

mono José testa
1962

Titulo: THEORIES OF ECONOMIC GROWTH

Autores: BERT F. HOSELITZ, JOSEPH J. SPENGLER,
J.M. LETICHE, ERSKINE MCKINLEY,
JOHN BUTTRICK, and HENRY J. BRUTON

Capitulo: THEORIES OF STAGE OF ECONOMIC GROWTH

por: BERT F. HOSELITZ

CURSO: DESARROLLO ECONOMICO

PROF: JORGE AHUMADA

SOLO PARA DISTRIBUCION INTERNA

Instituto de Salud Colectiva
Universidad Nacional de Lanús



Instituto de Salud Colectiva
Universidad Nacional de Lanús

THEORIES OF STAGES
OF
ECONOMIC GROWTH

This paper is devoted to an analysis of those theories of economic growth which emphasize a series of stages in the evolution of economic systems and which explain the process of economic growth in terms of the successive development of these stages. Among economists who developed theories of economic stages, the members of the German historical school of economics were outstanding, and a substantial portion of this paper will be devoted to an analysis of their theories. But the consideration of theories of economic stages involves more than a discussion of their concepts and classifications. It has ramifications in the field of economic, and indeed general, history; it also touches upon some issues associated with theories of social evolution, in general; and, finally, in the economic realm itself, it leads to the consideration of a series of theories of growth in which the claim was made that there exist certain relationships between forms of occupational structure and stages of economic advancement.

I begin with a discussion of the theories of economic stages expounded by various German economists in the nineteenth century, particularly Friedrich List, Bruno Hildebrand, Karl Bücher, Gustav Schmoller, and Werner Sombart. Their writings have formed a basis for further discussion of problems of economic stages in Germany and to some extent, elsewhere. Above all, there exists a considerable number of secondary writings in which the theories and classifications of these five writers, and especially the formulations of the last three, have been compared and critically analyzed. In spite of its bulk, much of this secondary literature is unoriginal and, what is more distressing, with few exceptions, devoid of recognition of these really crucial problems raised by the various theories of economic stages.

Above all, the proponents of economic stages themselves, as well as their critics, were often confused over the interpretation of their theories. This confusion centers around three main points. The first is the problem of whether the identification and classification of different economic stages is a means of studying the progressive development of a given economy, or whether it is a device for the comparative analysis for economic systems. The second is the question of whether these stages are essentially "ideal" constructs, designed to facilitate the analysis of economic systems and their dynamic aspects, or whether they are abbreviated and somewhat schematic presentations of actual historical developments. The third problem--and this interests us most in connection with the study of economic growth-- is the question of identifying the factors which make for change, especially those which determine the transition of an economy from one stage to the next. Since we are interested primarily in theories of economic growth, I shall attempt to stress this last problem, and my evaluation of different theories will hinge not merely on the question of whether they establish useful types for purposes of comparison, but primarily on whether they present explicit statements on the forms of, and factors involved in, transitions from one stage to another, especially if subsequent stages are recognized as representing and advancement over previous ones. As we shall see later, the various authors of the systems of economic stages were not always explicit on this point, and some were not even aware of its significance. At the time, it cannot be doubted that one of the objectives of all writers of the German historical school was the attempt to discover laws of development of national economies, though they differed on the methods to be used for the discovery of these laws, as well as on the expectation that such laws could be stated with any degree

of precision. (1) In assessing the role assigned to laws of economic evolution, we may distinguish three approaches, each of which is characteristic of one of the main representatives of the older historical school: The first sees the principle of economic evolution as an analogue to organic life; economies grow, come to maturity, and decay. This was the position of Wilhelm Roscher. The second sees economic development as an aspect of the general trend of progress of human culture. This was the view of Karl Knies. The third sees economic growth realized in the succession of ever-higher stages of economic organization. This was the view of Bruno Hildebrand. (2) All three conceptions may be traced back to various interpretations of human progress in the writings of seventeenth- and eighteenth-century philosophers. But whereas the impact of the organismic analogy and the more or less naive belief in human perfectibility found few followers among later writers, the theory of stages reappeared in ever-new garb. For this reason, it appears more fruitful to devote this paper to an analysis of theories of economic stages of growth, rather than to the theories of economic evolution evolved by the members of the German historical school.

(1) A survey of the various theories of stages as implementations of laws of economic evolution has been presented by Gertrud Kalveram, *Die Theorien von den Wirtschaftsstufen*, Leipzig, 1933, pp. 73-117.

(2) Hildebrand's theory will be discussed at greater length below. The views of Roscher and Knies on laws of economic development have been discussed by Kalveram, *op.cit.*, esp. pp. 129ff., but especially by Max Weber, "Roscher und Knies un die Logischen Probleme der historischen Nationalökonomie," in *Gesammelte Aufsätze zur Wissenschaftslehre*, Tübingen, 1922, pp. 24ff.; Margret Hüter, *die Methodologie der Wirtschaftswissenschaft bei Roscher und Knies*, Jena, 1928, pp.33ff.; Gottfried Eisermann, *Die Grundlagen des Historismus in der deutschen Nationalökonomie*, Stuttgart, 1956, pp.155-57, 198-99.

I

The first system of economic stages that we will examine was presented by Friedrich List in his work, *Das Nationale System der politischen Oekonomie*. (3)

Before we examine List's classification of economic stages in detail, and their relation to his conception of economic growth, a few comments are in order. First, the idea of economic stages as such was not new in List's day. As Schumpeter has pointer out,

(3) The first edition of this book was published in April 1841 in Stuttgart by J.G. Cotta. A second edition appeared in 1842, and a third edition with minor textual changes in 1844. Most later reprints of the work are based on this 1844 edition. The editio princeps of the work is contained in Volume VI of Friedrich List, *Schriften, Reden, Briefe*, Berlin, 1930. This edition, which bears the subtitle: Friedrich List, *Das nationale System der politischen Oekonomie*, was prepared by Artur Sommer. Though List's classification of economic stages contained in *Das nationale System* was his most widely known, it was neither his only, nor his first, classification. A more detailed series of economic stages was worked out by him in a prize essay which he composed in Paris in 1837, in response to a competition initiated by the Académie des Sciences Morales et Politiques. List's manuscripts was published for the first time in Volume IV of the edition of his collected works (Friedrich List, *Das natürliche System der politischen Oekonomie*, Edgar Salin and Artur Sommer, eds.; Friedrich List, *Schriften, Reden, Briefe*, Berlin, 1927, IV). It thus remained unknown until 1927, and the classification of economic stages elaborated in that work had no influence on later writers. The prize essay has been given the title, "Le système naturel d'économie politique," by its editors; and it contains the rather extended discussion of three agricultural and three manufacturing stages or "periods." In addition, List stipulates a hunting and a pastoral stage antedating the earliest agricultural stage. List's various classifications of stages in the Paris prize essay, in his *National System of Political Economy*, and in a number of other essays published between 1839 and 1844 have been presented and discussed extensively by A. Sommer, "Friedrich List's Pariser Preisschrift von 1837, ihre Bedeutung und ihre Stellung im Gesamtwerke Lists," *Mitteilungen der Friedrich List Gessellschaft*, N° 3, 1926, esp. pp. 56-80.

he borrowed the general idea of progressive stages of development from the philosophy of enlightenment of the eighteenth century. (4) Second, List's book, although presented as a general treatise on political economy, is, in essence, a critical comment on the economic policies of Adam Smith and his followers (usually referred to by List as the "School") and a discussion of the most appropriate economic policy designed to foster the productive forces (Produktionskräfte) of a nation. In other words, List's work was not an attempt to present a new economic theory merely for the sake of theorizing; it was an attempt to provide the theoretical underpinnings for a set of economic policies for economic development, or, rather, for industrialization. In its objective, List's work resembles much of the present literature on economic growth, which is also elaborated with the aim of providing guidelines for planned economic development. It is therefore not surprising that many of the ideas expressed by List are found again in contemporary literature on economic growth, or, conversely, that some passages in List's works have a thoroughly "modern" flavor.

Although List selects for special treatment alternative commercial policies, he does so because he was in substantial agreement with the proposition of the "School" that free competition within a country leads to optimum allocation of resources, and hence, he believed, to maximum stimulation of its productive forces. In part, this position was an outgrowth of the actual stage of regulatory policies of his day; at that time, of all forms of governmental policies, the issue of free trade versus protection loomed largest. In part, it was an outflow of a particular situation

(4) Joseph A. Schumpeter, *History of Economic Analysis*, New York, 1954, p. 505. See also footnote 12, below.

which he had constantly in mind: the fact that the industry of the two countries whose economies he knew best and with whose advancement he was most concerned, i.e., Germany and the United States, was inferior to that of Britain. Hence, List must not be interpreted as favoring protection as such, but as favoring only protection of manufactures, and, indeed, protection of manufactures only in their initial infant stage. With reference to agriculture, List was a determined and unequivocal free trader, and the rationale for this position is implied in his theory of economic stages. (5)

Third, and this is implied by the title of his work and his pre-occupation with economic policy, List is not interested in economic relations in an abstract, closed system, but as aspects of a system of nations. List believes that progress in human welfare is a function of association. (6) He describes how the

(5) See List's discussion of free trade for agriculture, both for agricultural countries, as well as those which also have manufacturing industry, in Frederick List, *National System of Political Economy*, translated by G.A. Mantle, Stephen Colwell, ed., Philadelphia, 1856, pp. 297-300. All further references to List's *National System of Political Economy*, unless specifically stated otherwise, will be made to this American translation, which will be cited as "National System."

(6) Similarly, Henry C. Carey considers the principle of association central to his theory (cf. *Principles of Social Sciences*, Philadelphia, 1875, I, 41 ff.), and the question may therefore be raised as to the mutual influence exerted by the two men upon one another. It is impossible to ascertain any clear connection between List's and Carey's writings on this point, and the only writer who has compared their views on association comes to the conclusion that they diverge on this point. See Eduard Meuser, *List und Carey als wissenschaftliche Nationalökonomien*, Mainz, 1915, pp. 7-10. But it is likely that List did, in general, exercise an influence upon Carey, though the precise degree of List's influence is disputed. Some have held that the most characteristic views of Carey in his more mature works are derived from List. Among those who held this view are Eugen Dühring (*Kritische Geschichte der Nationalökonomie und des Sozialismus*, Berlin, 1875, p. 336), and Gustav Schmoller

(continue)

individual in the state of nature is feeble and destitute. He states that the "highest association of individuals now realized, is that of the state, the nation and the highest imaginable, is that of the whole human race." But List believes that the unification of all men in a world state is utopian, and that, therefore, "to preserve, to develop, and to improve itself as a nation is... at present, and ever must be, the principal object of a nation's efforts. There is in that nothing false or selfish; it is a reasonable tendency, agreeing perfectly with the real interests of humanity; for it leads naturally to universal association, which is an advantage to men, so far as nations have reached the same degree of culture and power, and, consequently, so far as it may be realized by way of association or confederation." (7) Thus, the unit which List studies is the nation state, and his theory of economic stages must be understood

(Continuation 6) (Zur Literaturgeschichte der Staats-und Sozialwissenschaften, Leipzig, 1888, p. 109). Others, although they acknowledge that List exerted some influence on Carey, believe that the latter's views were worked out substantially independently. Among the writers who hold this view are Alfred Marshall, *Principles of Economics*, London, 8th ed., 1920, p. 767; Margaret E. Hirst, *The Life of Friedrich List*, London, 1909, pp. 118-21; and Meuser, *op. cit.*, *passim*. The whole issue is summarized by W. Notz, the editor of the second volume of List's collected works (see Friedrich List, *Schriften, Reden, Briefe*, Berlin, 1931, II, pp. 415-16).

Whatever connections may be traced between List and Carey the latter did not adopt List's theory of stages, which were developed only after List had published his *Outlines of American Political Economy*, and it was this work, more than any other, which would have exerted an influence on Carey.

(7) *National System*, pp. 70-71

as applying only to nation states. This is an important aspect of his theory, since it was one of the chief reasons why later writers rejected it. Bücher, for example, points explicitly to the fact that List and Hildebrand "assume that as far back as history reaches... there has existed a national economy based upon the exchange of goods.... They have no doubt whatever that the fundamental features of economic life have always been essentially similar."(8)

Fourth, and this does not so much concern an aspect of List's theorizing about economic stages as such, but an aspect of his views on the effectiveness of economic growth, he postulates that growth can occur only in societies in which there is internal freedom, i.e., freedom of political organization and freedom of the individual. He considers this viewpoint as capable of being derived from the "lessons of history." For example, he says that "it is vain that individuals are industrious, saving, intelligent, and inventive; these free institutions are still needful for the proper application of these qualities. History teaches, in fact, that individuals draw the greatest part of their productive power from the social conditions and the institutions of society." (9) There is a clear recognition of the interaction of the social and, above all, political conditions of a nation and the degree of

(8) Karl Bücher, *Industrial Evolution*, S.M. Wickett, trans. and ed., New York, 1904, p. 86. (Italics added.)

(9) *National System*, pp. 178-79. The view expressed in this passage was widely held among the more enlightened intellectuals of Europe of that time. Cf., for example, John Stuart Mill, *Principles of political Economy*, W. J. Ashley, ed., London, 1909, p. 940.

development of its productive powers, i.e., its general economic advancement. List berates the "School" for trying to "persuade us that politics and the government of the State have nothing in common with political economy." i.e., for isolating economic variables, as such, for examination and analysis. (10) Although this charge overshoots the mark, even if applied to Ricardo, allegedly the most abstract thinker of the classical school, it is true that the classical economists who wrote before List paid but little attention to what we now would refer to as "cultural" factors, and that one can find in their works very few explicit, realistic discussions of economics relations in a social framework different from that of their own times. For that matter, it should be mentioned--and has been made quite clear by List's critics among his followers--that his own analysis of the social and political structures of societies which are different from those of the modern West is also lacking in realism and scientific accuracy; this was one of the chief grounds why this classification of economic stages was rejected by later writers. (11) But it remains true, nevertheless, that List raised an important point of criticism against the classical school, which later became one of the mainstays in the attack by the historical school against the classics: the essentially deductive character of classical theory and its lack of interest in deriving generalizations from the study and examination of empirical historical processes. It is in this context that List's theories of economic stages, and some later theories as well, must

(10) National System, p. 218.

(11) Cf. Bücher, op.cit., p. 86, and, above all, Werner Sombart, "Die gewerbliche Arbeit un ihre Organization," Archiv für soziale Gesetzgebung und Statistik, XIV, 1899, p. 371. (Hereinafter cited as "Gewerbliche Arbeit").

be understood.

