to find authors using *Nationalökonomik* in order to designate the discipline.

<sup>7</sup> See Menger ([1883] 1985, p. xix-xxi and 206-213) and Schmoller (1900, p.4).

<sup>8</sup> These two concepts are the objects used to delimit the realm of political economy, in an attempt to deny the usefulness of the idea of self-interest, as discussed later.

<sup>9</sup> The author is responsible for all translations from German.

labor, the “isolation method” (Dietzel, 1895, p. 15). Despite his criticism of Mill, here it is possible to see his proximity to the author, as we will come back to.

Schmoller’s (1893, p. 54) idea of “political economy as social science” (*Nationalökonomie als Sozialwissenschaft*) summarizes this position. His intentions were more closely connected to Wilhelm Dilthey’s idea of social sciences (*Geisteswissenschaften*) than to a unitary discipline responsible for understanding the totality of social phenomena, such as Auguste Comte’s sociology. However, it is exactly this second understanding that his critics offered. Wagner (1886, p. 198, fn. 1) accused Schmoller of aiming for a science of all social relations (*eine Wissenschaft vom gesellschaftlichen Gesamtzusammenhang*), while Dietzel (1884a, p. 133) held that only sociology (in Comtean terms) “is able to meet Schmoller’s demand.” The relation of political economy to other social sciences and to the natural sciences is another important element for understanding Dietzel’s alternate view. This will also allow us to see the relationship of his own perspective to that of Mill.

### *Sozialökonomik and the science of society*

A major question in the last quarter of the nineteenth-century in Germany was the science of society. Its composition and its justification as an independent science, i.e. detached from natural science. One may have in mind two major models: Wilhelm Dilthey’s ([1883] 1989) *Geisteswissenschaften*, which presented an epistemological differentiation between natural and social sciences, and Auguste Comte’s ([1844] 2000) sociology, which put forward a science of society dependent on theoretical developments in the natural sciences in the hierarchical sequence of his positivist philosophy.

As is clear in the review Schmoller (1883) wrote on Menger during the *Methodenstreit*, the GHSE author was influenced by Dilthey. In the sense we wish to underscore here, he saw completely distinct methods for social and natural sciences. When he comments what he sees as Menger’s purely deductive method for political economy, he says:

In that he was correct; if one was able to access the simplest elements of a science, of a field of knowledge, then everything else would be comparatively easy; every complete science would be deductive, since as soon as one dominates these elements completely, the most complex can only be a combination of them. However, these simple elements, which for example are fixed in mathematics and certain parts of physics, have not been so thoroughly explored and clarified so that one only had to conclude from them in any science of human thought, feeling, and action, least of all in the social sciences” (Schmoller, 1883, p. 979).

Dietzel agrees to some extent with this quote, mostly regarding the idea of what is the “simplest element”, something we will discuss later. Now, however, we want to focus on how he distanced himself from the dichotomy between the methods of the natural and social sciences that Schmoller is putting forward. First, another point in which he agrees with Menger is that he sees the Austrian using, as did the classical political economists, the isolation method (even though he does not proceed entirely correctly).

Dietzel (1884a, p. 109) sees the necessity for both natural and social science to isolate a specific phenomenon in order to proceed with its analysis (with difference in the exactness each science

can achieve when so doing). By this he meant—just as Mill did—that knowledge in the realm of social sciences cannot sustain the degree of exactness of natural sciences. On the other hand, using the isolation method, one can at least approximate such achievements (Dietzel, 1884a, p. 361). In this sense he does not differentiate, as does Dilthey, the kind of truth one can reach when analyzing natural and social phenomena: there is neither an epistemological nor a methodological distinction. The alternative to this imperfect method for the social sciences, on the other hand, is Schmoller's historical method—something that would bring even fewer satisfactory results:

We would like to call it [*Sozialökonomik*] a physics of material possession, a doctrine of the force of social-economic factors that create and distribute material wealth; it is thus limited to a possibly narrow field, but what it loses in breadth will win her clarity. (Dietzel, 1883, p. 7)

Nevertheless, this proximity between the methods of the natural and social sciences, as pertained to theory, did not include practical application. The practical side of the natural sciences is only concerned with technical questions; in the social sciences, in contrast, normativity and criticism should be taken into consideration (Dietzel, 1895, p. 4). In this sense, Dietzel allowed practical political economy to stay closer to the GHSE, as we will show later.

Finally, the isolation method is not suitable for every social science—a point that becomes clearer when Dietzel criticizes Menger. Dietzel (1884a, p. 354) condemns Menger's attempt to base his political economy in the logic and method of the complete social sciences. One example is how Menger saw self-interest. For the Austrian this abstraction was not only suitable for political economy, but for every theoretical social science (Dietzel, 1911, p. 445). The way of proceeding for classical political economy was more appropriate: it “did not care about further social theories” (Dietzel, 1884b, p. 33) but only on how taking self-interest as motivation for economic action allows coming closer to real events.<sup>10</sup>

It is useful to have in mind how Mill saw this. His solution for the impossibility of social sciences in following the method of the natural sciences was special in the case of political economy. Contrary to the rest of social sciences, he asserted that political economy should not resort to inverse-deductive method.

