

THE METHODENSTREIT BETWEEN THE GERMAN HISTORICAL SCHOOL AND THE AUSTRIAN SCHOOL AND CZECH ECONOMIC THOUGHT IN THE CZECHOSLOVAK REPUBLIC

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Abstract

In the development of Czech economic thought, the process of separating of economic science (the national economy) is a Methodenstreit between the German historical school and the Austrian school, and other disputes. These are disputes related to the epistemological crisis associated with the fear of further development of economic science. Disputes focus, besides others things, on the discussion of the relationship between economic theory and economic reality, on the discussion of the relationship between national economic theory and national economic policy. It results into the concept of economic science and systematics in the work of Karel Engliš (1880 - 1963), Josef Macek (1887 - 1972), Cyril Čechrák (1890 - 1974) and Vilibald Mildschuh (1878 - 1938) on the other hand. The disputes also affect habilitation proceedings, professorship procedures, selection of candidates for various positions, etc. at higher education institutions in the Czech lands.

Key words: Czech Economic Thought, the Methodenstreit, Discussion about the Form of economic Science, national Economy

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Introduction

Methodenstreit took place between the representatives of the younger German Historical School and the representatives of the Austrian School of marginal utility. The dispute was mainly between Gustav Schmoller (1838–1917) and Karl Menger (1840–1921). Its continuation represented an epistemological crisis, over which there was concern for the development of economic science. The acclaimed expert in the history of economic analysis, Josef Schumpeter (1883–1950), stated that the cause of this controversy lay less in the issues of epistemology and much more in the concern for the further development of national economy as a science, cf. (Schumpeter, 1965, p. 983). This assessment was also confirmed by the

development of economic thought in the Czech lands. There is a very rich literature on Methodenstreit today, see for example (Hauser, 1988; Nardinelli & Meiners, 1988; Loužek, 2011; Maclachlan, 2017; Peukert, 2001). However, its issues did not receive much attention in the Czechoslovak Republic. The article aims to contribute to filling this gap.

The paper is limited to Czech economic thought. The paper is focused on the dispute between Vladimír Vybrál (1902–1980) and Leopold Šauer (1901–1983), on the struggle for the form of economic science and some impacts of the method dispute in Czech society.

The output is based on the study of period literature and sources. It is one of the results of long-term research into the development of Czech economic thought and the history of teaching economic science at Czech universities.

1 Methodenstreit, Albín Bráf and Czech Economic Thought

Almost the entire generation of economists who participated in the construction of the Czechoslovak Republic and was part of the so-called Bráf's Czech National Economic School was educated by the Master of the School, Professor Albín Bráf (1852–1912). The Bráf's Czech National Economic School represented a school of economics in the figurative sense. Nevertheless, it is associated with the emergence and development of Czech national economy science. Albín Bráf taught his students the methods of scientific work and taught them the view of economic science and its role in Czech society. Under his influence, there was a systematic development of economic scientific activities. At the same time, however, Albín Bráf also mediated to his pupils the problems faced by national economic science at the turn of the 19th and 20th centuries.

Young Albín Bráf became a follower of the younger German Historical School. He adopted inductive historical methodology, focusing on subtopics, particularly from the national economic policy, which he presented in monographs. His interest in the historical method was originally so great that it led to a refusal to publish a habilitation thesis. The reason for refusal was, according to him, a methodological error. In his opinion, he did not proceed correctly, i.e., he did not draw general conclusions from (historical and statistical) data but, on the contrary, subordinated the data to the logic of his work. Nevertheless, he was troubled by the problem of whether inductive historical methodology in the processing of individual and specific phenomena could result in a system of economic theory. After studying the writings of Karl Menger, one of the founders of the Austrian School of marginal utility, (Menger, 1883) he

adopted his views. Bráf distinguished theoretical research (which examines what is and how it is) and practical research (dealing with what is to be). First, when investigating individualities, specific phenomena and their context, ‘what is’ is called descriptive or historical research. The inductive historical methodology is a support. Second, the ‘what is’ research, which is typical in the infinite variety of phenomena, is based on the theory of the Austrian School. The practical goal of research is to keep track of what is supposed to be. What should be done in a particular field of phenomena, general guidelines, maxims of action.

The problem, perceived as a controversy of theory and history, continued to bother him. At the end of his life, he was concerned with methodology issues, without reaching a satisfactory solution.

2 The Dispute between Vladimír Vybrál and Leopold Šauer

A dispute between Leopold Šauer (1901–1983), Professor of Statistics at the University College of Business in Prague and a close associate of Professor of the University College of Business Josef Macek and a follower of inductive statistical methodology on one hand and Vladimír Vybrál (1902–1980), Professor of Financial Science and Financial Law at the Masaryk University in Brno, student of Karel Engliš and supporter of his teaching on the other hand was published in magazine *Sociální problémy* (‘Social Problems’) in 1934 and 1935; see (Šauer, 1934a; Šauer, 1934b; Šauer, 1935; Vybrál, 1934a; Vybrál, 1934b; Vybrál, 1934c; Vybrál, 1935).