If we now turn to a more detailed examination of List's classification, we find that he distinguished the following five stages: (a) the savage stage, (b) the pastoral stage, (c) the agricultural stage, (d) the agricultural and manufacturing stage, and finally, (e) the agricultural, manufacturing, and commercial stage. (12) Although some of List's critics have taken exception to his classification, primarily to the first three stages, he himself was relatively uninterested in them, and most of his

(12) National System, p. 72. The classification of the first three stages, i.e., savagery or nomadism, pastoralism, and agriculturalism, is very old. The first distinction between peoples who make their living by different means may be traced back to Aristotle's Politics, Ernest Barker, ed., Oxford, 1946, I, viii, par. 6-13, pp. 20-21. In this work Aristotle distinguished, in a very general way, between pastoral, farming freebooting, fishing peoples, and those who lived from the chase. Aristotle's disciple, Dicaerchus of Messene (fl. ca. 320 B.C.), was perhaps the first to introduce a sequence of stages. Though his own work on this problem has been lost, his views on successive productive stages has been preserved for us by the famous Roman writer Marcus Terentius Varro (On Agriculture, II, i, par. 3-5, translated by W.D. Hooper, London, 1934, pp. 312-15). Dicaerchus and, following him, Varro distinguished three stages. The first "was that state of nature in which man lived on those products which the virgin earth brought forth of her own accord"; the second stage was the pastoral stage; and then "by a third stage man came from the pastoral life to that of the tiller of the soil."

A very similar classification of stages can be found in the work of Adam Smith (Wealth of Nations, Edwin Cannan, ed., New York, Modern Library, 1937, pp. 653ff.). Though Smith does not present an explicit theory of economic stages, he distinguished between "nations of hunters, the lowest and rudest stage of society"; "nations of shepherds, a more advanced state of society"; "a yet more advanced state of society. . . those nations of husbandmen who have little foreign commerce, and no other manufactures but those coarse and household ones which almost every private family prepares for itself"; and a still more advanced state caused by "the progress of manufactures, and the improvement in the art of war." This can scarcely be called a stage theory deserving of that name, yet, Joseph Cropsey has seen in it almost a statement of Smith's "philosophy of history," an interpretation which I am reluctant to

(continue)

discussion centers around the transition from stage (c) to stages (d) and (e). A critical examination of List's classification may give rise to three questions, in principle. First, are his distinctions the basis of a theory of economic growth? Second, how realistically do his stages describe the actual economic conditions prevailing in different societies on different levels of economic advancement? Third, what concepts did List hold about the process of economic growth, especially the conditions of transition from one stage to the next? We shall not take up the first two questions at this time, since they raise problems common to all theories of economic stages. But it may be fruitful to look somewhat more carefully into List's explanation of the processes of growth within a stage and the transition from one stage to another.

List's theoretical discussion of economic growth, even in slightly explicit form, relates only to a limited portion of his classification. Nothing is said about the progress from the savage to the pastoral stage, and from the pastoral to the agricultural stage. Moreover, there is little distinction between the last two stages:

(continuation, 12) accept. See J. Cropsey, *Polity and Economy*, The Hague, 1957, pp. 56ff.

All these discussions have in common the fact that stages are regarded as a natural, obvious sequence, which requires no explanation. The factors causing transition from one stage to the next are unexplained, or assumed to be associated essentially with the general advancement of the human mind. Thus, these theories are not theories of economic stages in the strict sense, but reflections on the economic aspects of theories of human progress in general. Some such theories were common in classical Greece and Rome, but they came to high florescence in Western Europe in the eighteenth and nineteenth centuries. Cf. on this point. J.B. Bury, *The Idea of Progress*, London, 1920, esp. chaps. VII-XIV.

There is no question in my mind but that List's own theory is originally an outflow of the general intellectual vogue in which theories of progress were held in his formative years.

The agricultural and manufacturing, and the agricultural, manufacturing, and commercial stage. (13) The crux of his theory of growth centers on a description of the conditions under which a mature agricultural state can exist, under which it may progress, and how an agricultural state can be transformed into one on a higher level by the introduction of manufactures. It may perhaps be simplest to present the bare skeleton of List's theory in a number of rather crude and straight-forward assertions, as follows:

List: (1) Whereas all countries have presumably passed through the early stages of development, only the countries in the temperate zone are suited for manufactures. "A country of the torrid zone would make a very fatal mistake, should it try to become a manufacturing country. Having received no invitation to that vocation from nature, it will progress more rapidly in riches and civilization if it continues to exchange its agricultural productions for the manufactured products of the temperate zone." (14)

(13) It appears that List himself placed no great importance on this latter distinction. He lists his stages again in a later publication and there distinguishes only between four stages. The last two are combined into one stage. Cf. *National System*, p. 265. It may perhaps be interesting to note that in an essay, published in 1839, List presented a classification of three stages corresponding to the ages of man. In the article, "L'économie politique devant le tribunal de l'histoire" (F. List, *Schriften, Reden, Briefe, E.v. Beckerath, et.al.*, Berlin, 1928, V, 109ff), he presents the following stages: (a) childhood-hunters and pasturage; (b) adolescence-pasturage and then agriculture; and (c) manhood-agriculture, industry, and commerce. Here again, no distinction is made between the various later stages, and the main emphasis is placed on the transition from "barbarism" to a modicum of civilization [in the transition from stage (a) to stage (b)], and from a despotic, relatively uncivilized society to one fully developed in its political, social and economic institutions [in the transition from stage (b) to stage (c)]. This last transition appears to be the focal point of List's theory of growth.

(14) *National System*, p. 75.

(2) Countries which "by nature" are destined to be agricultural, or those which are not yet prepared for industrialization by a sufficiently developed state of agriculture, will advance optimally if they maintain free-trade relations with manufacturing countries. "The less agriculture has advanced the more external trade has had to do in exchanging the surplus of agricultural products and raw materials of the country for articles manufactured abroad; the deeper a nation is plunged into barbarism, the more it requires the regimen of absolute monarchy, the more free trade, that is, the export of agricultural products and the import of manufactured products, concurs in its prosperity and civilization." (15)

(3) Once a country in the temperate zone has attained a fairly high level of agricultural development, and if it possess a relatively dense population and varied resources in addition, it can only progress further by introducing manufactures. This can occur in two ways: (a) it may either be accomplished "under the law of free trade, when the various nations engaged at the time in manufacturing industry shall be in the same degree of progress and civilization"; or (b), if some have out-distanced others in manufactures, commerce, and navigation, this can only be achieved by the introduction of protection of industry. (16)

(4) Once a country has established manufacturing industries, it may gradually dispense with protecting them, as they become stronger, but under no circumstances must it introduce agricultural protection. For agriculture to flourish in a mixed agricultural and manufacturing country, the exchange between urban industry and rural agriculture is sufficient. Moreover, the increase in productivity of agriculture in an industrialized country is assured by the extension of industrial practices to agriculture. "In no

(15) Ibid., p. 266

(16) Ibid., pp. 72-72.

Agriculture → Dictadura

Manufacture → Liberalismo → Racionalidad

country are agricultural machines and implements more perfect, and in none is agriculture in so advanced a state, as where manufacturing industry is flourishing. Under the influence of the latter, husbandry becomes itself a manufacture, a science." (17)

(17) Ibid., p. 286. The general process of economic development along the lines presented in the text has been summarized by List in a short paragraph (ibid., p. 77), and more extensively in the classification of stages in his essay of 1837. There he presents the following list of stages: three agricultural stages, i.e., (1) agriculture uninfluenced by trade (this resembles approximately Bücher's category of "independent domestic economy"); (2) agriculture associated with foreign trade, i.e., export of agricultural raw materials against imports of manufactures; and (3) agriculture in equilibrium with manufacturing industry in the same country. These three stages of agriculture are counter-balanced by three corresponding stages of manufactures, i.e., (1) manufactured commodities are produced primarily by farmers and landowners, as well as "ordinary artisans" (this stage resembles strongly Bücher's category of "town economy"); (2) sizable manufactures arise in some fields which can withstand foreign competition "through the low level of wages or some other special local conditions"; (3) a stage of manufacturing in which virtually the entire domestic demand for industrial commodities is supplied from home production. Finally, both sets of stages are followed by a fourth, in which a country is in the position of importing agricultural raw materials and exporting, in return, manufactures. See F. List, *Schriften, Reden, Briefe*, IV, 236ff., esp. 326-28. Cf. also the editor's comments, *ibid.*, pp. 580-81.

Now, it is clear that these seven stages are not thought of as successive stages, but as two sets of parallel developments which partly overlap. The conclusion that clearly arises from this classification is that the dynamic force in the process of development is industry. As far as agriculture is concerned, it progresses to the extent to which contact with industry becomes closer and more frequent. In the isolated agricultural stage, the distance between agriculture and manufacturing is "infinite"; in the second stage, some contact is established, but agriculture and manufacturing are located in different countries; and in the third stage, contact is closer and more frequent, because agriculture and industry are located in the same country and interact fully with one another. As concerns the second series, that of industrial growth, it is determined by the development of the relative and absolute amount of resources devoted to manufacturing within a given country, and hence represents the "purest" system of progressive stages developed by List.

(continue)

From this it appears that, basically, List recognizes only one dynamic element in the process of economic growth, the introduction of manufacturing. Agriculture is doomed either to remain stagnant or to increase in productivity, either by the stimulus exerted upon it by export demand or by its interaction with industrial growth, in which latter case a double influence is exerted upon agriculture. Its increased productivity is stimulated, on the one hand, by the growing demand for its output by the nonfarm (i.e., manufacturing) population and, on the other, by the transfer of more rational and efficient methods of production through the application of technical procedures developed in manufacturing. It should be noted, moreover, that the impact of manufacturing is not confined to the purely economic field, i.e., through affecting the demand for agricultural products and imparting new productive methods to agriculture. Its influence is also exerted in the field of social structure and culture. List emphasizes repeatedly the association between agriculture and despotism, on the one hand, and manufacturing and political and personal liberty, on the other. This noneconomic dimension of the growth of manufacturing is a necessary ingredient of List's theory, for it explains why industry provides an impetus for growth.

(Continuation, 17) Although most earlier writers were concerned with the lower end of the classification of stages, i.e., the transition from savagery to pastoralism and agriculture, Sir William Petty, like List, looked at the upper end. Petty did not stipulate stages, but he considered the productivity of different types of production, and he expressed himself on this point in his *Political Arithmetic*, which was first published in 1691. Like List, too, Petty stresses the overbearing importance of liberty of conscience and argues that this was one of the causes for the rise of the Dutch economy. But he also says that the economic success of the Dutch was due to their capturing a large part of the trade of Europe, since "there is much more to be gained by Manufacture than Husbandry, and by Merchandize than Manufacture." William Petty, *Economic Writings*, C.H. Hull, ed., Cambridge, 1899, I, 256.

On this point, List differs from other protagonists of industrial protectionism, who merely regard industry as superior in "productive power" to agriculture. (18) But what List has in mind is not a comparison between one industry and one branch of agricultural production, or between industry in general and agricultural in general, but a comparison between a society based primarily upon agriculture, and inhabited by an indolent, tradition-oriented population with a narrow horizon and lack of a spirit of innovation, and a society based upon manufacture and industry and the associated

(18) See, for example, Mihail Manoilescu, *The Theory of Protection and International Trade*, London, 1931, pp. 36ff. In one passage (p. 59), Manoilescu criticizes List for having put forward a doctrine of protection "more or less unconnected with strictly economic factors." This critique is based on a misunderstanding of List's theory. Though it is true that List favored industrialization, in part for noneconomic, i.e., chiefly political and sociological, reasons, he had a clear insight into the possibility of external economies which industrialization would call forth. The first work in which his later, more mature theory of industrial protectionism is expounded is *Outlines of American Political Economy*, which appeared in 1827 and which is reprinted in *Schriften, Reden, Briefe*, II. There, in one place, he speaks of the greater part of productive power promoted by industrialization as being "the intellectual and social conditions of the individuals, which I call capital of mind" (p.119). In another place (p.133), he says: "Every new business is connected with great losses by want of experience and skill for a considerable time. The advancement of every kind of manufactories, depends upon the advancement of many other kinds, upon the proper construction of houses and works, of instruments and machinery." This comes very close to the postulates of external economies to an industry, as expounded in the recent literature. Cf. for example, P. N. Rosenstein-Rodan, "Problems of Industrialization of Eastern and South-Eastern Europe," *Economic Journal*, LIII, 1943, pp. 202-11; K. Mandelbaum, *The Industrialization of Backward Areas*, Oxford, 1947, pp. 1-4; and Hans Singer, "Economic Progress in Underdeveloped Countries," *Social Research*, XVI, 1949, pp. 1-11.

branches of production called forth by them, and peopled by a free, inventive, and forward-looking population. In other words, the basis for the superiority of industrial production over agriculture does not lie only in its economic superiority, i.e., its higher productivity, but in the social and cultural features by which industrial and agricultural countries differ.

Despite the fact that List's theory of stages, and particularly his interpretation of the superiority of an industrial over an agricultural state, bears only superficial similarities to later protectionist theories, there is a clear resemblance between List's three last stages and the concept of primary, secondary, and tertiary production, developed in the 1930's by A.G.B. Fisher and propagated further by Colin Clark. (19) In Colin Clark's formulation of this theory, a relationship is seen to obtain between economic progress, i.e., the growth of average real income (or one of its derivatives), and the progressive increase in the proportion, first, of persons engaged in manufacturing and mining (i.e., secondary production), and later, service (i.e., tertiary), industries. (20)

Now, it clearly follows from the labels by which List designated his last three stages that if the agricultural stage is transformed into an agricultural-manufacturing stage, the relative "center of gravity" of the economy shifts to secondary industry; and if the manufacturing-agricultural stage is transformed into an agricultural-manufacturing-commercial stage, a growth of service industries, or tertiary production, is implied. This becomes even clearer if we

(19) See Allan G.B. Fisher, *The Clash of Progress and Security*, London, 1935, pp. 25-43; idem, "Production, Primary, Secondary and Tertiary," *Economic Record*, XV, 1939, 24-38; and Colin Clark, *The Conditions of Economic Progress*, London, 2nd ed., 1951, pp. 395ff.

(20) See Colin Clark, *op.cit.*, pp. 420ff.

analyze more carefully List's description of "commerce." He includes under this category not only wholesale and retail trade, but also navigation and overland transport; and he would doubtless have included such other service industries as advertising and other forms of salesmanship, the operation of communications media, various forms of banking and insurance, and similar kinds of economic activity if they had been sufficiently developed in his day to call for explicit treatment. Moreover, it should not be forgotten that in List's time the concept of commerce or trade had a much wider meaning than it does today. Only a very short time before List wrote, manufacturers were still quite commonly designated as merchants, and there was little separation as yet of commercial activities, in the narrow sense, from banking and financial activities, especially in many of the more backward parts of Central Europe.