Dietzel was not in accord with either Dilthey or Comte. Although Dilthey saw a division of work in the social sciences, he first created an epistemological distinction between the sciences that Dietzel does not see, and then united the social-scientific disciplines in terms of method and objective, that is, the understanding of social-historical reality. Comte, on the other hand, takes the opposite approach. He sees only one social science, yet at least sees no discontinuity in the reality the sciences should analyze. Bearing in mind that Dietzel is trying to bring political economy in Germany closer to classical political economy, we may further formulate Mill's position.

As Karl Milford (2002) shows, for Mill the natural sciences should follow the steps of causal induction that he presented in his *A System of Logic*. The point here is that it is possible to verify the truth of assertions through cognition, following the steps of the process of induction, in the case

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<sup>10</sup> This does not mean he saw no necessity for other social sciences; he held merely that the method applied in political economy was completely independent from that of other disciplines (see Dietzel, 1884b, p. 34)—a stance that was also counter to those of Schmoller and Dilthey. If there is any connection, it is that political economy is the major discipline in social sciences; the other may follow its own developments (Dietzel, 1884a, p. 354).

of the natural sciences. Social sciences, on the other hand, depend on premises of deductive inference to realize such a verification. Therefore, since the social sciences fail in following the five steps of induction, they should instead follow the three steps of his version of deduction, which include first induction, then deduction and verification. This is the inverse-deductive method, a influence of Comte's theory. As already stated, Mill<sup>11</sup> will see political economy as a special case and propose a direct deductive method. Mill regards the behavior of a group as the sum of the self-interested behavior of its individuals. This is enabled by the possibility of isolating their self-interest as the guiding principle of economic action—something not entirely possible for the other social sciences; see Laura V. Mattos (1999). The verification step here is not immediately necessary. The connection of this abstract formulation to empirical reality takes place in practical political economy, where deviations of theoretical cases are taken into account. In this sense, Dietzel and Mill did not disagree on the need for political economy to resort to both deduction and induction, but only to the degree to which the natural sciences also must do so.<sup>12</sup> Furthermore, Mill, also influenced by Comte here, sees no independence for the social sciences, which are part of “the overall causation that determines the world” (Milford, p. 73). On the other hand, for Dietzel, it is sufficient to isolate the economic questions and solve them.

The issue is that Mill tries to rebuild classical political economy in order to contradict criticisms from authors such as Thomas Malthus, William Whewell and others. Dietzel's challenge is similar. He will defend the results of classical theory and, to some extent, the attempts to reform it. Nevertheless, he regards Mill's direction as a mistaken one, classifying his work as a setback (Dietzel, 1883, p. 4)—notwithstanding that, especially in his later writings, he uses several of the notions that author developed (such as a version of the “economic man”). Smith and Ricardo were already in the right track; they only required some changes in their doctrines: “... while the classics indeed teach the right thing, but not at all, or at least without the necessary care and caution, justify certain propositions that are self-evident to them” (Dietzel, 1895, p. VI). One can view this mainly with respect to their idea of self-interest (Dietzel, 1884b, p. 18), as we will now explore.

### *From self-interest to the economizing principle*

Self-interest is a major concept for us here. With this, one can clearly see how Dietzel tries to stay close to classical political economists—even though he faced criticism—and how this in Germany meant to go mainly against the position held by the GHSE (especially Schmoller), and how Menger was a better—but not a complete—alternative to the Historical school.

Dietzel partially agrees with the idea of self-interest (or egoism) as a method for isolating the part of social phenomena that theoretical economics is supposed to analyze. The point is that he does not believe in self-interest as a real motive for economic action, as did the classics, nor does he view it as the simplest aspect of phenomena, from which all analysis in political economy should start—as he accuses Menger of doing (Dietzel, 1884b, p. 110). He also dismisses the approach, found in the writings of the classics, wherein self-interest mingles with avarice and greed in a pure

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<sup>11</sup> Nevertheless, Mill did not necessarily follow his own method when dealing with economic phenomena. An example—according to Keynes (1999 [1890])—is when Mill and other scholars of his time used inductive methods when analyzing the production of wealth.

<sup>12</sup> See Milford (2002, p. 54) for the difference between social and natural sciences in Mill.



search for wealth. It is in this sense that the GHSE's criticism against self-interest is partially correct (Dietzel, 1884b, pp. 21-26).