Leopold Šauer complained (Šauer, 1934a) that economic science was moving away from economic reality. This gap was increasing even after the World War and the economic depression of the 1930s. Šauer (Šauer, 1934a, p.161) set out the question of ‘*where the developmental path continues*’ regarding economic science. There were no appropriate recommendations for economic policy to address the current economic problems. Leopold Šauer accused the teachings of D Ricardo, the theory of the Austrian School, the theory of WS Jewons, the teachings of the Lausanne School and also the ‘teleological theory of national economy’ that the general theories that fulfilled the above teachings and the content of which was formed, among other things, by economic laws, applicable always and everywhere, were detached from reality and unusable for exploring reality. As a solution when building economic science, Leopold Šauer recommended discarding general economic theories and building

economic science through ‘small work’ by collecting statistical data, history, and by crowd psychology.

According to his critic, Vladimir Vybrál, Šauer, depending on the institutional school headed by WC Mitchell, found himself a prisoner of the ‘*institutional zealotry*’ (Vybrál, 1934a, p. 65), adding: ‘*This school is nothing more than a new edition of the Schmoller's German Historical School*’ (Vybrál, 1934a, p. 64). However, his views were not based on the representatives of the Austrian School, but on the views of his teacher Karel Engliš, which, in contrast to the concept of the representatives, was a certain theoretical shift.

3 Methodenstreit and Engliš's Teleological School

The teaching of Karel Engliš is in a way a reaction to the Methodenstreit as a manifestation of the epistemological crisis. He saw the crisis as a problem of the applicability of (economic) theory in social practice and a problem of differentiation in the basic definitions of the most basic terms (Engliš, 1938, p. VIII). Engliš moved the dispute between the younger German Historical School and the Austrian School to a new position. He said: ‘*[B]ecause the history is a theory, but it is a causal one – it was not a contradiction of history and theory, but a contradiction of causal theory and teleological theory*’; see (Engliš, 1938, p. 96). He was to find the solution and found it in a special noetics for economic science. It enables to define economic concepts unambiguously, to build on it an economic (teleological) theory with the possibility of creating appropriate recommendations for national economic policy to solve economic problems.

Vybrál criticized Leopold Šauer for failing to understand the relationship of economic science and reality and misunderstanding the relationship between national economic theory and national economic policy. Šauer did not separate national economic theory and national economic policy. He referred to world-renowned authorities (A Marschall, FW Taussig, etc.), was accompanied by a similar approach by other Czech economists (e.g., J Macek, J Hejda, etc.). He stated that his approach was justified and critically pointed to the knowledge of theory that were valid ‘*everywhere and always or nowhere and never*’; see (Šauer, 1934, p. 279).

In the building of national economic theory, according to Engliš, it is necessary to proceed from the means to the purpose so that ‘logical entities’ are discovered, their evaluations and especially their special-purpose sets are found in order to interpret the economic order. The

subject of the national economic theory is the economic order. It allows building a general theory with universally valid principles. This, among other things, precisely and unambiguously allows the definition of economic categories and the formulation of theories. On the other hand, practical national economic science starts with the purpose and moves to the means it seeks. It provides directions and recommendations for political and economic measures. Being a practical science lies in the possibility of providing directions and criticizing; see (Engliš, 1939, p. 68).

The views of Engliš were similar to those of the university systematics of economic science, according to which the national economy consisted of two disciplines. National economic theory and national economic policy. Together with financial science, the national economy formed political economy. Financial science was separated from the national economy at universities and, in connection with financial law, formed a professorship of financial science and financial law. According to Engliš, the systematics consists of 'theoretical economic science' and 'practical economic science'. Other representatives of Czech economic thinking, criticizing university systematics (e.g., Josef Macek, Cyril Čechrák, V Mildschuh) preferred the term 'economy' as an equivalent of the Anglo-Saxon term 'economics'. Šauer did not separate theory and economic policy in economic science.

A real empirical subject may be the same for a number of disciplines. Thoughts about it are different for each discipline. The teleological theory of economy perceives the content as 'special-purpose sets' and relations between them, whereas the causal ontological theory of economy (economic history), according to Karel Engliš, understands it as 'existential phenomena'. Despite the causal ontological theory (by causality), economic phenomena cannot be understood. If economic phenomena and processes are not well understood, it is impossible to adopt the right recommendations for economic policy. However, the causal ontological theory makes it possible to complement the teleological theory with an element of development. Thus, it finds a place for history in economic science. The teleological theory cannot present the emergence, development or extinction of facts at the will of independent subjects, which are given and are observable. This is the task of the ontological economic theory, which can be described as economic history; see (Engliš, 1939, p. 24). He thus defined a place for the 'causal ontological theory' in economic science.