The similarity of List's view and that held by Fisher and Clark is enhanced if we compare its extension to the field of non-economic aspects, which the transition from agriculture to manufacturing implies. The best comparison of this aspect of the two sets of theories can be made if we look at the first statement of the theory of primary, secondary, and tertiary production, which was published in 1933 by Allan G.B. Fisher. (21) Fisher begins this essay by proposing to present a "short not too imaginary sketch of world economic history." He then shows that "in the first stage of development... effort is concentrated mainly on primary production, on agricultural and pastoral and similar occupations." This is followed by a second stage in which "secondary or manufacturing production and the activities associated therewith began to predominate." Finally, there follows a tertiary stage in which

(21) Allan G.B. Fisher, "Capital and the Growth of Knowledge," *Economic Journal* XLIII, 1933, pp. 379-89.

increasing resources are allocated to the provision of "facilities for travel, amusements of various kinds, personal and intangible services, flowers, music, art, literature, science, philosophy and the like." (22) What is significant is that Fisher, like List, attributes the superiority of the manufacturing and the manufacturing-commercial stage over the purely agricultural stage to the development of science and knowledge. He argues that the transition from agriculture to secondary production took place mainly because of extensions of knowledge; and the roster of activities characteristic of tertiary production which are cited are evidence that he, like List, holds that economic progress is associated not merely with increasing material welfare, but that it also provides an impetus for science, art, and various forms of the pursuit of knowledge.

But it is precisely this aspect of List's theory that derives its inspiration from the general notions about the progress of the human mind which were so popular in the eighteenth and nineteenth centuries. It is, of course, an incontrovertible fact that in the last few centuries there has been a great increase in scientific knowledge and, in the more advanced countries, leisure for the pursuit of arts, hobbies, and other spontaneous activities. But a simple parallel between the growth of science and economic progress is a very poor and barren theory on the noneconomic or meta-economic implications of economic advancement. List introduced one important connecting link which may properly be considered an aspect of the wider social structure, i.e., the distinction between the despotism

(22) Ibid., pp. 379-80. It is interesting to note that the somewhat heterogeneous character of tertiary production has recently been subjected to a more detailed analysis, and that further categories of "quaternary" and "quinary" industries have been proposed. See Nelson N. Foote and Paul K. Hatt, "Social Mobility and Economic Advancement," *American Economic Review*, XLIII, 1953, pp. 364-67.

of agricultural states and the freedom of manufacturing and commercial states. This is, in itself, an insufficient interpretation, and probably an incorrect one. The approach is correct, in that List recognized that the substantiation of a classification of progressive stages of economic systems by their major productive (or occupational) organization depends also upon the possibility or relating this organization to the over-all political and social structure of a society. Albeit on the basis of rather superficial historical analysis, it is easy to show that scientific and technical knowledge has grown more or less commensurately with increases in economic productivity; it is more difficult to demonstrate those generalized characteristics of social structure which will make possible, and perhaps even mutually reinforce, a simultaneous forward movement in these fields of human action. List did not solve this last problem, but even the contemporary literature on economic growth or industrialization has not produced insights into this process on a significantly more profound level. (23)

(23) An effort to determine the relationship between technological change and social change has been undertaken by Yale Brozen, especially in his essays, "The Social Impact of Technological Change" *Journal of Engineering Education*, XLI, 1950, pp. 148-54; "Adapting to Technological Change," *Journal of Business of the University of Chicago*, XXIV, 1951, pp. 114-26; and "The Value of Technological Change," *Ethics*, LII, 1952, pp. 240-65; and on a more strictly economic level by Adolph Lowe (*Economic and Sociology*, London, 1935, pp. 107-15). But in all these essays technological change is assumed to be given, and its implications are traced through. It would also be interesting to analyze the patterns of social structure which impinge differentially on both economic and technical change. Though this is one of the declared purposes of the sociology of science and technology, scarcely any valid results have been published as yet; but see Robert K. Merton, "Science, Technology and Society in Seventeenth Century England." *Osiris*, IV, part II, 1938, pp. 360-62; G.N. Clark, *Science and Social Welfare in the Age of Newton*, Oxford, 1937; and Bernard Barber, *Science and the Social Order*, Glencoe, Ill., 1952.

II

In view of the external similarity between List's theory of economic stages and that of Fisher and Clark, it is not surprising that both were criticized in a similar manner. The arguments which were raised against each theory partly disputed their analytical validity and partly their empirical applicability. In addition, the statistical evidence produced by Colin Clark was called into question by his critics. Since List does not publish statistics and does not base his argument on statistical evidence, the counter-argument could not be employed against him. (24)

Although, in addition to Hildebrand, other later proponents of theories of economic stages, among them Bücher and Sombart, have criticized List's theory, only Hildebrand's criticism is extensive and detailed enough to merit consideration. Sombart confines his critical remarks to the observation that "the theory employs too superficial characteristics of classification," and Bücher criticizes both List's and Hildebrand's theories by stating that they assume that "with the sole exception of the primitive state there has existed a national economy based upon exchange of goods." In other words, Sombart accuses List of shallowness, and Bücher accuses him

(24) For criticism of the Fisher-Clark theory, see P.T. Bauer and B.S. Yamey, "Economic Progress and Occupational Distribution," *Economic Journal*, LXI, 1951, pp. 741-55; and Simon Rottenberg, "Note on 'Economic Progress and Occupational Distribution'," *Review of Economics and Statistics*, XXXV, 1953, pp. 168-70. For criticism of List's theory, see Bruno Hildebrand, *Die Nationalökonomie der Gegenwart und Zukunft*, Frankfurt-am-Main, 1848, pp. 73ff; and idem, "Naturalwirtschaft, Geldwirtschaft und Creditwirtschaft," *Jahrbücher für Nationalökonomie und Statistik*, II, 1864, pp. 2-3. Both of Hildebrand's works, together with four other essays, were republished in 1922 in Jena, under the editorship of Hans Gehrig, with the title, *Die Nationalökonomie der Gegenwart und Zukunft und andere gesammelte Schriften*. All further references to Hildebrand's work will be made to this edition, which will be cited as *Nationalökonomie*. The references cited in this footnote can be found on pp. 61-62 and pp. 326-27 of *Nationalökonomie*.

of lack of recognition that the unit of economic activity in the less highly developed societies is not a national state, but a smaller, less integrated group. (25) Neither of these criticisms need detain us. Sombart's remark betrays his unwillingness to penetrate more than superficially into List's reasoning, and, in view of Sombart's preoccupation with total economic systems, List's emphasis upon industrialization must indeed have appeared as superficial and as a refusal to come to terms with "real issues." Bücher's comment is not so much a genuine criticism of List's theory as it is the expression of a different point of view, which we will explore in greater detail below.

Critica a List, Fisher-Clerk
r
 Hildebrand, on the other hand, argues that the distinction between the emphasis on agriculture, as against commerce or manufactures, depends not on a general invariable law of progress, but rather on the socio-economic needs and cultural conditions existing at a given time and place. He agrees that logically primary production, i.e., the production of raw materials, must precede further processing and exchange of goods, but he holds that the specific form of economic organization and the over-all direction of economic and occupational specialization of a people depend upon the resources and soil available to it, its forms of political organization, and its general culture. For example, he argues that under the conditions of political division and economic specialization in classical Greece, navigation, trade, and even manufactures were substantially more important than they were under the manorial regime in medieval Europe. Therefore, the particular sequence of productive or occupational stages which a people passes through cannot be said to conform to a general invariant principle, but is affected by the particular environmental, i.e., political and

(25) See Sombart, op.cit., p. 372; Bücher, op.cit., p. 86.

cultural, conditions under which it exists. (26) In a very similar vein, Bauer and Yamey take Fisher and Clark to task when they argue that the Fisher-Clark generalization "seems to be based on the view that tertiary production is less essential than primary or secondary production; and that its products are in the nature of luxuries which cannot be afforded in economies with low real incomes." Here, again, the criticism is implied that whether primary, secondary, or tertiary production is stressed depends upon factors determining the over-all "environmental" conditions under which an economy functions. Under certain circumstances, tertiary industries may weigh heavily in the economies of peoples with very low incomes, simply because the over-all technical conditions of production and distribution in such economies require a heavy concentration on trade and other forms of tertiary production. (27)

With reference to the empirical applicability of List's theory, on the one hand, and the Fisher-Clark theory, on the other, criticism are also parallel. Bauer and Yamey cite a number of instances from West Africa to illustrate that in these societies tertiary occupations, especially trading, are widespread, and that this great extension of trading activities is a necessary outflow of economic conditions, i.e., relative prices and available resources. This observation is further elaborated by Rottenberg, who provides a compelling economic rationale for this proliferation of petty services. Not only does he adduce evidence for the large amount of various forms of services, especially petty trading in some islands of the Caribbean, but he also shows that this is due to the general value orientation, prevalent in many parts of the world, which permits a laborer to sell his services on his own account at

(26) Hildebrand, *Nationalökonomie*, pp. 59-61, 326-27.

(27) Bauer and Yamey, *op.cit.*, pp. 747-48.

a price close to zero, or even at zero, whereas it prohibits anyone else from hiring him at such a wage. Now, in a society with very low productivity of labor, employment may not be offered because the productivity of the laborer does not meet the socially (or legally) maintained minimum wage. But in such a situation, a person may sell his own labor by offering various services at a price which will yield a total income lower than the acceptable minimum wage income. This, Rottenberg argues, is the economic rationale for the large number of persons occupied in service industries in many underdeveloped countries. (28)

Similarly, Hildebrand takes List to task because he did not look closely enough at the empirical world to which his system of stages was supposed to apply. For example, he argues that, at best, List's sequence of stages fits only the economic history of Britain, and he adds that "if List had made a simple comparison with the history of the formation of present-day Holland, he would have been persuaded of the fact that his theory was not tenable." (29) He implied that the Dutch were much more important as traders than as manufacturers, and that trade even overshadowed agriculture at the time of Holland's greatness. Only with the decline of Dutch superiority in trade did Holland turn to the encouragement of manufactures and agriculture. Hildebrand thus arrives at the conclusion that, on analytical as well as empirical-historical grounds, a theory of economic stages which employs spheres of

(28) See Rottenberg, *op.cit.*, p. 169. A further reason for the prevalence of services in relatively underdeveloped economies may be derived from the fact that most kinds of craftsmanship or manufacturing require either more skill or more capital, whereas many services, e.g., domestic service or even petty trading, can be exercised without capital or skill.

(29) Hildebrand, *Nationalökonomie*, p. 58.

production or occupations as the principle of classification is inadequate, and that it must be replaced by one which employs forms of distribution as the criteria for classification. Johann Plenge has characterized this shift in emphasis as the replacement of a "Beruffstufentheorie" (theory of occupational stages) by an "Organisationsmitteltheorie" (theory of means of organization). (30)

What Hildebrand was after was to find some aspect of economic activity which was invariant with respect to the environmental conditions of a society. (31) He found that production, and hence

(30) Cf. Johann Plenge, *Die Stammformen der vergleichenden Wirtschaftstheorie*, Essen, 1919, p. xv.

(31) In stressing the purely social role which a stage theory should fulfill, Hildebrand set himself an ambitious and very exacting task. As we shall see, he did not succeed in developing a genuine theory of economic evolution, and his discussion of stages points more to limitational factors than to factors making for economic change. But in general conception, as well as in methodological penetration, Hildebrand's theory of stages is superior to that of other members of the older historical school. As pointed out at the beginning of this paper (see p. 194), Knies did not develop a stage theory and Roscher's theory of stages is extremely simple and would more properly be considered an analogue than a theory.

The closest approximation of a theory of stages contained in Roscher's writings is a passage in his essay, "Ueber das Verhältniß der Nationalökonomie zum klassischen Altertum" (In *Berichte über die Verhandlungen der königlichen sächsischen Gesellschaft der Wissenschaften*, Leipzig, 1849, p. 123), where he says that all more highly civilized people pass through three stages which correspond to the "three factors which must be combined in all production: nature, labor, and capital. In the earliest period the factor, nature, predominates strongly. Forest, pastures, and streams feed a sparse population almost voluntarily. . . . In the second period, as was experienced by the majority of presentday states during the last half of the middle ages, the factor of human labor becomes increasingly important. Finally, in the third period the factor of capital comes to the fore: the productivity of the soil is immeasurably enriched by the application of capital; also in manufacturing the manual labor of each craftman is gradually overshadowed by machine and factory industry; all this contributed to a constant increase of national wealth." Roscher repeats this classification in his comprehensive treatise on economics (*Principles of Political Economy*, with an Introduction by L. Wolowski, translated by John L. Lalor, Chicago, 1882, I, pp. 165-66). There, however, this classification

(continue)

the occupations, in a society depended upon the resources available to it; he found that, similarly, differences in consumption depended on those goods which emerged from the production process. Following the old division of economic analysis into production, consumption, and distribution, only the last field of activity was left, and Hildebrand attached his theory of stages to this last field because, as he says of the system of distribution, "the material which is distributed by it is irrelevant. What man achieves by it is not tied to an object determined by nature. Hence the process of distribution is independent of climate and soil, and uninfluenced by local conditions of nature. It is the most universal, the most generally human process. For this reason, the distribution of goods is that sphere, in which we find the same common forms of development among all peoples, and which we observe to follow one another in the same order." (32)

Although Hildebrand claims that his theory presents successive stages, his three types of economy—natural, or barter, economy ("Naturalwirtschaft"), money economy, and credit economy—must be regarded merely as comparative forms of economic organization, rather than as real steps in development. For Hildebrand does not indicate how and why one stage evolves out of the previous one, and some of his critics have charged that, instead of explaining really distinctive basic features of each stage, he has merely paid attention to

(Continuation, 21) is not viewed in terms of successive stages, but rather as a principle for comparison of different economies. It is not necessary to dwell at greater length on Rosher's stages, since they are based on largely nonoperational conceptualizations, and were, moreover, never used by him or anyone else as a principle by means of which a secular process of economic advancement could be explained or described.

(32) Hildebrand, *Nationalökonomie*, p. 329.

"symptoms" or special "aspects". (33) On the one hand, Gustav Cohn points out, the difference between money economy and credit economy is only a superficial one, because money plays an analogous role in both; the only difference consists in the physical form money takes. On the other hand, the distinction between a barter economy and a money economy cannot be made sharply, because empirically there exist too many instances in which part of exchanges is mediated by money and part consists in direct barter. Moreover, even in economies in which barter transactions are the rule, many valuations, e.g., fines or taxes, are quoted in money, and money or coins circulate as objects partly with commodity and partly with proper monetary functions. (34)

(33) This criticism was raised first by Sombart, *op.cit.*, p. 373. It is repeated by J.G. van Dillen, *Het economisch Karakter der middeleeuwsche Stad*, Amsterdam, 1914, p. 9-; by Georg von Below, *Ueber Theorien der wirtschaftlichen Entwiwicklung der Völker*, *Historische Zeitschrift*, LXXXVI, 1900, p. 17; and by Gustav Schmoller, *Grundriss der allgemeinen Volkswirtschaftslehre*, Leipzig, 1904, II, p. 1117. It is repeated again, in a somewhat different form, by Eli Heckscher, "Natural Economy and Money Economy," *Journal of Economic and Business History*, III, 1931, pp. 2-3.