While Schmoller and the GHSE were right in saying that egoism was not a real reason for action, for Dietzel (1884b, pp. 28–37), neither theoretical political economy wants to be faithful to social reality. He also questioned whether the results the classics obtained were dependent on self-interest assumption. This made mistaken the GHSE dismissal of the results of the classical analysis:

These difficulties, which the representatives of the premise “egoism” evidently did not make clear, are avoided when one hangs “egoism” by the nail, [i.e.] if one recognizes the mistake this premise attracts (the mistake of distinguishing the diversity of ethically motivated (egoism, public spirit, etc.) as "*fundamentum divisionis*") and selects the diversity of objectively characterized motifs as the principle for the demarcation of the tasks of economic theory: [for example,] the modesty of the needs arising from action or the purpose it seeks to achieve. (Dietzel, 1911, p. 445)

In sum, Dietzel will point out that self-interest is not an objective premise for human action, but one that entails ethical questions. His major influence on this was Wagner, who saw the idea of “economizing principle” as a means for economic action. Wagner, however, uses this definition also to delimit the economic phenomena—something Dietzel criticizes.<sup>13</sup> The author sees no use for these psychological postulates in delimiting the object of study of the discipline. He uses the idea of economizing principle, the trade-off between pain (of work) and pleasure (of acquiring something wanted/needed), as a premise for the behavior of individuals in theoretical analysis only. It is this that he will propose as the guiding principle of society. However, this should be not taken as the actual—or the most observable—motive for action. Indeed, the economizing principle hypothesis is not applied in all the system of *Sozialökonomik*. In practical *Sozialökonomik*, for instance, although the phenomenon is first isolated in order to delimitate the subject, other questions that influences action are putted forward regarding in order to properly consider causes and effects of the “should be” (as latter will be clearer).

Furthermore, Dietzel used this economic principle to build his version of Mill's economic man, also named “market people” (1911, p.444). This is part of his premise of *Sozialökonomik*. For him, economic men are those theoretical constructs of humans that only perform economic action, i.e. the economic principle guided towards economic goods<sup>14</sup> (see Note 11). The idea of isolating economic phenomena using the economic man is the great advance of Mill's theory, a point that

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<sup>13</sup> For Dietzel (1883), Wagner did not reach the necessary clarity in defining the limits of the discipline. The question is that the economizing principle is only connected to work, seen as an unpleasant activity, i.e. it is a tradeoff between pain (from work) and pleasure (from the possibility of acquisition). People would decide to act when they could obtain a pleasure that compensates for the sacrifices they had to make in order to reach their goals. For Dietzel, this can characterize several non-economic activities. Furthermore, Wagner also uses a definition of economic good to delimit the phenomena (therefore it would be an economic action consistent with the objective of acquiring economic goods). Nevertheless, his definition falls over the same mistakes (Dietzel, 1883, p. 38). In another example, Menger defines every scarce good as an economic good, something Dietzel (1883, p. 52) saw as not satisfactorily delimited. Dietzel's definition of the phenomenon is based also on economic action towards economic goods. However, the first are merely actions that “seek, and are capable of, subordinating a limited part of matter under power of desire of a person” (Dietzel, 1883, p. 65), while the latter are material goods (in an attempt to exclude services and subjective goods, such as health). See also Kasprzok (2005, pp. 61–71).

<sup>14</sup> Since it is a drive for consumption of economic goods, one can also find the term “drive for acquisition” (*Erwerbstrieb*). See Dietzel (1895, p. 68).

authors such as Schmoller fully misunderstood. Although Mill was clearly departing from egoism as a law of behavior, Schmoller kept insisting that he saw all human action as driven by the desire for wealth (*Idem*, 1895, pp. 79-80). On the other hand, his “economic-commercial society”, where “social economy is formed”, is the final delimitation for the scope of his discipline. The theoretical analysis presupposes a society where only those “market people” exist and the only action is exchange, based on the economic principle towards economic goods. The division of labor is the thing that materializes their unity, making every individual dependent of all. This is something particularly distinct from Schmoller, whose idea of unity comes from ethical and legal particularities of a people.

### III. Dietzel’s system of *Sozialökonomik*

Dietzel defines the social economy, the abstract society where the object of study of his *Sozialökonomik* is present, as follows:

We designate social economy (*Sozialwirtschaft*) the organism that is formed as soon as a group of individual economies has entered into a regular market relationship with each other. The cause of the formation of this organism is not the will of the state – as it is for the organism of the national economy (*Volkswirtschaft*) – but the natural dependence relation of individual economies on each other in the struggle with the material world. (1883, p. 3, fn. 1)

In addition, the questions the discipline should try to answer are:

How will the proportion of the active economic classes be determined in the organism of social-economic relations if the state does not intervene, to the extent that it does not intervene in the traffic mechanisms of these classes? How will be shaped [the relation between] the well-being and pain of work of the social classes – which on the material side depends on the sum of prices the entrepreneur class receives for its products (through the amount of rent the landowners compels on the non-owners and through the real value of the wage that property-less working class receives as a compensation sum [for the pain of work]) – if the state does not intervene, if the traffic is not organized, and not consciously guided? How will classes be configured if all economic forces are unleashed and all fighters ruthlessly use their power? (Dietzel, 1883, pp. 5–6).