According to Engliš, the Austrian School is only partly able to understand and explain the economic order, as the School limits the subjects to psychophysical subjects only and not to logical subjects. Thus, the Austrian School cannot create a *system* of national economy.

4 Epistemological Crisis is Accompanied by Some Displays in Society

The dispute has one more aspect in Czech society. Leopold Šauer emphasized that Vladimír Vybrál's approach was a fruitless but respected alternative in building economic science. However, Vladimír Vybrál did not consider Leopold Šauer's approach to be an alternative. It was an approach of '*scientifically outrageous views*' (Vybrál, 1934a, p. 273). Similarly, Karel Engliš, Professor František Zeman (1881–1957) and probably other representatives of the Karel Engliš's Teleological School (Brno School) perceived ontological-causal theory as a theory through which economic phenomena cannot be understood and interpreted. This was brought to social consequences. The representatives of the Teleological School in important academic posts preferred the supporters of the Teleological School to candidates of other ideological orientation in the judgments or proceedings. In testimonies hidden in archival sources of archives. For example, the selection procedure for a post of the Professor of Financial Science and Financial Law at the Masaryk University in Brno in favour of Vybrál, Professor Zeman's opinions in favour of Otakar Peterka (a student of Professor D Krejčí, the Professor of Statistics and follower of the Teleological School) against Jan Stocký, who proved greater scientific and pedagogical prerequisites for the post of Professor of National Economy, Financial Science and Statistics at the University of Agriculture in Brno, the conversion of Jan Siblík, Professor of Financial Science and Financial Law at Charles University to the Teleological School inspired by the opinion of Engliš, etc.

The Teleological School asserted itself over opponents in both teleological noetics (Jan Blahoslav Kozák, František Krejčí, Vladimír Tardy) and teleological theory (K Maiwald, V Mildschuh, J Macek, etc.). The Teleological School took over the economic thinking at some universities (Masaryk University, University of Agriculture, Czech Technology in Brno), with one exception (the appointment of C Čechrák as Professor of National Economy at the Masaryk University), but the reason was not ideological but political. The Teleological School gained a significant position at Charles University in Prague, the Technical University in Prague, and participated in teaching at the University College of Business in Prague. It participated in major state institutions (Central Bank, government, parliament, etc.). The rise of the School was abruptly interrupted by the events of 1948.

Conclusion

The Methodenstreit manifested itself in the crisis of knowledge in the period of the Czechoslovak Republic. Albín Bráf, the doyen of Czech economic thought, took the view from K Menger on the basis of his paper on method (Menger, 1883). Different opinions on the method dispute were taken by Vladimír Vybrál, a supporter of the teachings of Engliš, and Leopold Šauer, a supporter of the use of statistical methods, history and crowd psychology. According to one movement (V Vybrál), the inductive historical methodology leads to building the theory and the correct relationship of economic science and reality. It is a teleological noetics developed by Karel Engliš as a special noetics for economic science, and the economic theory by Engliš based on it is an attempt to solve the epistemological crisis (with crucial questions of defining basic concepts, relationship of economic science and reality, relationship between national economic theory and national economic policy) and the related demand for developing the form of economic science.

On the contrary, according to Leopold Šauer, the creation of abstract economic theory and the revelation of laws valid always and everywhere (or valid never and nowhere) leads to a waste of scientific energy to build a theory that is detached from reality. Economic theory is sterile.

The presented form of economic science by the Teleological School corresponded with the university system, which was used in education at universities in Czechoslovakia /national economic theory, national economic policy and financial science/. In practice, financial science was separated from national economy and added to financial law to create a separate professorship together. Economic science – built on teleological noetics – was made up of teleological economic theory, practical teleological economic science and financial science. Representatives of other economic schools (e.g., Josef Macek, Cyril Čechrák, Vilibald Mildschuh) criticized the ‘national economy’ and supported the ‘economy’ (equivalent to the Anglo-Saxon term ‘economics’). Today we use the term ‘economics’.

The solution of the epistemological crisis and the building of the system of economic science had other impacts on Czech society. For example, it was reflected in selection procedures for academic posts, in the development of an educational process that was linked to economic science. Teleological noetics and teleological theory and practical science required its unity not only at a given university, but wherever the teachings of Karel Engliš penetrated. Supporters of the teachings of Engliš were preferred if a representative of the Teleological

School had written expert opinions. The Teleological School took over the economic thought at some universities (Masaryk University, University of Agriculture, Czech Technology in Brno) and achieved a significant position at other universities (Charles University in Prague, University of Technology in Prague) and a share in teaching (University College of Business in Prague). It also penetrated important Czechoslovakian institutions. The development of Czech economic thought was interrupted after 1948. The questions raised by the 'Methodenstreit' remained open.

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