(34) For the criticism by Cohn, see Sombart, *op.cit.*, p. 373n; also Below, *op.cit.*, pp. 17-19, and esp. p. 18ff; but the most extensive proof of the joint presence of barter, money transactions, and even occasional instances of self-sufficiency was presented by Alfons Dopsch (in *Naturalwirtschaft und Geldwirtschaft in der Weltgeschichte*, Vienna, 1930).

In all fairness to Hildebrand, however, it should be pointed out that he was himself aware of the difficulties in distinguishing sharply between a barter and a money economy. Twelve years after the appearance of his first essay on this topic, he published another paper, which has attracted little attention. Since it is only a slight piece of little scientific interest, this is not surprising. But though it contributes little of substance, it is evidence that Hildebrand tried to solve the complex problem of drawing a sharper distinction between a barter and a money economy. In this paper, "Die Entwickelungsstufen der Geldwirtschaft," *Jahrbücher für Nationalökonomie und Statistik*, XXVI, 1876, pp. 15-26 (and reprinted in *Nationalökonomie*, pp. 359-73), Hildebrand distinguishes three stages within the barter economy and two stages within the system of money economy. The three stages of the former

(continue)

Though the justice of these arguments is granted the distinction between economies in which transactions are exclusively or predominantly mediated by barter, those in which they are principally mediated by cash, and those in which an increasing amount of credit money is used has the merit of pointing to decreasing rigidities in exchange and the gradual removal of limitations to the most efficient allocation of resources. For it is clear that the possibility for specialization and the division of labor is seriously limited in an economy in which barter is the only, or the predominant, means of exchange, and that, compared with the wide availability of credit and the extension of a market for securities of all kinds, an economy which requires that all payments be made in hard cash has serious limitations. Moreover, as has been shown, the prevalence of barter, cash, or credit as means of exchange tends to produce different institutional patterns which, in turn, influence the form of economic organization and the development of productivity. Barter

(Continuation, 34) are only listed, viz., (a) nomadism, implying absence of property in the soil; (b) predominance of communal property in the soil; and (c) predominance of private property in the soil. It seems reasonable to assume that this classification was inspired by the researches of Maurer on the early Markgenossenschaft, which enjoyed considerable popularity in Germany at that time.

The classification of sub-stages in the money economy is apparently unfinished. Hildebrand lists two stages, but this brings him only to the end of the middle ages, and he does not deal with the modern forms of money economy. The two stages which he distinguishes are the stage of monetary circulation of ingots and rings, and monetary circulation in the form of coins. The former state represents a mixed system in which money metal is still regarded as an object of barter; the second stage is the earliest form of a genuine money economy. Hildebrand explains the transition from the first to the second stage as arising out of the needs and privileges of rulers. Some empirical substantiation of this view of the role of precious metals in the early middle ages is provided by Marc Bloch, "Economie-nature ou économie-argent," *Annales d'histoire sociale*, I, 1939, p. 11.

It is unfortunate that Hildebrand did not complete his discussion of sub-stages and in this way fill out his classification of stages. He might have pointed to a series of political or cultural aspects of the development of economic institutions which would have made the very crude and almost barren distinction of barter, money, and credit economy take on a more useful guise. Lacking this more extensive discussion of sub-stages, his theory consists merely of more or less convenient labels for different forms of exchange, rather than of a theoretical explanation of changes in economic organization.

economies rely upon institutions for redistribution of reciprocity, and only cash economies develop genuine markets as the norm for distributive transactions. The prevalence of credit requires the development again of new institutions, such as, for example, corporate forms of enterprise, commercial and investment banks, and a government debt which is raised by means of freely salable securities. Some primitive forms of all these institutions were developed more than two hundred years ago, but they have become widely generalized and endowed with far-reaching impact only during the last two centuries. (35)

Renewed attention to Hildebrand's concepts and their usefulness was drawn by Johann Plenge and, following him, by Alfons Dopsch. (36) However, both of these men saw a connection between Hildebrand's classification of stages and others developed later by Karl Bücher and Gustav Schmoller. For this reason, the discussion of the reappearance of the debates on barter and money economy in German economic literature will be postponed until we have gained a greater familiarity with Bücher's doctrine, a theory which caused more stir and more debate than all previous classifications of economic stages taken together.

(35) On the distinction between redistribution, reciprocity, and markets, see Karl Polanyi, *The Great Transformation*, New York, 1944, chaps. 4 and 5; on banks and related institutions and their role in economic development, the literature is too voluminous and too well known to require special references. See, however, Alexander Gershenfron, "Economic Backwardness in Historical Perspective," in *The Progress of Underdeveloped Areas*, B.F. Hoselitz, ed., Chicago, 1952, pp. 3-29.

(36) See Johann Plenge, *op. cit.*; idem, "Grundlegung der vergleichenden Wirtschaftstheorie," *Annalen für soziale Politik und Gesetzgebung*, V, 1917, pp. 492-518; and Dopsch, *op. cit.*

III

The most popular and probably the most widely discussed theory of economic stages is that elaborated by Karl Bücher. Though he made references to it in earlier writings, it was first published in fully developed form in his essay, "Die Entstehung der Volkswirtschaft," which forms the main chapter of his collection of essays in a volume with that title. The first edition appeared in 1893; a second, somewhat revised and enlarged edition came out in 1897; the third edition, containing a short appendix with answers to the arguments of some of his critics, was published in 1900's. Since that time, the book has declined somewhat in popularity, but its impact, especially before World War I, both within Germany and beyond, is attested to not only by its numerous German editions, but also by the fact that it was into English, French, Hungarian, Russian, and other languages. (37) As new editions appeared, Bücher appended further essays, so that the book, which began with six chapters, ended up as a two-volume work with more than twenty chapters. But Bücher's crucial contribution to the theory of economic stages is contained in a lecture which he delivered in 1890, and which was included in the very first edition of the book. Some supporting discussion of his theory, especially with respect to the economic conditions of primitive peoples, was added in later editions, but the English translation, which was made from the third German edition, contains Bücher's views in their final form. We will have occasion later in this essay to discuss Bücher's changing opinions, particularly with reference to the empirical

(37) Two translations came out in 1901, one in French, under the title, *Etudes d'histoire et d'économie politique*, translated by A. Hansy, Paris and Brussels, 1901; and one in English, under the title, *Industrial Evolution*, translated by S.M. Wickett, New York, 1901. Hereinafter all references to Bücher's main essay will be made to the English translation edited by Wickett.

applicability of his theory. (38)

In the final form of his classification, Bücher posits three stages: (a) the stage of the independent domestic, or household, economy; (b) the stage of town economy; and (c) the stage of national economy. (39) for each of his classes, he adds two further explanatory characteristics which constitute the criteria by which his classification has been achieved. Ideally, the domestic economy is characterized by the absence of exchange, and hence by production solely for the household. Goods are consumed at the place where they are produced. Bücher did not stipulate a stage at which division of labor was absent; what was lacking was an institutionalized system of market exchange. But this does not mean that at the stage of domestic economy certain paraphernalia of an extended system of trade were absent. Bücher specifically points to the existence of such paraphernalia of commerce as weights and measures; the carriage of persons, news, and goods; hostelries; and the transference of goods and services. "In all, however, there is lacking the characteristic feature of economic exchange, namely, the direct connection of each single service with its reciprocal service, and the freedom of action on the part of the individual units carrying on trade with one another." (40)

The next stage, the town economy, is characterized by exchange; but exchange is limited to goods which pass directly from the producer to the consumer, i.e., ideally, all production is customer production. The transition to this stage arises out of the gradual dissolution of the domestic economy itself. In some of its

(38) A very interesting discussion of the textual changes between the first and second German editions has been presented by Georg von Below, *op.cit.*, pp. 22-24, and by J.G. van Dillen, *op.cit.*, 12-17.

(39) Bücher, *Industrial Evolution*, chap. 3, esp. p. 89.

(40) *Ibid.*, pp. 106-107.

manifestations, and "on the surface," elements of the town economy stage have already appeared under the general prevalence of the system of domestic economy. There are two types of transaction which Bücher stresses particularly. One is the distribution of commodities of high value, such as precious cloths, jewels, spices, and other commodities which are produced only in a small number of places, either because of the limited natural conditions under which they occur, or because of the scarcity of skills involved in their production. To the extent to which these commodities are distributed at all, they provoke some form of organized trade for their circulation. Bücher argues that though these objects get to places far from their place of origin, they often reach their destination, not in the course of organized trade, but rather as gifts, booty, or tribute. Nevertheless, a portion of these objects is traded by merchants who gradually tend to become specialized in this type of service. Apart from trade in rare and valuable commodities, the domestic economy tends to develop forms of exchange for the more common objects of use. Bücher exemplifies this transition by citing several examples, such as a slave-owner lending a neighbor a specially skilled slave for some time against the payment of a quantity of wine or wood. He gives another example of an artisan serf who is given the privilege of selling, on his own account, objects which he has produced during the time he was not under obligation to work for his lord. Nevertheless, exchanges are rare; the processes of exchange are cumbersome and complicated; and specialized traders constitute an almost negligible proportion of the population as a whole. (41)

This transition can last a long time; and, in fact, Bücher characterized the last centuries of the Roman empire and several centuries of the middle ages as a stage of domestic economy in which

(41) Ibid., pp. 108ff.

these symptoms of transition were present. Is the development of the town economy merely a gradual accumulation of the frequency of exchange transactions, or does some other force intervene to create a somewhat more discontinuous change? It appears that Bücher sees such an extraneous force in the political constitution of the medieval town. While it would be difficult to prove this in detail, I believe that his conception of the social character of the medieval European town is similar to that elaborated more extensively by Max Weber. (42) Weber stressed the fact that the peculiar feature of the European city of the middle ages was its character as a corporate entity for defense, which required the economic cooperation of all its inhabitants and thus set them apart from the common people of the open country. This fact is also underlined by Bücher. But Weber stresses a further point which Bücher probably would have accepted, although he does not mention it explicitly. I refer to the problem of how membership in the urban community was attained. This appears to be a characteristic which distinguishes the European city from cities both in antiquity and in non-western civilizations. The members of the medieval European city, according to Weber's view, formed not only a defensive community--such communities had existed in ancient cities and in cities elsewhere in the world--but one which was based upon a religious bond. Whereas elsewhere in the world different sub-groups living together in an urban environment remained ceremonially alien from one another, and were thus unable to form ritualistic communities based on sworn compacts, the ecumenical character of the Christian religion, which admitted anyone who subscribed to the sacraments to membership, made possible the formation of a community in medieval Europe which was based on a sacred bond of

(42) See Max Weber, *Wirtschaft und Gesellschaft*, Tübingen, 1922, II, pp. 532-42; and idem, *General Economic History*, translated by F.H. Knight, Glencoe, 1950, pp. 315.ff.

brotherhood which embraced all members of the same faith. Thus, all Christians—and it is known that the Jews remained forever strangers in the medieval city—were admitted to communion and could participate as equal members in the coniuratio on which the urban constitution of the Western European towns was ultimately. (43)

The development of the stage of town economy is thus based upon the development of a very special institutional phenomenon, i.e., the development of the medieval Western European city. On the one hand, this implies a limitation of Bücher's theory of stages, by confining it to an attempted interpretation of the economic growth of Western and Central Europe, but, on the other hand, it also imparts some strength to the theory, by circumscribing a concrete, well-studied institutional framework within which the empirical content of the theory can be tested. The stage of the town economy, in particular, has been studied and restudied so extensively that it need not be discussed in detail. It may be said, without exaggeration, that Bücher's system of stages received such widespread acceptance, especially in Europe, because of his description of the essential quality of the medieval

(43) For a further discussion of this point see my essay, "Cities and Advanced and Underdeveloped Countries," *Confluence*, IV, 1955, pp. 324 ff.

town economy. (44)

Of greatest interest for us, however, is neither the detailed description of the town economy nor the transition from the domestic economy to the town economy, but rather the process of economic growth constituted by the transition from the town economy to the national economy. The stage of the national economy is characterized by Bücher as that in which goods are produced wholesale for a market which constitutes the characteristic institution through which they circulate. The producer and consumer

(44) Among the more comprehensive publications on the medieval town economy based in part on Bücher's discussion, see, above all, J.G. van Dillen, *op.cit.*, Fritz Rörig, *Die europäische Stadt im Mittelalter* (1932), Göttingen, 1955; Henri Pirenne, *Medieval Cities* Princeton 1925; and Max Weber, *General Economic History*, chap. 28.

If this interpretation of the unique political role of the medieval European city is accepted, and if the peculiarity of the "town economy" is considered to be an outflow of the high degree of social solidarity and political self-determination of the medieval European city, the argument of some of Bücher's critics that he did not extend his analysis of the town economy to non-European cities is not only irrelevant but misleading. For example, Johann Plenge, in "Grundlegung der vergleichenden Wirtschaftstheorie," p.98, says that it is to be regretted that Bücher did not understand how "to make correct use" of works on medieval Byzantium and Moslem cities, and urban conditions in China, in order to give his theory of stages "that universal-historical extension" it requires. Plenge was misled by certain superficial aspects of the operation of markets and by certain analogous functions of market supervision and the supervision of production by guild-like organizations. If he had looked at the deeper socio-structural relations in these non-Western European cities, he might have found profound differences which show the wisdom of Bücher's confining himself to the Occident as a first approximation.

are typically unknown to one another, and goods normally pass through many hands before they reach their ultimate destination. In other words, the stage of national economy corresponds in general to the economic system characteristic of the more highly industrialized nations of the last two or two-and-a-half centuries. How, according to Bücher, did the town economy become transformed into the national economy? Again, the major influence upon this transition is extraneous to the economic system in any narrow sense. Bücher explains this transition in its most crucial aspects when he says that the "final development of national economy is in its essence a fruit of the Middle Ages with the rise of territorial state organizations, and now finds its completion in the creation of the unified national State. Economic unification of forces goes hand in hand with the bowing of private political interests to the higher aims of the nation as a whole." (45)

Just as a political factor, i.e., the constitution of the city as a particular form of socio-political association, paved the way for further economic growth in the transition from the domestic economy to the town economy, so the transition from the town economy to the national economy is explained as being instigated by a political reorganization, the disintegration of medieval particularism in the socio-political, and consequently the economic, field and its replacement by the modern unified state. As an explanation of economic processes of growth, Bücher's theory must therefore be regarded as a retrogression, as compared with that of List. It may be empirically more accurate in describing various concrete forms of economic organization than either List's or Hildebrand's, but while its realism might prove an advantage in the study of economic history or economic anthropology, it is almost without value as a theory of economic processes. This raises two important questions. First, why was Bücher's theory

(45) Bücher, op.cit., p. 134.

so popular; second, what is the precise nature of its empirical relevance for economic history?