The definition of *Sozialökonomik* is his way of detaching himself from the mistakes of the GHSE, such as the ethical and historical questions implied in the then used nomenclature to refer to economics, the *Nationalökonomie*, *Staatswirtschaftslehre* and *Volkswirtschaftslehre*, as already presented.

Dietzel uses the distinction between individual and state in order to differentiate *Sozialwirtschaft* from *Volkswirtschaft* (*Volkswirtschaftslehre*’s object of study). In practical terms, *Sozialökonomik* regards the same field of knowledge the GHSE wants to define as *Nationalökonomie* but takes the premise that the State do not intervene or influences individual action, that it has no role to play at all. Dietzel (1883, p. 15) maintains that there is no intention of denying the possibility of doing *Nationalökonomie*, but only the attempt to advocate for an independent science of the “general theory of commerce” (*allgemeine Verkehrslehre*). Nevertheless, the GHSE’s approach towards theory is limited due the issues earlier noted, despite some important advancements for which they

were responsible; see Dietzel (1884a, p. 367). One can see this more clearly when he builds his criticism of the basic concepts of his contemporaries, something responsible for the poor delimitation of the discipline and the mingling of theory and practice.

When building his criticism of other authors' basic concepts, Dietzel (1883) starts by pointing out how the GHSE's make their idea of a system of political economy vulnerable. His example is F. J. Neumann's writings in Gustav Schönberg's (1882) *Handbook der politischen Oekonomie*. Neumann's division is based on Karl Heinrich Rau's system of political economy,<sup>15</sup> common to most German authors at the time. Neumann already shows an attempt to overcome some of the Historical school's aversion towards the classical by using their mechanism of isolation, self-interest; however, he is not able to avoid the attendant ethical questions. To Neumann, theoretical political economy should encompass both market concepts and phenomena, as well as their relations to the general wellbeing of the population. And due to that, his theory is dependent of his definition of welfare, which an object of study of practical political economy: "the assignment of linking the doctrine of 'what should be' (the doctrine of the economic mass-rules, concerning the public welfare) with the doctrine of 'what it is'" (Dietzel, 1883, p. 10). For Dietzel, on the other hand, the economic ethics (*Wirtschaftsethik*) is a part of Ethics and intends to clarify the consequences of ethical principles to economic actions. They establish the *ought to be*. Economic policy (*Wirtschaftspolitik*), in its turn, is the attempt to change reality according to these ethical grounds, so that *what it is* can be shaped according to the *ought to be*, "life according to the ideal" (Dietzel, 1895, p. 33). These two disciplines are part of practical *Sozialökonomik*. In this sense, there is no idea of practical *Sozialökonomik* as an application of *Sozialökonomik* theory, for example, and their methods are completely distinct.

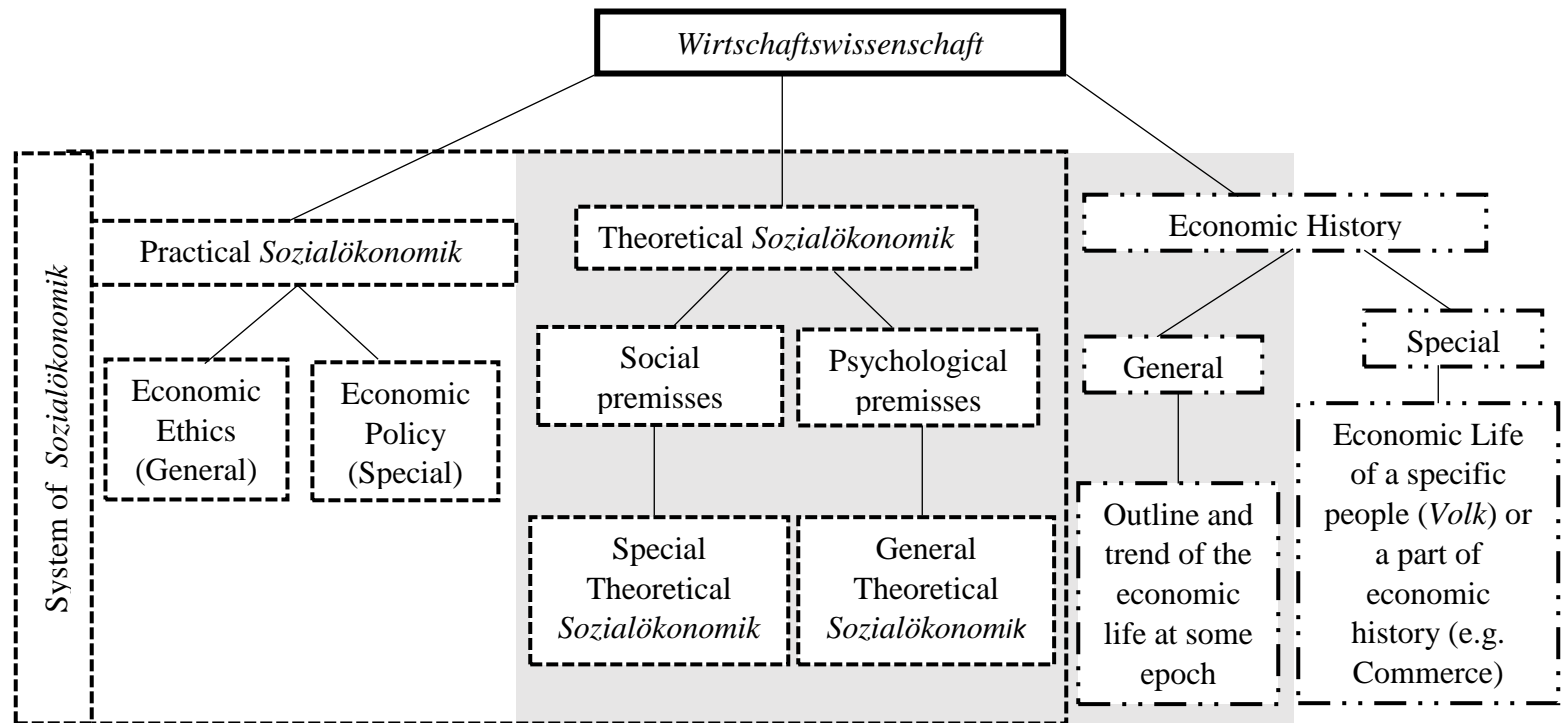
One can compare Dietzel's ethical dimension of practical *Sozialökonomik*, with what Neville Keynes' ([1890] 1999) calls political economy as positive, abstract and deductive science. The authors, from this perspective, also draw a line between theory and practice, connecting the last one to ethical questions. The difference is that they do not see the prescription of rules as a task of the discipline of political economy. Nevertheless, they do see the necessity of economic theory to practical applications. It is in this sense that their doctrine posits that the economist should be in charge of political economy's application because he, as a pure economist, dominates theory, although this it is in the realm of social philosophy.<sup>16</sup> On the other hand, Keynes is closer to Dietzel: he says "no one desires to stop short at the purely theoretical inquiry" Keynes ([1890] 1999, pp.