We cannot answer the first question merely by arguing that the generally unsatisfactory state of economic theory in Germany at the time Bücher wrote accounts for the wide acclaim his theory received. Nor can we say that, since he was close to the leaders of the so-called "New Historical School," Bücher's work was bound to be widely accepted. Bücher was a scholar of high integrity and great knowledge. His book on medieval Frankfurt is one of the best socio-economic studies ever written of a medieval city. (46) Similarly, several of his essays on special topics in economic history and organization are masterpieces of concise, clear, and ingenious analysis. Yet, his most important contribution to the theory of economic development, a field of enquiry which he prized above all and in which his main contribution was made, is essentially barren of analytical insights. (47)

(46) Karl Bücher, *Die Bevölkerung von Frankfurt am Main im vierzehnten und fünfzehnten Jahrhundert*, Tübingen, 1886.

(47) It should be pointed out that in his volume, *Industrial Evolution* (pp. 154ff), there is still another system of stages than the one discussed here. This is to be found in the fourth chapter, entitled, "A Historical Survey of Industrial Systems," in which five stages are listed. They are: domestic work; wage-work; handicraft; house industry, or putting-out system; and factory work. These five stages correspond roughly to the three over-all economic stages. Domestic work corresponds to the early domestic system; wage-work to the late domestic system and transition to the system of town economy; handicraft is the characteristic form of industrial organization in the town economy; and the last two stages correspond to the early phase and the later phase of the national economy. Thus, this classification of stages is merely a listing of some special aspects of the more general system of economic stages presented by Bücher. As a discussion of economic processes growth, it remains inferior to that presented earlier, and to the extent to which it explains successive systems of industrial organization as being based upon increasing division of labor, it remains far less sophisticated than what Adam Smith had said on this topic.

In any event, when Bücher's *Entstehung der Volkswirtschaft* appeared for the first time, he was already a well-known and highly respected scholar, and his work was bound to be read with interest and attention. I venture to say that its success was due to two facts: On the one hand, it summarized in able fashion some ideas that were widely current at the time, e.g., the description of the medieval town economy. On the other hand, it caused a stir by tracing back the development of modern economic systems to their most primitive antecedents. Both of these problems have relevance for the second question I stated earlier, e.g., the question of the empirical relevance of Bücher's work for the better understanding of economic history.

Let us first discuss the concept of town economy. (48) Bücher himself acknowledges that this concept and the description of the town economy as a special form of economic organization were not original. He says that he derived the concept from an essay by G. Schönberg, and Below later showed that substantially the same ideas had been published even earlier by Hildebrand and

(48) The discussion in the remainder of this section may be considered by some readers to be a side issue. Instead of testing the direct analytical validity of Bücher's "theory" of economic growth, we are about to discuss his views on the town economy and primitive economic conditions. But since the study of secular economic growth has an important historical dimension, and some problems of economic development can be better understood if we are aware of the differences and similarities—such as exist—between modern advanced and quite primitive forms of economic organization and their accompanying socio-political structures, a theory which stresses these points is of value for a better understanding of economic growth, even if it does not center around the purely economic processes of growth in particular.

others. (49) In fact, the general concept of town economy and the analysis of its main economic forms had become a matter of common acceptance in the German economics of the time, and the special contribution of Bücher consisted in having given concise and clear expression to this body of ideas.

Nor did the concept of the closed domestic economy originate with Bücher. As he himself states, he derived this idea from the work of Rodbertus, who had, however, used a different term—"oikos economy."⁽⁵⁰⁾ But what Bücher had omitted to state was

(49) See Karl Bücher, "Erwiderung," *Jahrbücher für Gesetzgebung Verwaltung und Volkswirtschaft im Deutschen Reich*, XVIII, 1894, pp. 318-19; Georg von Below, *op. cit.*, pp. 4-6; Gustav Schönberg, "Zur wirtschaftlichen Bedeutung des deutschen Zunftwessens im Mittelalter," *Jahrbücher für Nationalökonomie und Statistik*, IX, 1867, pp. 13-14; and Bruno Hildebrand, "Zur Geschichte der deutschen Wollenindustrie," *ibid.*, VII, 1866, pp. 85-86.

(50) Cf. Bücher, *Industrial Evolution*, p. 97; also his "Erwiderung," *loc. cit.* The issue of whether Bücher's contribution was original or not had been raised in a review of the first edition of *Entstehung der Volkswirtschaft*, which Gustav Schmoller published in the *Jahrbuch für Gesetzgebung Verwaltung und Volkswirtschaft im Deutschen Reich*, XVII, 1893, pp. 1259ff. Schmoller had cited some of his own earlier writings and complained because Bücher had not referred to them. Bücher's reply was that the distinction of having discovered the concept of town economy belonged neither to himself nor to Schmoller, but to Schönberg. Below later traced the idea back to the work of Hildebrand and Perthes. As to the concept of closed domestic economy, Bücher acknowledged having borrowed the term from an obscure work by an E. Becher, and the descriptive aspects of it from Rodbertus.

Schmoller's attack against Bücher's claim that he was the originator of the theory of three stages of domestic economy, town economy, and national economy, was not the only one. His authorship of the theory was called into question a second time when Johann Plenge, in "Wirtschaftsstufen und Wirtschaftsentwicklung" (*Annalen für soziale Politik und Gesetzgebung*, IV, 1916, pp. 495-529), again questioned Bücher's authorship of the theory and attributed its invention to Gustav Schönberg. Plenge proceeded by collecting a series of paragraphs from Schönberg's early

(continue)

that Robertus had not merely described the oikos economy rather extensively and regarded it as the dominant form of economic organization of antiquity, but that in doing so he had also made a contribution to bridging the theory of economic stages of Hildebrand and that of Bücher himself. In fact, in some ways Rodbertus's discussion contains insights, especially on the nature and role of money, which in the later theorizing on economic stages have again been lost. (51) The bridge that Rodbertus builds between the

(Continuation, 50) essay on medieval guilds, "Zur wirtschaftlichen Bedeutung des deutschen Zunftwesens im Mittelalter," p.1-72, 97-169, and then showed that Schönberg had used in that essay the concepts later included in Bücher's theory, and that he had presented approximately similar characteristics for each of the three stages. Bücher replied to Plenge's criticism in a sharp rejoinder, to which Plenge again answered ("Zum Prioritätsstreit über die Theorie der Wirtschaftsstufen," *Annalen für soziale Politik und Gesetzgebung*, V, 1917, pp. 248-62). The most important and ultimately convincing arguments raised by Bücher against Plenge's claim are the following: Bücher says that "Schönberg was not conscious of the fact that he had the parts of a uniform sequence of stages before his eyes. He only gave descriptions of various situations which he compared with one another. When later in his life he discussed economic stages in his treatise, he made reference to the theory of F. List and also mentioned the theory of stages presented by myself. This fact cannot be explained—as Plenge has done—that he did not remember the theory of his youth. He never had such a theory" (p. 253)

Plenge did not reply to these points. Gertrud Kalveran (Op. cit., pp. 107ff.) has again raised the problem of whether or not Schönberg developed an original theory of stages, and she comes to an affirmative answer. She also points out that the main distinction between Schönberg's and Bücher's procedure is that the former presented his stages in more detail and with a greater number of "characteristic" variables than did either Bücher or Schmoller. If Miss Kalveran's reasoning is accepted, it appears that Schönberg's stages are described more nearly as "real types," and Bücher's more nearly as "ideal types."

(51) See Karl Rodbertus, "Zur Geschichte der römischen Tributsteuern seit Augustus," *Jahrbücher für Nationalökonomie und Statistik*, VIII, 1867, esp. p. 106, note 51 on pp. 400-403, and pp. 408ff.

theory of stages stipulated by Hildebrand and his own concept of the oikos economy rests on two pillars: One is the role of the medium of exchange; the other is the over-all social organization characteristic of each economic stage. Whereas Hildebrand had argued that the sequence of barter economy, money economy, and credit economy are successive stages in the history of one people, Rodbertus preferred to regard this sequence as descriptive of the entire economic development of the western world. In this view, the first stage of a barter economy thus becomes coincident with the domestic or oikos economy; the second stage of money economy becomes coincident with the medieval and post-medieval phase of economic growth (i.e., with the town economy and the national economy); and the third stage of a credit economy is a system of the future.

In support of this interpretation, Rodbertus analyzes first the social function of the medium of exchange in the three economic stages. (52) In barter economy, any object which serves as a generalized means of exchange is a commodity which is distinguished from others only by its more general acceptability. The characteristic type of such a medium of exchange in a barter economy is cattle or bars of metal-objects which have an immediate use value for their possessor. Even in classical antiquity, when money circulated in the form of gold and silver, its transformation into objects of use

(52) It should be stressed that we are concerned with the social and not the economic function of money. This latter is identical in all three stages, i.e., money serves as a generalized means of exchange and a store of value. But the social function of money—and as we shall see later, the social function of other institutions, e.g., markets or their equivalents—may vary considerably, since it does not depend on the purely economic effect of that institution, but primarily upon the general attitude held with regard to it by the members of a society.

was obvious and actually took place often. In a money economy, the medium of exchange still has intrinsic value, but it performs primarily a monetary function. In other words, though metallic money may circulate in a barter economy, this is regarded merely as a temporary form taken on by a commodity whose primary use is to serve needs other than the facilitation of exchange transactions. In a money economy, on the contrary, the transformation of metallic money into plate or other objects, and its withdrawal from its primary function as a medium of exchange, is an exception. The commodity aspect of metallic money has been a primary function in the barter economy stage and has become a subsidiary function in the stage of the money economy. In the stage of the credit economy, the intrinsic value of money has become irrelevant altogether; money is merely a token which, however, preserves its value because its social acceptability makes it an object enjoying general confidence. Money in this stage is an object whose sole use is its function as a carrier of purchasing power. (53)

(53) Rodbertus's view on the changing social function of money was developed much earlier than his writings on agrarian conditions in ancient Rome. In his first major work, *Zur Erkenntnis unsrer staatswirtschaftlichen Zustände* (Neubrandenburg, 1842, pp.147ff.), he discusses the various forms a medium of circulation can take, and distinguishes between money with intrinsic commodity value (e.g., gold and silver coins) and the money of the future, which is a mere token without intrinsic value. In the course of this discussions, he examines the historical development of money and provides an explanation which bears a striking similarity to the ideas which Hildebrand later incorporated in his essay of 1864. Although Rodbertus never claimed that Hildebrand's classification of stages is derived from his earlier discussion, the similarities are so great as to lead one to assume that Hildebrand may have had Rodbertus' earlier work in mind when he composed his essay of 1864. If this were so, then Rodbertus would have to be regarded not only as the original source of inspiration for a part of Rücher's theory, but also of Hildebrand's theory of economic stages.

But the social function of money, in turn, is determined by the over-all social organization of a society and the form of economic relations existing in it. In the oikos economy, the differentiation of social roles is less complex than in the more highly developed societies with a developed money economy. Rodbertus expresses this quite clearly when he says:

If we compare, for example, the general social basis of the two orders with one another we find that in the one, as a consequence of slavery, the production of raw materials, their processing, and, at first, even commerce, are combined in one and the same household and productive unit, and hence separate classes of landowners, capitalists, entrepreneurs, and even workers do not exist and do not meet on a market. On the contrary, we find in the other order that, as a consequence of free labor and the division of productive processes among different owners, the production of raw materials, the processing of materials, and trade are each carried on independently. In this situation workers and landowners, manufacturers and entrepreneurs make lively use of, and, indeed, build up, a market through the free interchange of their varied services and other contributions to the productive process. (54)

To be sure, there is exchange in a barter economy; the very designation of this economic stage indicates this. But although there is exchange, it is not mediated by an institution which has common social characteristics with the market of the later town or national economy. Given this interpretation of Rodbertus, a unifying principle is found by which a necessary association between a barter economy and a domestic economy is established, and the main problem which remains to be answered is whether this analysis is an adequate interpretation of the socio-economic relations of that period to which it was alleged to apply, i.e., classical antiquity, especially the Hellenistic and imperial Roman period.

Both Rodbertus and, following him Bücher had answered this question in the affirmative, but there were a host of writers who did not. Chief among them were a group of social and economic

(54) Rodbertus, op.cit., p. 401.

historians, led by such distinguished figures as Eduard Meyer, Alfons Dopsch, M.I. Rostovtzeff, and R. von Pöhlmann. (55) The main issue raised by these critics of the Bücher-Rodbertus theory was based on their conception of the essential similarity between the economy of the ancient world and the present. Perhaps the most extreme assertion of the "modernity" of the ancient world was made by Rostovtzeff, when he said that the economy of the Hellenistic and early imperial Roman period "was only quantitatively, not qualitatively different from the modern economy. This is, for me, a fact." (56) Yet, I believe that ordinary reflection should convince one that, owing to the profound differences in social structure, economic performance, and technological advancement between the societies of antiquity and the modern west, any such statement must be rejected as extreme. Rostovtzeff asks whether or not some form of economic progress occurred during the four thousand years of ancient history. He finds that such progress did occur, and that in the course of time, institutions and forms of organization were developed which externally resembled those of modern Europe. This last argument must be contested. It cannot be denied that there was progress in antiquity, at least that there was growth in the absolute number of population, in absolute wealth, and in

(55) Eduard Meyer, "Die wirtschaftliche Entwicklung des Altertums," *Jahrbücher für Nationalökonomie und Statistik*, LXIV, 1895, pp. 696-743; Dopsch, *op.cit.*, M.I. Rostovtzeff, "Review of Johannes Hasebroek, *Griechische Wirtschafts und Gesellschaftsgeschichte*," *Zeitschrift für die gesamte Staatswissenschaft*, XCII, 1932, pp. 333-39; and R. von Pöhlmann, *Geschichte der sozialen Frage und des Sozialismus in der antiken Welt*, Berlin, 1925. See also G. Salvioli, *Der Kapitalismus im Altertum*, Stuttgart, 1912. And see Bücher's reply to the attack by Eduard Meyer in his article, "Zur griechischen Wirtschaftsgeschichte," (1901), reprinted in *Karl Bücher, Beiträge zur Wirtschaftsgeschichte*, Jena, 1922, pp. 1ff.