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<sup>15</sup> Rau divided the teaching of political economy in the beginning of the nineteenth-century into three fields: theory, policy and finance. This became the basic understanding of the subdisciplines; during this century, there were attempts to reform it. The question of Rau's system of political economy became a problem to Schmoller, for example, when he analyzed how theoretical political economy related to the other parts of Rau's system—ultimately becoming an obstacle to the proper development of the historical method; see Takebayashi (2003, p. 377) and Schmoller's (1888, p. 157) criticism of Roscher's historical method. Dietzel sees this attempt as a setback in the necessary separation between practical (policy + finance) and theoretical knowledge. Menger, on the other hand, apart from agreeing with Dietzel's view, tries to clearly take history out of the system of political economy (as we will show in Section Four).

<sup>16</sup> "In the first place, a sharp line of distinction is drawn between political economy itself and its applications to practice. The function of political economy is to investigate facts and discover truths about them, not to prescribe rules of life. Economic laws are theorems of fact, not an art or a department of ethical enquiry. [...] At the same time, the greatest value is attached to the practical applications of economic science; and it is agreed that the economist ought himself to turn attention to them – not however, in his character as pure economist, but rather as a social philosopher" (Keynes, 1999 [1890], p. 12–13).

26–33). However, it is more productive to separate it from the ethical and practical questions. Nevertheless, he does not dismiss these ethical questions from economic inquiry. He merely points out that it should be dealt in a later stage, close to Dietzel's division of practical and theoretical. In addition, for Keynes, practical political economy cannot be dealt merely as an application of theory, because theory cannot take into account ethical, social and political questions, while several practical issues must. Therefore, practical questions are divided into two. Keynes has the same term as Dietzel for the first discipline: the "ethics of political economy," a branch of applied ethics. By its side is the "art of political economy," called "economic policy" in Dietzel's *Sozialökonomik* (as one can see in Figure I<sup>17</sup> which depicts Dietzel's system of *Sozialökonomik*).



**Figure I:** Dietzel's understanding of Economic Knowledge

\*The gray area corresponds to what Dietzel (1896, p. 30) designates the theoretical sciences of economic life.

Source: Author's elaboration

Thinking now on the role of history in his *Sozialökonomik*, Dietzel acknowledges that economic history can be an approach to theoretical questions and points out its general and special parts. However, in the end, he will actually deny this theoretical character in the way the GHSE proceeds

<sup>17</sup> We name the field that studies all economic phenomena *Wirtschaftswissenschaft* (economic science). This is because history does have a part that is dedicated to these phenomena, but it is not included in the system of *Sozialökonomik*. Furthermore, we indicate in gray which are the theoretical sciences, where one can see clearly how he disagrees with Menger's epistemological differentiation between theory and history.

in historical analysis, since for him only the “isolation method” can be considered theoretical. Furthermore, contrary to *Sozialökonomik*, economic history is not an independent discipline, but only a dependent part of social history (Dietzel, 1895, p. 61), so its acceptance within *Sozialökonomik* is not complete: it cannot be understood fully as “*theoretische Sozialökonomik*” (Dietzel, 1895, p. 76). The role of economic history in Dietzel’s terms is to provide verification and complementation for theoretical findings when there is the necessity to understand concrete phenomena.