(56) Rostovtzeff, *op.cit.*, p. 335.

technological and economic knowledge. However, the question is whether the presence of progress in itself necessarily leads to an economy which, in its basic structural features, is identical or even closely similar to the modern one. The clearly implied meaning of the argument expressed by men like Dopsch, Meyer, and Rostovtzeff affirms this proposition. But I think that in view of the differences in economic performance, and because of the greatly reduced resilience of ancient societies to economic crises and other forms of adversity, this view cannot be upheld. It may be, of course, that the description of the economy of antiquity as a closed domestic economy, or an oikos economy, is too narrow. It certainly does not describe adequately the variety of economic institutions that existed in the second century A.D. But it may be a very appropriate description of an ideal type which, with only relatively slight modification and divergences, may be the characteristic form of economic organization of the ancient world. (57)

(57) The controversy between the adherents of the Bücher-Rodbertus theory and its opponents has been subjected recently to two separate treatments. A summary of the controversy is presented in Edouard Will, "Trois quarts de siècle de recherches sur l'économie grecque antique," *Annales*, IX, 1954, pp. 7-19; and in a paper by H.W. Pearson, "The Secular Debate on Economic Primitivism," in *Trade and Market in the Early Empires*; K. Polanyi, C.M. Arensberg, and H.W. Pearson, eds, Glencoe, 1957, pp. 1-11. (See also the evaluation of the "oikos controversy" by Max Weber, *Gesammelte Aufsätze zur Sozial- und Wirtschaftsgeschichte*, Tübingen, 1924, esp. pp. 8-12, 31-33.) The essay by Will contains a large number of footnote references to the pertinent literature. Will summarizes his discussion by characterizing the Greek economy as follows: "A socio-political structure oriented inward to a city, based ultimately on an essentially agricultural economy, and limited to an archaic handicraft production for the satisfaction of restricted needs. The growth of the city makes foreign commerce necessary in order to meet the needs of the trophé, and secondly (but concurrently) of the fisc. This produces an indispensable category of persons with the cosmopolitan outward orientation antagonistic to the basic archaic tendencies. The volume, complexity, and extension of this trade was very modest at the outset, but grew progressively, yet remained always extremely limited in comparison to our modern conceptions" (p.19). Although this characterization seems on first blush

(Continue)

But whereas the criticism of one group of writers was confined to the interpretation of the nature of Greek and Roman society, another group of historians, notably Alfons Dopsch, attacked the theory as such. Dopsch's argument is that since money is a means of exchange, any theory which stipulates the absence of money implicitly also asserts that all economic units of which the society is made up are sufficient and pursue a policy of autarchy. Hence, the concept of *Naturalwirtschaft* designates a situation in which no exchange takes place and in which each unit produces all it consumes. Dopsch maintains that this view is based on purely contrived situations, and that there exists exchange, even on the "lowest levels of civilization." Moreover, once these very low levels of primitive culture are passed, we find no societies in which either money or some commodity which serves as money is absent, nor do we find that any economy is composed of fully self-sufficient entities which live altogether without trade. (58)

Dopsch's criticism is in part a battle against strawmen of his own making, and in part betrays an unwillingness to give due regard to the qualifications introduced by Bücher in his account. He presents Bücher's theory in an extreme and absurd fashion. Moreover, Dopsch's work betrays his own weakness as a theorist, especially his inability to draw theoretical conclusions from the data which he himself adduces. (59) One example must suffice. In one place, Dopsch shows that throughout the Middle Ages many magnates paid their officials, in large part, not in money but in *natura*, i.e., by

(Continuation 57) to be a position in the "golden middle" between the two extremes, it lends considerable support to the interpretation by Bücher and Rodbertus, rather than the modernist view since it stresses the predominantly agricultural and handicraft character of the Greek economy and the relatively limited scope of trade.

(58) See Dopsch, *op.cit.*, *passim*, but esp. chaps. 1 and 2.

(59) This weakness of Dopsch was already castigated shaply and, in my opinion, quite accurately by Sombart with reference to Dopsch's *Die Wirtschaftsentwicklung der Karolingerzeit* (Weimar, 2 vols. 1912-1913); cf. Sombart, *Der Modern Kapitalismus*, Munich, 5th ed., 1922, I, pp.53-55.

allocation of houses and the supply of food and other goods. He attributes this not to the scarcity of money, but to the fact that these lords owned large estates with houses on them, and that, moreover, these estates produced the food and other materials assigned as wages to the officials. Hence, he argues that under the conditions then prevailing, this form of payment without money was more economical, since the profit of the middleman was eliminated. (60) Dopsch is unaware that this argument defeats the core of his main thesis. The reason why this was a mutually beneficial form of remuneration in the early Middle Ages was due precisely to the absence of markets as institutions mediating exchange and because of the prevalence of a system of domestic economy. His confusion between domestic economy and economy without exchange (*Eigenwirtschaft*), and his over-simplified interpretation of the social function of money have misled him. There is no reason why ideal-typically, a system of domestic economy may not contain some exchange operations and have an object which performs monetary functions. Only someone who caricatures a theory can arrive at the critical conclusions Dopsch reached. (61)

(60) Dopsch; *Naturalwirtschaft und Geldwirtschaft in der Weltgeschichte*, pp. 253-54.

(61) Dopsch's theoretical naivete is evidenced, moreover, by the argument (*ibid.*, p. 254) that the medieval system of payment in kind is identical with the truck system.

But whereas, under the conditions prevailing in the middle ages, payment in kind was preferred by both parties, precisely because of the absence of organized markets, the truck system, to the extent to which it was practiced in economics in which well-developed markets were functioning, was not a mutually beneficial institutioning, but a means of exploitation of the worker. Hence, the two systems have only a superficial similarity and are basically different in their socio-economic role.

Although these attacks were directed chiefly against Bücher's formulation of economic stages, most of the criticism, as well as the praise, also applied to Schmoller's series of economic stages. For the two series were very similar, and their distinctive mark was not so much one of kind as of emphasis. I have already referred to the controversy between the two men regarding the question of who was entitled to the claim of priority with respect to the nomenclature employed in the sequence of stages. Schmoller's presentation, which was first published in 1884 and appears in more final form in his *Grundriss der allgemeinen Volkswirtschaftslehre*, includes the following five stages: village economy, town economy, territorial economy, national economy, and world economy. (62)

Schmoller

In view of the similarity of the two classifications, it would be idle to enter into a lengthy critical analysis of Schmoller's point of view. Only three brief comments are in order at this time.

First, the classification of economic stages presented by Schmoller is clearly derived from the economic history of Germany. Whereas Bücher's stages, as he himself said, could be made applicable at least to Western and Central Europe, the validity of Schmoller's stages is even more limited.

Second, as can be seen from the labels of Schmoller's other stages, his village economy corresponds roughly to Bücher's closed domestic economy; as for the rest, he interposes the territorial

(62) See Gustav Schmoller, *The Mercantile System* (a translation of a chapter from "Studien über die wirtschaftliche Politik Friedrich's des Grossen," first published in 1884), W. J. Ashley, ed. and trans., New York, 1895, pp. 3-6. For the later and more extensive exposition, see Gustav Schmoller, *Grundriss der Allgemeinen Volkswirtschaftslehre*, Leipzig, 1904, II, pp. 1126-31.

economy between the town and the national economy and adds the stage of world economy at the end. Now, the problem which was, and could be, much discussed is whether Bücher's term, "domestic economy," is preferable to Schmoller's term, "village economy", and whether there is a separate niche for the territorial economy within the framework of the classification. If the stages are regarded as ideal types, or logical constructs, the particular form does not matter. It is different, however, if these stages are regarded as realistic descriptions, or even schematizations of actual historical periods of economic development. This same observation holds for the desirability of interposing the stage of territorial economy. Bücher's divergence from Schmoller on these points appears to me to be an indication of a difference in scientific approach. For Bücher, the strict historical relevance of the various categories was less important than their explanatory analytical content. But Schmoller made the obverse evaluation.

This interpretation also appeals to conform to the third observation to be made about Schmoller's system. His general methodological approach to economics stressed the exposition of the historical development of economic institutions, rather than the deductive analysis of economic relations and an attempt to relate the principles so gained to empirical reality. (63) In view of Schmoller's preference for the historical approach, it is not difficult to see why he would regard his stages as schematic descriptions of episodes in the economic development of a society, rather than as logical categories of forms of economic organization

(63) On Schmoller's method, particularly on his opinions with respect to analytical economics, see Schumpeter, *op.cit.*, pp.809-15.

which could be subjected to comparative analysis.

The contrast between Bücher's and Schmoller's interpretation of the validity of economic stages consists less in the particular structure of the classification itself, but rather in the use to which economic stages are to be put. Whereas Schmoller saw in them cross-sections at various crucial intervals in the description of a historical process, Bücher saw in them patterns of characteristic forms of economic organization which, on the whole, were connected with one another by forming links in a chain of historical development. For Schmoller, the description of a process of historical development stood in the foreground; for Bücher, the comparison of economic relations on different levels of the developmental scale was of primary importance. (64)

The comparative use of economic stages was stressed increasingly by later authors. In fact, in Arthur Spiethoff's attempt to reinterpret the methodological foundation of theories of stages, the usefulness of economic stages- or "economic styles," as he prefers to call them- for comparison is stressed, above all. (65)

In the remainder of this paper, I shall try to trace briefly the development from Bücher's stages, by way of Sombart's "economic systems," to Spiethoff's "economic styles." As Lane and Riemersma point out in their introduction to Spiethoff's paper on the

(64) This viewpoint is expressed with special emphasis in Karl Bücher, *Volkswirtschaftliche Entwicklungsstufen* "Grundriss der Sozialökonomie," Tübingen, 1924, I, Part I, esp. pp. 6, 17-18.

(65) See Arthur Spiethoff, "Die allgemeine Volkswirtschaftslehre Theorie: Die Wirtschaftsstile," *Schmollers Jahrbuch*, LVI, 1932, pp. 51-84; and idem, "Anschauliche und reine volkswirtschaftliche Theorie und ihr Verhältnis zueinander," in *Synopsis*, Edgar Salin, ed., Heidelberg, n.d., pp. 567-644. Parts of this last essay appeared in English translation under the title, "Pure Theory and Economic Gestalt Theory: Ideal Types and Real Types," in *Enterprise and Secular Change*, F.C. Lane and J.C. Riemersma, eds., Homewood, Ill., 1955, pp. 444-63.

methodology of economic stages, which they include in their collection of economic essays on Enterprise and Secular Change, (66) in more recent work the theory of stages was intended to serve in the attempt to build a bridge between dynamic theory and economic history. In its most recent phase, this trend of analysis has led to such products as the essay by Bowman and Anderson on economic "types," which is introduced by the proposition that "by taking a comparative view of the world's economies we may gain fresh perspectives on the potentialities and limitations of modern economic theory and upon some of the points at which economic theory and history are mutually dependent." And in the summary of this paper, the observation is made that "while the... typology is not focused upon change, it contains many dynamic elements... (and) a whole set of hypotheses concerning economic change may be derived from a comparison of observed associations of traits within these types." (67)

V

We have seen that throughout the work of Bücher and Schmoller a certain ambiguity prevailed as to whether the empirical-historical or the analytical-logical aspects of the stages were to be stressed. Unfortunately, this confusion was not resolved when Werner Sombart entered the field with his own theory of economic stages. Sombart tried to clear the ground for a new approach by distinguishing between economic stages (Wirtschaftsstufen), economic systems

(66) See Lane and Riemersma, op.cit., pp. 440-43.

(67) Mary Jean Bowman and C. Arnold Anderson, "Wirtschaftstypen," Schmollers Jahrbuch, LXXV, 1955, pp. 514, 532-33. I am citing from an English version circulated by the authors in mimeographed form.

(Wirtschaftssysteme), and principles of economic activity (Wirtschaftsprinzipien). But instead of presenting a classification based upon distinctive principles of categorization, he combines the three series into a uniform one and assigns certain economic systems to particular economic stages, as well as to particular principles of economic activity. However, on the surface, economic stages and principles of economic activity do not overlap fully, so that a certain ambiguity in Sombart's classification results. (68)

Sombart F In order to resolve this problem, let us follow Sombart's principles of classification. In order to find a principium divisionis, he attempts to find a phenomenon which has the following properties: it must be (a) a social phenomenon which permits (b) the comparison of various forms of economic organization, but which at the same time is (c) closely related to the most important fact of economic life, the development of productivity, and which also (d) most closely approximates the factual historical development of economic life. Sombart finds such criteria in the degree of social interaction (Vergesellschaftung) and concludes that there are three economic stages, depending upon the degree of social interaction. He calls the three stages individual economy, transitional economy, and social economy. The first is very close to Bücher's concept of the closed domestic economy. As Sombart explains, it is a stage in which social interaction exists primarily within a household, and in which only slight contact, rather than really full interaction, occurs with other economically active units. The transitional stage is one in which the total needs of a society are met through the cooperation of all members of that

(68) See Sombart, "Gewerbliche Arbeit," loc. cit., p. 402. For a discussion of the "economic stages," see ibid., pp. 390-93; and for a discussion of "principles of economic activity," ibid., pp. 395-96.

on for the sake of satisfaction of needs, that is one thing; if it is carried on for the sake of gain as an end in itself, it is another thing. (69) Sombart distinguishes, therefore, between the principle of subsistence (*Idee der Nahrung*) and the principle of acquisition. The principle of subsistence characterizes the first two economic stages, i.e., the stages of individual economy and of transitional economy. With one exception—the socialist economy—the stage of social economy is dominated by the principle of acquisition. Although the socialist economy is clearly an economy belonging to the third stage of economies, with fully developed social interaction, its guiding principle is not acquisition, but the satisfaction of needs.

Although we cannot go into this aspect of the theory too deeply, it appears that in Sombart's reasoning two strands of historical economic and evolutionary theories have been welded together. One strand stems from the German historical school, and the other from Marxism. I have already pointed out that Sombart's three stages are essentially repetitions of Bücher's stages. However, whereas Bücher based his division on the interaction between consumer and producer, Sombart tries to "generalize" this principle of categorization by replacing it with the degree of *Vergesellschaftung*. This substitution of a more general principle is in itself a hint of Marxian influence. But the combination of economic stages and economic principles in Sombart's schema results in a dialectical sequence which, if not in content, certainly in spirit, is derived from the work of Karl Marx. As is well known, Marx regarded the history of human social development as a great dialectical process. For him, the world-historical triad was an initial stage of primitive communism, in which the

(69) Cf. Sombart, "Gewerbliche Arbeit," loc. cit., pp. 394-95. See also Sombart, *Der Moderne Kapitalismus*, I, passim, esp. pp. 14, 31ff., 320, 327-30.

producer is also the owner of the means of production, and in which, because of the low level of technological development, exploitation of man by man is absent; hence no surplus value is available and no one can exploit anyone. This stage is replaced by the next stage, in which society is divided into classes: The worker is separated from the means of production and exploited under different forms (i.e., as a slave in antiquity, a serf in the medieval economy, and a salaried free proletarian under modern capitalism). The next step in the triad is the future socialist society, in which the highly developed productivity made possible under capitalism is combined again with the socialization of the means of production and the abolition of exploitation, and, hence, of social classes. (70)

Compare this schema with Sombart's. The first stage is the individual economy under the principle of subsistence. This gradually changes and is replaced by the transitional economy, still under the system of subsistence. But the latest "economic system" in the transitional stage is the town economy, in which manifold forms of the principle of acquisition begin to manifest themselves. This is finally replaced by the third stage, capitalism, a social economy under the principle of acquisition. And this, in turn, ultimately leads to a fully socialized economy under the principle of subsistence (or rather, satisfaction of needs); and that is socialism. The evolutionary processes are parallel, except that Sombart is somewhat less schematic than Marx and interposes the transitional stage, which corresponds roughly to the pre-capitalist forms of class societies of Marx.