We should present one last aspect of Dietzel’s theory, his sociological premises. Although keeping the abstract construction of his theoretical analysis, Dietzel brings more reality considering different economic systems, a direct influence of Emil Sax; see Dietzel (1895, p. 88). All actions may have different results depending on whether they happen in a system where people behave closer to a competitive system or to a collective system (in terms of individual behavior and the state). In this sense, the theoretical questions presented until now are connected to a competitive system (with his premises of economic man and the economizing principle); they build a general theory of *Sozialökonomik* (see in Figure 1). In his unique theory of *Sozialökonomik*, he can compare these results with a possible society guided by collective behavior (Dietzel, 1895, p. 120). As Kasprzok (2005, p. 98) shows, in Adam Smith only a system of competition was taken into consideration, as was the case for Dietzel’s PhD dissertation of 1882. It was the criticism from the GHSE that brought about a change.

#### *Sozialökonomik as a solution to the Methodenstreit*

In sum, what we showed until now is how Dietzel builds a discipline, the *Sozialökonomik*, based on the quarrels of its time, but with an attempt to reform classical political economy without falling in the mistakes of the greatest streams in German speaking world, the GHSE and Menger’s incipient Austrian Economics. Given this, Dietzel will present his achievements as a middle ground between the two alternatives and a solution for the *Methodenstreit*.

The debate started with Menger’s (1883 [1985]) criticism of the historical method, to which Schmoller (1883), then greater representative of the GHSE, replied. Menger (1884) wrote another book wherein he reaffirmed his positions. To that, Schmoller (1884 [1986]) only wrote a short commentary, stating that he would refrain from replying. However, not only did the debate continue with their supporters taking the respective sides, several authors, such as Max Weber (see Shiro Takebayashi 2003) and Heinrich Dietzel, tried to build a synthesis.<sup>18</sup>

Dietzel’s position regarding the *Methodenstreit*, as already stated, is mostly pro-Menger. For him, what Schmoller puts forward is mostly practical political economy. This is because, agreeing with Menger, Dietzel does not believe the historical method is suitable for theoretical analysis. Having in mind the epistemological discussion we presented, as Dietzel, Menger based his analysis on the initial supposition that the analysis of both natural and social phenomena follow the same path

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<sup>18</sup> Regarding the extension of the debate, although most authors, as Samuel Bostaph (1978), Karl Häuser (1988), Kiichiro Yagi (2001) and several others, focus on the main quarrel, between Gustav Schmoller and Carl Menger, it is usually acknowledged that the debate went further. There, questions not yet answered or that had a secondary role in the *Methodenstreit* came to the forefront. Glaeser (2014) shows how the value judgment dispute (*Werturteilsstreit*) is connected to the *Methodenstreit*, while Harald Homan (1989) sees remnants of it in the positivism debate (*Positivismusstreit*) of the 1960’s, between, mainly, Karl Popper and Theodor Adorno.

towards truth. Nevertheless, from Menger's perspective, there are two different epistemological perspectives for analyzing reality (valid for both nature and society). There is the truth for concrete phenomena (*concreten Erscheinungen*), i.e. the actual relation between one another in time and space, and the truth one can find in the general aspect of phenomena, aimed at the "forms of manifestation" (*Erscheinungsformen*) [or types] recurring in the variation of these [concrete phenomena]" (Menger, [1883] 1985, p. 35). The first sort of truth corresponds to the historical and statistical knowledge, while the second corresponds to theoretical knowledge. Political Economy was a theoretical science, just like physics and chemistry, while economic history was a part of social history, with a very limited role in the discipline.

Dietzel agreed with several of the results of this epistemological differentiation, but not with the differentiation itself. This is because, as mentioned, he did not see economic history as part of social history, with objectives other than the ones of theoretical *Sozialökonomik*. The difference is that he saw a further use for history, or analysis of concrete aspects of phenomena, in political economy: verification. While Menger ([1895] 1883, p. 61) used this epistemological differentiation to justify the impossibility of testing general rules in reality, Dietzel (1895, p. 70) established verification as part of his isolation method. This another role for history in his theory, also different of Menger.

A further *Methodenstreit* question is the role of the idea of nation. Menger criticizes the GHSE for understanding the nation as an entity capable of feeling needs and demanding economic goods; instead, he saw it as a mere sum of individual actions or a more complex level of abstraction of these actions:<sup>19</sup>

If national economy was considered as a special unit differing from the singular phenomena of human economy, one could easily draw the consequence that national features should be the exclusive object of scientific treatment in theoretical national economy, and that the singular phenomena of human economy should be excluded therefrom. Not the general nature of the phenomena of human economy, not their general relationships, were henceforth to be the object of research in the field of theoretical economics. Research on the phenomena of national economy seemed to be the sole task of theoretical economics from this point of view. Meanwhile research on the general nature and the general relationships of the singular phenomena of human economy was banned from the field of our science. (Menger, [1883] 1985, p. 92)

In Menger's view, the only implication of the idea of nation should be when doing practical political economy, differentiating policy considerations for tribal, familial or modern state economies. No implication whatsoever should exist for theoretical political economy. Dietzel, again, partially agrees. He does build his abstract "commercial society" (*Verkehrsgesellschaft*) as a place where only individual relations are taken into account and there is no place for consideration of the state's action. However, as shown above, there is a place in theory, after he puts forward this general theory of *Sozialökonomik*, for behavior seen from a collective perspective, where something different from exclusively individual positions is taken in account. The possibility he builds for collective and competitive behavior of a specific society brings the GHSE's in a sense

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<sup>19</sup> This is part of a long-existing opposition between nominalism and realism, where realists saw the concepts representing concrete things (meaning that one can deduce truth out of their study), such as the state, while nominalists denied this possibility and instead saw truth only in the analysis of individuals. See Ernesto Screpanti and Stefano Zamagni (2005) for an historical account.

time and geographical considerations back into theory, but in a lighter way, in what is called the *special social economic theory*. This does not refer to the state or to the ethical questions arising from a people (*Volk*), as in GHSE, but it is a differentiation of the organization of a society. What happens is that he allows for other types of abstract societies, which may be closer to societies seen in real life.

Other questions presented thus far can also be seen through the lense of building an alternative to the *Methodenstreit*. The questions presented are the object of study of political economy. As already said, the major mistake of the GHSE is to mingle practical and theoretical political economy. However, Dietzel acknowledges positive advancements in every position. In the case of GSHE, for example, apart from the correct criticism of pure self-interest, there is also Schmoller's attempt to reform the "principles of economic policy" in order to deal with the social question (which in sum stands for the impoverishment of population along the process of industrialization), something classical political economy was not able to do; see Dietzel (1884a, p. 124):

Realists, Ethicists, and Marginalists are not actually enemies; they only believe they are. They complement where they think they deny. The attack of the realists against the isolating process is wrong; but they are right in asserting that a science of the economic life must be after a "historical method": the theory of the economy can remain as it has always been, but economic history must complement it. The effort of the Ethicists to "ethicize" the theory of the economy is mistaken; but they are right in putting forth an ethically based economic policy on the side of ethically colorless economic theory. The verdict of the Marginalists on the cost theory of work order does not apply; but they are right when the utility theory fails" (Dietzel, 1895, p. VII).

His considerations on the position of this last group, the Marginalists and their value theory, is the last point we would like to present in order to show how Dietzel had the intention of coming back to classical political economy.

#### **IV. Dietzel's idea of value**

Although Menger had a peculiar view on subjectivism (if compared to other Marginalists), as far as the theory of value is concerned, the differences between him, Stanley Jevons and Leon Walras are overlooked when one tries to build merely a general picture of marginal revolution. As presented by Dimitris Milonakis and Ben Fine (2009), the Marginalists tried, just as did the Historical school, to reform classical political economy, especially Ricardianism. However, instead of going against the deductive method, Marginalists agreed with it and combined it with Jeremy Bentham's utilitarianism. In other words, they were against the measurement of value through cost of production.<sup>20</sup> Furthermore, by Dietzel's time, other attempts to develop a subjective theory of value could already be seen in Germany, as in the works of Karl H. Rau, Adolph Wagner and Bruno Hildebrandt (Birger Priddat, 1998).<sup>21</sup>

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<sup>20</sup> This was a time where several attempts of reforming the notion of value emerged. Mill also proposed a solution, and, before Marginalism, Karl Marx made the most successful attempt. See Isaak Rubin (1989) for a Marxist perspective.

<sup>21</sup> In addition, see Knut Borchardt (1961) and Erik Streissler (1990) for German influences on Menger, including on value theory.

Again, Dietzel will propose a solution that he sees as a reform of classical political economy without departing from its theoretical objectives. He stands for the cost of production measurement of value, while allowing for the notion of marginal utility in some cases. In sum, he states: “I believe that this riddle has since long been solved – that the problem of value, however in detail inadequate, has been overall answered definitive and invulnerably by Ricardo” (1890, p. 562). However, as Kasprzok shows (2005, 232), this is only the first phase of Dietzel’s value theory, when he saw value as the basis for *Sozialökonomik*.<sup>22</sup> In his last writings, the author will deny the usefulness of a value theory and advocate that one should only look for a price theory. Here we focus on his writings until the 1920’s, point when he stopped defending the importance of value theory.