(70) A good summary of this schema is presented by Sombart himself. Cf. "Gewerbliche Arbeit," loc.cit., pp. 379-82, esp. p. 380. But see also J.L. Gray, "Karl Marx and Social Philosophy," in *The Social and Political Ideas of Some Representative Thinkers of the Victorian Age*, F.J.C. Hearnshaw, ed., London, 1933, pp. 116-50, esp. pp. 135-38.

In reality, Sombart's classification is also a grand evolutionary scheme of forms of socio-economic organization, and his claim that he presents comparative types, rather than a historical chain of economic stages, is supported more by the manner of his presentation than by the content of his discussion. Nevertheless, there are two aspects of Sombart's theory which constitute an innovation and which were, on the whole, overlooked by Sombart's critics and interpreters. One is his insistence on the principle of *Vergesellschaftung*; the other is his introduction of the concept of motivation of economic activity as an important aspect of an economic stage or system. In this way, Sombart lifted the discussion of economic stages from the realm of purely economic—and even purely economic-historical—analysis and placed it into a general sociological and socio-psychological framework. To be sure, the particular use he made of the principle of *Vergesellschaftung* was rather barren, as I believe I showed earlier, but in spite of its clumsiness, it contains one important kernel of insight. Sombart recognized clearly that any significant exposition of economic development by means of economic stages must regard these stages not merely as forms of economic organization, but rather as forms of social organization with different economic facets. An economic stage is significant, not because it describes different forms of economic behavior, but because it relates these forms of behavior to differences in social structure and socially relevant motivations. Thus, Sombart broadened the meaning of economic stages considerably, but the full implications of this remained largely unrecognized until recent years, when attention was drawn to this aspect of the theory.⁽⁷¹⁾

(71) See, for example, Bowman and Anderson, *op.cit.*, and my essays, "Social Structure and Economic Growth," *Economia Internazionale*, VI, 1953, pp. 52-72, and "Sociological Approaches to Economic Development," *Atti del Congresso Internazionale di Studio sul Problema della Aree Arretrate*, Milan, 1955, II, pp. 755-78.

On the basis of the analysis of Sombart's system of economic stages presented so far, it should not be difficult to derive his view on the mechanism of the transition from one stage to the next. In his essay of 1899 Sombart paid little attention to that problem, but he explained this point at length in his later work on the development and growth of capitalism. We shall see that if this later analysis is applied to his classification of economic stages and their combination with economic systems and principles of economic activity, certain difficulties arise which point up the basic weakness of Sombart's scheme. In fact, we may assume that Sombart's exposition of an allegedly universal system of stages was a tour de force, which he undertook quite gratuitously while he was at work on his book on capitalism. What really mattered to him was an explanation of the rise of capitalism, and his analysis of transition from one stage to the next applies with full force only to the transition from the predominantly subsistence-oriented town economy to the acquisition-oriented capitalist economy. The difficulty in Sombart's general scheme of 1899 arises because, according to that scheme, another analogous transition must have taken place in antiquity, i.e., a transition from the subsistence-oriented oikos economy to the acquisition-oriented slave economy. Whereas Sombart presents an extensive discussion of the origin of capitalism, he completely omits any further discussion of the parallel process in antiquity. This may be interpreted either as his having given up his original system of economic stages, or as his having given up the designation of the ancient slave economy as one based on the principle of acquisition. But whatever may have been Sombart's intention, the fact that he never seriously returned to the problem of economic stages and never again took up the analysis of economic conditions of antiquity, but continued to write extensively on capitalism and its origins, entitles us to assume that the only important aspect of economic stages for him, like List and most others, was the explanation of the rise of modern capitalist economy and the

reasons for its differences from all earlier forms of economic activity.

If the problem of Sombart's explanation of the forces determining the transition from the medieval "town economy" to the modern capitalist economy is posed in these terms, the answer becomes very simple. Since the earlier economic system is dominated by the principle of subsistence, and the later is dominated by the principle of acquisition, the major force in the development of this new stage of economic organization was a change in economic motivation. This is stated plainly by Sombart himself:

Capitalism grew out of the deepest foundation of the European soul. The same spirit out of which was born the new state and the new religion, the new science and the new technology, also created the new economy... This spirit which now begins to dominate economic life breaks through the barriers of a subsistence economy based on the quiet self-sufficiency of stationary, feudal-handicraft conditions of equilibrium. It drives men into the turmoil of an acquisitive economy. (72)

And in another place he summarizes his description of the development of this new spirit: "This new psychological state (Seelenstimmung), woven together of the bourgeois spirit and the entrepreneurial spirit, I call the capitalist spirit. It has created capitalism." (73) Sombart recognizes that such a categorical statement requires a twofold explanation. In the first place, it demands a detailed explanation of the derivation of the capitalist spirit from an earlier "spirit" or economic ethic; in the second place, it requires a clarification of whether an economic ideology can be regarded as determining the form of economic organization, or vice versa. Sombart is aware that in making the development of

(72) Sombart, *Der Moderne Kapitalismus*, I. pp. 327-28.
 (73) *Ibid.*, p. 329.

the capitalist spirit the ultimately determining influence of the development of capitalism, he is expressing an opinion diametrically opposed to historical materialism. His explanation of the process by which the spirit of capitalism evolved and why it should be regarded as determining the "material conditions of production" must, therefore, be understood not as an explanation of a social process as such, but primarily as a polemic against Marxism, and especially the Marxist interpretation of history.

It would lead us too far from the central core of this essay to follow Sombart's excursion into the field of the philosophy of history. His most pertinent remarks are contained in a book which he devoted to the socio-logical and historical analysis of the capitalist spirit and economic motivation in an acquisitive economy, as against a subsistence economy. (74) The very fact that Sombart's theory of historical development did not evoke very widespread attention is testimony to the fact that it may be regarded as the outcropping of a mind which was very well characterized by Schumpeter when he said that "Sombart's 'methodological' pronouncements followed fashion too closely to be interesting." (75)

What is more important for us, in the context of this essay, is that Sombart's interpretation of the transition from one stage to the next also requires the intervention of a *deus ex machina*, in the case, the alteration of an economic ideology. But since the relation between an economic ethic and the actual form of economic organization of a given economic stage is rather tenuous, and the interdependence of changes in the one and

(74) Werner Sombart, *The Quintessence of Capitalism*, London 1917. The German title of this book is *Der Bourgeois* (Munich, 1913); this is more indicative of its content and general approach than the English title.

(75) Schumpeter, *op.cit.*, p. 815. See also Schumpeter's general evaluation of Sombart's contribution to the study of capitalism, *ibid.*

the other is left almost entirely unexplained, the usefulness of Sombart's contribution lies neither in his substantive assertions, nor even in his method. It lies chiefly in the fact that he insisted—as List and Bücher, and even Schmoller, had done before him, though much less forcefully and persuasively—that the full significance of the use of economic stages as a device to study economic development hinges upon the interrelation of forms of economic organization with corresponding socio-structural and political factors, and perhaps also with prevailing tendencies in economic motivation. But a full-fledged social theory which reveals this interdependence is still lacking.

VI

Sombart presented his theory of economic stages in an article which appeared in 1899. Although this particular date is accidental, it has an almost symbolic meaning, for with the end of the nineteenth century, there was also an end to the setting up to grandiose schemes of economic stages covering explicitly, or by implication, all human history and all forms of human culture. The work done in the twentieth century in the general realm of theorizing about economic stages was chiefly a continuation of the attempt to evaluate the empirical relevance of a given economic stage with historical or cultural reality and of the methodological dispute regarding the role of economic stages in the theory of economic growth. In addition, an attempt was made to classify different economies, not as representatives of various stages of development, but rather as entities described by some quantifiable magnitudes. I shall take up these three topics in the order presented.

There is little to be added to the first topic. I have already mentioned the debate on the degree of modernity of the

economic institutions and form of economic organization of antiquity, which has been designated by some as the "oikos controversy." Other attempts to correlate the classifications of the stage theorists with long-run historical development were made by H. Spangenberg, who studied the German Middle Ages and the applicability of the concepts of town economy and territorial economy as descriptive labels for the economies of that period, and by Hans Geiss, who studied the usefulness of the dichotomy between natural and money economy for the economy of the early Middle Ages in Italy. (76) These monographs are perhaps the two ablest of a whole series of dissertations and journal articles which appeared on related topics in Germany during the 1920's and 1930's. Many of these works bring together valuable factual material, but on the whole, they neither confirm nor fully discount the sequence of stages they purport to analyze.

Another event which caused a widespread revival of interest in the validity of the classification proposed by Bücher, Schmoller, and Hildebrand was the publication of Dopsch's work on barter and money economy. In 1930, when this book appeared, Dopsch was at the peak of his reputation. It was inevitable that his work should be discussed and reviewed widely, and some of the most distinguished economic historians of the time participated in the discussion initiated by its appearance. Among the scholars who expressed opinions in this debate were Hans van Werveke, Henri Sée, Henri

(76) H. Spangenberg, *Territorialwirtschaft und Stadtwirtschaft*, Munich, 1932; Hans Geiss, *Geld- und naturalwirtschaftliche Erscheinungsformen im staatlichen Aufbau Italiens während der Gotenzeit*, Stuttgart, 1931.

Hauser, Otto Hintze, Eli Heckscher, and Marc Bloch. (77) The general upshot of this discussion was a final re-evaluation of the usefulness of the concepts of barter economy and money economy, and a final determination of the historical conditions under which one or the other system may be said to have been in existence. Thus, although the general conclusion is reached that it is difficult, if not impossible, to find a pure barter economy, without any commodity which performs a monetary function, and that it is equally difficult to find a pure money economy in which no exchanges or payments in natura are performed, and although the claim of Dopsch as to the general prevalence of mixed systems is maintained, the extreme conclusions which Dopsch drew from this are rejected. For Dopsch had argued that, because of the mixture of monetary transactions and transactions in kind, the distinction of economic stages is false and misleading, from the point of view of economic history. Notwithstanding their agreement with much of Dopsch's factual account, his critics, notably van Werveke and Hintze, consider that this does not rob the theory of economic stages of its value in providing a framework for the analysis of economic history and economic growth. This point of view has been expressed most clearly perhaps by Hintze. He says, with regard to such stages as barter economy, domestic economy, money economy, and others:

They are not supposed to be adequate expressions for a historical reality, but heuristic principles, means of orienting research, and yardsticks for scientific judgements. It is, of course, a coarse methodological mistake if one uses them simply for the description of historical reality of an entire epoch. But this is not done, as a rule, and an epoch in economic history is only

(77) See Hans van Werveke, "Economie-Nature et Economie-Argent: Une discussion," *Annales d'histoire économique et sociale*, III, 1931, pp. 428-35; Henri Sée, "Review of Alfons Dopsch, *Naturalwirtschaft und Geldwirtschaft in der Weltgeschichte*," *Economic History Review*, IV, 1932-34, pp. 395-60; Henri Hauser, "Review of Alfons Dopsch, *Naturalwirtschaft...etc.*," *Révue Critique*, XCVII, 1930, pp. 476-78; Otto Hintze, "Review of Alfons Dopsch, *Naturalwirtschaft...etc.*," *Historische Zeitschrift*, CXLIII, 1931, pp. 524-27; Eli Heckscher, *op.cit.*, pp. 1-29; and Marc Bloch, "Les classifications économiques à la lumière des faits suédois," *Annals d'histoire économique et sociale*, III, 1931, pp. 435-40.

characterized a posteriori, depending upon the prevalence of barter or forms of money economy, or depending upon the degree of importance which a self-sufficient domestic economy has in a more or less developed system of exchange based on full social interaction. (78)

The very fact that this controversy as to the possible role of economic stages in historical interpretation could occur as late as the 1930's is evidence of the lack of intercommunication between history and the other social sciences. Even in Germany, where the historical approach in economics and sociology was so popular, especially in the period before 1914, the basic methodological reflections on the use of economic stages as ideal types in historical analysis, which derive ultimately from the work of Max Weber, found widely differing interpretation. (79) Although Weber

(78) Hintze, *op.cit.*, p. 525.

(79) The classic exposition of the use of ideal-type constructs is Max Weber's essay on "Objectivity in Social Science and Social Policy," which was first published in 1904 and has been included in Max Weber, *The Methodology of the Social Sciences*, Glencoe, Ill., 1949, pp. 90ff. (This book will be cited hereinafter as *Methodology*.) In this essay, Weber makes explicit allusion to the town economy and designated it as an example of an ideal type. There is reason to believe that Bücher's own conception of his stages is very similar to the explanation given by Weber. This assumption comes from Bücher's statement in the preface to the second German edition of *Die Entstehung der Volkswirtschaft*, in which he says, with special reference to the two chapters containing his theory of economic stages, that "this work treats of economic theory, not of economic history...In the first edition I expressed myself clearly enough, I think, regarding the logical character of the economic stages. In the present edition I have taken occasion, however, to give the passages in question such a form that in the future they cannot with good intentions be misunderstood." (*Industrial Evolution*, p. x [*Italics added*].)

This argument was overlooked by most critics from the point of view of history. But Bücher's point was taken up by Below, who argued against this interpretation that whatever may have been the intention of Bücher, his stages imply a historical sequence of events, i.e., a more or less unbroken succession of stages (Below, *op.cit.*, pp. 22-24). In fact, Bücher's actual treatment of stages is somewhat ambiguous. When he mentions them explicitly, he designates them as logical constructs, but in the course of his essay, he treats them—as Below rightly recognizes—as focal points in a unilinear historical evolution. Moreover, he says in

(continue)

had explicitly shown the applicability of ideal-type constructs for the analysis of general theoretical relations in social science, as well as for historical reconstructions, there was still some doubt as to whether Spangenberg's opinion could be upheld that "economic history owes to the historical school of German economics the important methodological tool of measuring and representing the manifold phenomena of economic life by means of the construction of economic stages," or whether economic stages should be regarded as units in a comparative economic theory, as Johann Plenge had proposed. (80)

An attempt to resolve this problem once and for all, by using a "synthetic" approach, was made by Franz Oppenheimer. (81) Oppenheimer's approach is synthetic in two respects. On the one hand, he combines the stage theories of Hildebrand, Bücher, and Schmoller, and adds a fourth "dimension" of his own based on gradually more complex forms of the division of labor. On the other hand, he states explicitly that, starting from the standpoint of economic theory,

(Continuation, 79) one place that he wishes to "divide the whole course of economic development, at least for the peoples of central and western Europe...into three stages"; and in another place, he writes of the "historical succession of industrial systems" (Industrial Evolution, pp. 89, 154). This manner of presentation may easily lead to misunderstanding.