Dietzel directed his criticisms and agreements majorly to Menger’s followers in Austria, especially Eugen von Böhm-Bawerk (1886),<sup>23</sup> since they were the closest and strongest representatives of marginal utility theory in German-speaking countries. Although he stands at Ricardo’s side, he agrees with critics that say that the confusion between scarcity and utility (making no distinction between the two categories) made the classics responsible for inappropriately separating use and exchange values:

The one cause of the dispute between cost and utility theorists is the erroneous proposition of the contradiction or "antinomy" between the utility of things, that is, between the degree of their capacity to be useful to the subjects controlling them for their own use or consumption, and their exchange value, that is, the degree of their ability to be useful to the subject by being exchanged for other things in the possession of other subjects. (Dietzel, 1895, p. 206)

According to him, the classics took this path in an opposition to the scholastic notion of value, with its ethical implication of a use value and its theory of “fair price.” Authors such as Nassau Senior, Mill and Rau had already corrected this detour of separating the two types of value. What the Marginalists did was to deal it the last blow (Dietzel, 1895, pp. 208-216). Their next step, however, should not have been the dismissal of the notion that cost of production equals value; their subjective notion of utility was merely a phantom. In doing so, they came back to a different version of the same problem: “The error, as soon as costs and utility are in the foreground, lives on quietly. The untenable antithesis: cost, not utility, has found only its correlate in the equally untenable antithesis: utility, not costs” (Dietzel, 1895, p. 210).

Dietzel’s solution is to bring exchange and use value close together and connect them to all his *Sozialökonomik* through the idea of the “economizing principle”, which is the means to human action:

The practical behavior of man toward the goods (which our language describes as economizing) and the theoretical behavior (which it presents as the concept of cost, in terms of value-estimation) are in the closest possible proximity. Economizing is only possible

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<sup>22</sup> Kasprzok also points that his criticism towards marginal utilitarianisms is much rasher in 1890 than in 1895, when he shows more possibilities of reconciliation between them and the classics.

<sup>23</sup> Böhm-Bawerk (1898) actually commented on Dietzel’s notion of value (especially his Crusoe’s examples) in his 1895 *Theoretische Sozialökonomik*, but the German never replied.



with the goods available in limited quantity to the subject - only the effort for such goods costs - only they are appreciated as value.” (1895, p. 218).

From this question of scarcity, he argues that having two goods costing the same amount (i.e. that in order to be obtained will inflict on him the same amount of pain of effort) would cause one to choose the scarcest one, due to the higher possibility of not obtaining it in the future. This, argues Dietzel, brings together use and exchange values since now they are based in the same relation. Now, when measuring the cost of production, one can say that has measured value, not merely exchange value.

However, this is valid solely for scarce goods. For Dietzel (1895, p. 219), goods that have unlimited supplies have no value and therefore should be not an object of study for *Sozialökonomik*. The important distinction here is between reproducible and irreproducible goods—a division already present in the classics. The first possess relative scarcity (when their availability diminishes, it is possible to, at least partially, replace them), while the latter have absolute scarcity. It is here that there is space for a marginal utility theory.

While reproducible goods have their value measured by the cost of their production alone, which represents the effort, the pain, to produce them—and which the buyer will have to compensate in order to have them—there is no such possibility for goods that cannot be reproduced or replaced after consumption. In this case, “this utility is lost as the means of re-production are lacking; its size is measured by the subject making clear the relative importance of this utility” (Dietzel, 1895, p. 277). In the case of non-reproducible goods, given that there are different units of goods available, an individual would first acquire the one that brings him the most enjoyment, followed by the second one, until the one that will bring him the least possible utility addition he/she is able to acquire. This, however, does not make irreproducible goods disconnect from costs.

All goods are worth according to the costs that would occur in the event of loss ... but the irreproducible according to the costs which would arise in the light of the impossibility of reproduction. These [extra] costs exist because [in their consumption the] quantum of utility, which so far has been drawn from the very thing itself, is lost. (Dietzel, 1895, p. 293)

This, in sum, is Dietzel’s idea of value. There is a certain space for marginal utility, but there is a clear attempt, just as in his methodological writings, to stay close to classical political economy. His work is always an attempt to reformulate classical thought without denying the relevance— at least partial—of other perspectives.

## V. Conclusion

In this paper, we presented part of Heinrich Dietzel’s work. Dietzel is a forgotten author, especially outside Germany. In analyzing his work, it is possible to show other perspectives towards political economy in a place and time dominated by the GHSE-Austrian dichotomy. When most of those authors were trying to rebuild the discipline denying, in varying degrees and respects, the basis of classical political economy, Dietzel attempted to prove that, although there were some mistakes, most of the structure present in authors such as Ricardo, Mill, Say and Smith was capable of providing a sound science of political economy. He can also be compared to N. Keynes, since both

attempt to reform political economy pointing useful aspects in every theory and as a synthesis of the contemporaneous methodological debates.

His contribution is particularly interesting in the manner with which he deals with the definition of each concept in order to correctly delimit the discipline (thereby avoiding trespass of the boundaries of other social sciences). This is something also connected to how he thought one should understand economic theory detached from every other social phenomenon—a view that put him in the opposite direction of those who, at the time, had the intention of divorcing the social sciences from the natural sciences.

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