After the end of the First World War, Weber's methodological teaching had, however, made sufficient headway among German social scientists, and gradually also among others, so that the interpretation of economic stages as ideal types was quite generally accepted, and only some diehards refused to concede this viewpoint. Among those who had given currency to Weber's views on method in the social sciences was, above all, Alexander von Schelting. Cf. his "Die logische Theorie der historischen Kulturwissenschaft von Max Weber und im besonderen seine Begriff des Idealtypus." Archiv für Sozialwissenschaft und Sozialpolitik, XLIX, 1922, pp. 701-26. Cf. also the foreword by Edward A. Shils to the American edition of Weber's Methodology, pp. iii-x.

(80) See Spangenberg op.cit., p.1; and Johann Plenge, "Grundlegung der veredelten Wirtschaftstheorie," Annalen für soziale Politik und Gesetzgebung, V, 1917, pp. 52ff.

(81) Franz Oppenheimer, System der Soziologie, Jena, 1923, III, Part I, pp. 275-300.

he will construct ideal types, in order to show the "general evolution of a social economy undisturbed by political forces," so that the economic historian may recognize which "facts of the actual historical trend of development must be regarded as disturbances, abnormalities, or retarding forces." But Oppenheimer admits that, even then, any one of the ideal types cannot be found to have existed as a universal form of economic activity during any given stage, but that "earlier" and "later" stages can, and do, coexist. For example, the designation, "town economy," merely means that during a certain period, an economic system predominated which was characterized by the prevalence of artisan production; direct producer-client relations in exchange; the use of coined metallic money; and a division of labor according to occupations, but not yet with specialization within occupational groups. This form of economic organization coexisted with other, earlier forms, e.g., the village economy, but it "outshone all the others." (82)

Oppenheimer's approach, unfortunately, contributes as little to the solution of the problem as did Bücher's, since it suffers from the same ambiguity. Like Bücher, Oppenheimer states at the outset that he is interested in economic theory, in ideal types, presumably for comparative purposes, but, like Bücher, he treats his stages as more or less accurate descriptions of a historical general trend of economic evolution. Though his stages are multi-dimensional, whereas those of his predecessors (save, perhaps, Sombart) were "uni-dimensional," his treatment is not a real advance, substantively or methodologically, beyond Sombart's. The combination of several strands in a composite or synthetic picture is no substitute for genuine progress in scientific method, or for more accurate insights into social reality.

(82) Ibid., pp. 277, 300.

VII

Economist have, on the whole, seen little usefulness in the various theories of economic stages. They have listed the concepts of men like List, Hildebrand, Bücher, and Schmoller, but have regarded them as either aberrations or curious classifications which have little importance for economic analysis. Even J.A. Schumpeter, an economist with great sympathy for history, considers the use of economic stages "most primitive." (83)

The question of the usefulness of the economic stage approach as a bridge between economic history and economic theory has been raised several times in the last thirty years. Since each economic stage may be regarded as describing an economy in the neighborhood of an equilibrium position, the question was raised as to whether the analysis of economic development by means of stipulated economic stages may provide us with a model whereby the variables leading to successive levels of economic advancement may be described. Clearly, the stages stipulated by List and his followers do not lend themselves to such a task, since the major difference in the stages postulated by the members of the German historical school consists in institutional and other noneconomic arrangements, rather than in different combinations of economic variables. Therefore, Giersch is correct when he says that the stage approach of the German historical school is of little value for the study of economic growth, especially in societies whose basic institutions are assumed to be constant. (84) But although most writers of the German historical school hoped to be able to provide an explanation for the secular development of economies by means of the stage approach, they were aware that the process of growth that occurred within one stage required a different type of analysis. Hence, they

(83) Schumpeter, *op.cit.*, p. 442.

(84) Herbert Giersch, "Stages and Spurts of Economic Development," in *Economic Progress*, Leon H. Dupriez, ed., Louvain, 1955, p. 194.

soon recognized that any model of stages could be applied, not so much to the study of dynamic equilibrium within an economy in which the basic institutional framework was considered to be constant, but rather to the study of the alteration of the institutional, i.e., socio-political, framework within which an economy operated.

For this reason, such theories as that formulated by Predöhl of the phases or periods of capitalist development, or that of Walter Hoffmann of stages of industrialization, or even a narrower interpretation of Colin Clark's view of changing patterns of occupational distribution of the working population, have different objectives from the theories of stages promulgated by earlier writers. (85)

Predöhl is concerned mainly with an empirical description of the expansion of capitalist industry over the world and a subsequent creation of several industrial "gravitation fields"; Hoffmann's work centers on the empirical determination of different weights assignable to consumers and capital goods industries at different periods of maturity of industrial societies. Although neither Predöhl nor Hoffman give explicit attention to the institutional framework, it is clear from the context of their writings that they are concerned only with processes of growth in what List would call the agricultural-industrial-commercial stage, or what Bücher would have designated as the stage of national economy. Hence, the more recent theories of Predöhl and Hoffmann are not stage theories in the sense of the nineteenth-century writers and, whatever their merit for a better understanding of growth processes within industrial societies, they do not throw any light on the problem of how a pre-industrial or nonindustrial

(85) Andreas Predöhl, *Aussenwirtschaft*, Göttingen, 1949, esp. pp. 46-136; Walter Hoffmann, *Stadien und Typen der Industrialisierung*, Jena, 1931; and Colin Clark, *op.cit.*, pp. 395ff.

society becomes industrialized, a problem which, as we have seen, stood at the center of interest of the older theories and still forms a major aspect of the theorizing on economic growth. (86)

In contrast to the work of Hoffmann and Predöhl, Spiethoff attempted to rehabilitate the theory of stages from the viewpoint of economic history. (87) These writings are an attempt at clarification, both as to method and the legitimacy of use of stages or styles of economic activity. I shall not go into a detailed exposition and analysis of Spiethoff's contribution; it would be superfluous in view of the excellent introduction Lane and Riermersma have provided to his essay, reprinted in *Enterprise and Secular Change*, and in view of Lane's concluding essay in the same volume.

(88) For our purposes, the major issue raised by Spiethoff is the stipulation that there exists some intermediate level of social science analysis between the extreme ideographic approach of the historian, interested in the explanation of unique events, on the one hand, and the generalizing, abstract theory of economic analysis, with its strictly nomothetic approach, on the other. This intermediate level is termed "economic Gestalt theory", and its vehicle is the "economic style," which is a more realistic, and an empirically more valid, form of an economic stage. What is important about Spiethoff's economic styles is that each is an ordered complex of variables whose interdependence is as clearly elucidated as possible. Whereas Spiethoff did not place much emphasis on problems of economic development, Bowman and Anderson have shown that a careful delineation of economic types (which are closely related to economic styles and, incidentally, to certain forms of economic stages as well) implicitly contains a great deal of material which makes them useful constructs in the analysis of

(86) Cf., for example, W.W. Rostow, "The Take-Off into Self-Sustained Growth," *Economic Journal*, LXVI, pp. 25-48; and my article, "Noneconomic Factors in Economic Development," *American Economic Review*, XLVII, p. 28-41.

(87) See the writings of Arthur Spiethoff, cited in note 85.

(88) See Lane and Riermersma, eds., *op.cit.*, pp. 431-43; and F.C. Lane, "Conclusion," *ibid.*, pp. 522-34.

economic growth. (89) It seems that this viewpoint is shared by

(89) Cf. Bowman and Anderson, *op.cit.*, pp. 533-34. Nor has Spiethoff's work remained without critics. Perhaps the sharpest attack against it and against economic stages) has been delivered by Walter Eucken (in *The Foundations of Economics*, Chicago, 1951, pp. 64-102). Many of Eucken's arguments are repetitions of earlier criticisms against the theories of economic stages e.g., that stages are arbitrary; that they do not apply empirically to the situations for which they are stipulated; that they are not true ideal types, but concoctions of ideal and real elements; that they postulate different economic theories for different institutional arrangements; and that they are the outcome of a historicist viewpoint. Eucken argues that instead of constructing stages or styles of economic development, the bridge between history and economics can only be built by taking from history economically relevant "facts" and studying the forms of economic activity and organization characteristic of these facts. In this manner, Eucken studies a characteristic medieval monastery and the economic relations in which it is involved, or a representative medieval craftsman, or a middleman in trade or industry, or a practitioner of the putting-out system. Eucken believes that by this method, one can arrive at isolating a "certain limited number of basic forms which may be combined in different ways in actual economic structures" (p. 116). Out of these structures, ideal types may be built up which may be systematically classified and examined. As a consequence, Eucken arrives at a series of ideal types of economic systems, or "economic orders," which become the subject of comparative analysis.

In spite of Eucken's criticism of the methods of his predecessors, it is difficult to see that his positive proposal amounts to anything other than an alternative method of stipulating economic types. His main interest is in developing contemporary types of economic systems for comparative purposes. Clearly, there is no indication of developmental threads leading from one type to the next. The types are placed, as it were, in completely watertight compartments. But there is nothing in Spiethoff's exposition which would make this procedure inapplicable. To be sure, Eucken calls his types, "ideal types," whereas Spiethoff would call them "real types"; but this is merely a minor terminological discrepancy, and as Alexander von Schelting (*op.cit.*, pp. 726-31) has shown, even Max Weber had two "ideal-type" concepts, one of which designated a specific combination of historical action systems (e.g., medieval town economy), and the other a purely abstract pattern of variables which has no counterpart in reality and hence forms a pure "utopia" (e.g., some propositions in economic theory, such as the concept of economic man). To the extent to which Weber intervened in the discussion of the applicability of stage theories to the problems of economic history, he alluded to the first class of his ideal

(continue)

a fairly large number of economic historians and also tends to gain more general acceptance among British and American economic historians.

A good summary of the usefulness of economic stages, particularly in western economic history, has been presented by N.S.B. Gras.

(90) Gras not only lists those economic historians who have and those who have not used stages as tools in their exposition of economic history, but he also discusses in detail the role of stages in the work of economic historians. (91) Although Gras's exposition

(Continuation, 89) types, as we will see below. Also, Hintze's view, cited earlier (see above, p. 232), must be understood as implying the concept of "ideal type" in the first of Weber's senses, i.e., in a sense which Spiethoff would have labeled "real type."

In my opinion, the whole conflict between Eucken and the writers whom he criticizes boils down to two points. First, Eucken uses his types for a different purpose than Bücher or Schmoller had in mind for their stages. Eucken is interested purely in a typology made up exclusively of economic variables for comparing systems; Büchers and Schmoller were interested in typologies for the purpose of tracing through institutional changes as they occurred in a process of historical development. The second difference is that Eucken is opposed to the historicism which he finds in the writings of the German historical school. Here Eucken's position resembles that of Karl Popper in his volume, *The Open Society and Its Enemies* (London, 1945). We cannot follow this line of argument, since it would involve us in a philosophical digression beyond the limits of this paper. It should be pointed out, however, that the historicism of the writers of the German historical school of economics bears a closer resemblance to that described by Morton White (*Social Thought in America: The Revolt against Formalism*, Boston, 1957, p. 12) than that so bitterly combatted by Popper.

(90) N.S.B. Gras, "Stages in Economic History", *Journal of Economic and Business History*, II, 1930, pp. 395-418.

(91) Although not specifically pertinent to this discussion, the list given by Gras is interesting. Among writers who have not made use of stages, and whom he designates as "economic historians, not historical economists or genetic economists," he mentions Levasseur, Cunningham, Bolles, Hauser, Lipson, and Bogart. A second group, who uses stages "in moderation," includes Ashley and Heaton (both of whom were influenced by Schmoller), Heckscher, and Posthumus, who is singled out as regarding stages as ideal types. The third group, who "make stages the skeletons of their historical flesh," includes Unwin and Gras Himself. (Cf. *ibid.*, pp. 414-15) A recent example of the use of classification by stages in economic history is the essay by Arthur H. Cole, "A New Set of Stages," *Explorations in Entrepreneurial History*, VIII, 1955, pp. 99-107.

is not as sharp and clear-cut as that of Weber, he comes to the same conclusion, i.e., the economic stage, as an abstract paradigm of variables, forms the connecting link between theoretical economic analysis and economic history as an empirical study. In other words, since the economic stage is an ideal-type construct, it may be set up in such a fashion as to present a systematic interrelation of relevant variables. These variables are not, of course, those of economic theory, but rather relate to social institutions (e.g., mechanisms facilitating exchange, institutions concerned with the granting of credit or the disposition of accumulated savings, and, above all, institutions determining the distribution and use of authority and decision-making power in society). In such a system the change brought about by one variable may be traced through and related to change in other variables in the system. Moreover, it may be possible to identify change in certain variables which will bring about change in the system as a whole, or at least magnitudes of changes in certain variables may have this effect. That is, a well-constructed economic stage may be regarded as a methodological tool, by means of which the generalized aspects of institutional economic change, and hence of economic growth, can be analyzed. At the same time, the construction of an economic stage will have a certain, though limited, relevance for empirical historical research.

To be sure, it is extremely difficult to avoid confusion between theory and history by the use of this method. This has been stressed by Weber. After asserting that developmental sequences can be constructed into ideal types, he warns:

Whether the empirical-historical course of development was actually identical with the constructed one can be investigated only by using this concept as a heuristic device for the comparison of the ideal type and the "facts"... This procedure gives rise to no methodological doubts so long as we clearly keep in mind that ideal-typical developmental constructs and history are to be sharply distinguished from each other, and that the construct here is no more than the means for explicitly and validly imputing an historical event to its real causes while eliminating those which on the basis of our present

knowledge seem impossible. (92)

Thus, in order to be of maximum usefulness for a theory of economic growth, economic stages must be constructed in such a way as to minimize the likelihood that in the processes of economic change illuminated by these constructs, the merely "possible," rather than the "true," change-generating variables are included. It is on this basis, rather than any other, that the various theories produced by German economists and economic historians of the nineteenth century must be judged; and in applying this yardstick, they make a poor showing indeed. We have had repeated occasion to observe that whatever else may be said of the various classifications presented by the different protagonists of economic stages, they all fail to contain models including the main variables which may be made accountable for a transition from one stage to the next. In this sense, they are not genuine developmental sequences of ideal-type constructs.

The reasons for this failure are not difficult to see. Some stage constructs include variables of doubtful significance and often completely omit institutional variables arising from non-economic sources, so that their impact is, as it were, purely contingent. Others, e.g., Werner Sombart's system, are more inclusive in their choice of variables, but they lack a systematic interrelation of all variables, or combinations of variables, which would permit the generalized treatment of successive stages as uniform, functionally interrelated systems of social action. Only in the last few years has some definite progress been made in this direction, notably by Talcott Parsons and his associates. This may be the time to construct a theory of economic stages-or, rather, a theory of stages of social systems-which might provide some genuine explanation of situations of economic change, which the older

(92) Weber, *Methodology*, pp. 101-102 (italics in original).

theories failed to do. But such a theory would require a major research effort; this must be postponed for the present. (93)

mgf.-

(93) Some indication of the direction such a theory of stages might take is contained in my essay, "Economic Policy and Economic Development," in *The State and Economic Growth*, Hugh G.J. Aitken, ed., New York, 1959, pp. 325-52.