American Responses to the *Methodenstreit* of the Late Nineteenth Century: A Centenary Post-Mortem

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Methodological discussions are of perennial interest to economists. It is perhaps not surprising, however, that engagement with these issues tends to become more spirited when the profession is struggling to find its bearings. The perplexities — for both economic analysis and economic policy — generated by the stagflation of the 1970s and the rupture of what many took to be a “Keynesian consensus” have certainly contributed to the current round of professional soul-searching. Simultaneously, the competing claims of “monetarists,” “post-Keynesians,” “new classicals,” “supply-siders,” etc., have tarnished the profession’s image in the eyes of the general public.

At moments such as this, some reflections drawn from the history of economics may be therapeutic. It may be reassuring — or perhaps even a bit disarming — to some of the current protagonists to be reminded that we have been there before. The parallels may not be exact, but the general contours of argument in current debates have enough in common with those of the American *Methodenstreit* of the 1880s and 1890s to warrant some meditation.

To set the stage, a few comments are in order about the methodological battle lines as they were drawn just over a century ago. The central participants were then divided into two groups. The first — the so-called “new school” — was composed primarily of “young Turks” who had imported the teachings of the historical school from post-graduate studies in Germany. Prominent in their ranks were Richard T. Ely, Henry Carter Adams, and Edmund Janes James, with sympathetic but less doctrinaire support from John Bates Clark and Edwin W. Seligman. From their perspective, political economy was intrinsically normative: its practitioners had an ethical obligation to uplift society and this, in turn, implied a rejection of *laissez-faire*. But more was at stake here than a call for the state to perform a positive role in the direction of economic affairs. The “new school” program also offered a prescription for the proper method for doing economics. Abstract formalism should be rejected on the grounds that it was out-of-touch with reality; inductive methods should be substituted for deductive ones. Study should thus be directed to gathering and interpreting the facts, with an awareness that there were no timeless truths in economics, but only contingent ones that were rooted in particular historical and institutional circumstances.

Members of the “old school,” by contrast, identified themselves principally with the teaching of mainstream British economics. In their view, economics had some universal lessons to teach — not least among them, that any governmental intervention in the economy should be instantly suspect. Yale’s William Graham Sumner — whose defense of *laissez-faire* was informed by a Spencerian version of Social Darwinism — was the most outspoken member of the “old school” in denouncing the social folly of “do-gooders” in the “new school.” Simon Newcomb, a mathematician at the U.S. Naval Observatory who was also affiliated with the economics program at the Johns Hopkins University, shared this faith in the beneficence of free markets, but emphasized the fundamental importance of deductive methods in proper economic analysis. (Newcomb, in fact, anticipated Irving Fisher’s formulation of the quantity theory of money.) J. Laurence Laughlin — based at Harvard when the *Methodenstreit* was at its height — carried the “old school” message forward in his edition of John Stuart Mill’s *Principles*, adapted for American audiences, which expunged the original author’s sympathy for “cooperation” and for an improved “futurity” for the laboring classes and emphasized the natural harmony to be expected from free markets.

In the mid-1880s, there could be no common ground between those positions. Indeed the exchanges between representatives of the two schools became increasingly intemperate. A sense of the tone of debate can be captured in the wirings at the time of the “new school’s” Richard T. Ely and the “old school’s” Simon Newcomb. For Ely, the task of the economist was to establish an ethical ideal for the social order and to set out the steps necessary to attain it. Production and distribution should be guided to “serve human ends” and the interests of society should be placed above those of the
individual. From Newcomb's perspective, on the other hand, it was a "contradiction in terms" to think of a "science" as concerned with what "ought to be"; its proper role was to analyze the exact relations between cause and effect. Moreover, the suggestion that the interests of society should dominate those of the individual was offensive. Not only did such a conception smack of authoritarianism, it was at odds with an analytical program that approached economic behavior as an investigation of the individual choices of consumers and producers. In short, the more extreme advocates of the "new school" position indicted members of the "old school" as immoral, while members of the "old school" regarded the "new school's" protagonists as incompetent.

All of this was played out in the public arena in a series of papers published in Science, the journal of the American Association for the Advancement of Science.2 (The day of specialized professional journals in economics — in which these differences might have been aired more discreetly — had not yet dawned.) When the question was posed (as it was) whether economists could agree on the basis of their teachings, the general reader in the mid-1880s might reasonably conclude that the answer was "no". In addition, this controversy took some ugly turns at the personal level. Newcomb attempted to use his influence with the president of the Johns Hopkins University to have Ely's appointment there terminated. For his part, Ely tried to strengthen his status by forming the American Economic Association — an organization which he initially thought of as a rallying point for the like-minded to fight the influence of "the Sumner-Newcomb crowd."3

By the mid-1890s, the passions associated with this round of methodological polemics had cooled. Why? A number of factors contributed to this outcome. One of them reflected an increased awareness on the part of many of the participants that their aspiration to achieve recognition as "professionals" was incompatible with further public airing of dirty linen. This was by no means a trivial matter. "Professional" status was essential if economists were to gain credibility to divert public attention from the nostrums peddled by "amateurs" — such as Henry George with the "single tax" and "Coin" Harvey with "free silver." In addition, another professional concern weighed on the minds of academic economists (whose numbers were growing as the discipline was acquiring increasing curricular representation in the nation's colleges and universities). Too much outspokenness on controversial issues posed a threat to job security. Members of the "new school" — a number of whom had a penchant for espousing the cause of organized labor — were particularly vulnerable. Some of the more prominent members of the "old school" were ready to bury their differences with associates of different persuasions in the interests of solidarity against victimization in employment. Meanwhile, political activism by "new schoolers" diminished. Scholarly work — even though tastes differed on how it should be conducted — was safer.4

What then was the residue from this crucible of controversy? A modus vivendi was achieved, but it would be a mistake to conclude that methodological consensus came with it. Doubts about the usefulness of deductive theorizing persisted in the idiosyncratic "heterodoxy" proclaimed by Veblen, in John R. Common's brand of "institutionalism," and in Wesley Mitchell's compilations of the "facts." Meanwhile, formal model-building was brought to new heights by such figures as Irving Fisher and John Bates Clark. Indeed Clark — more so than any of the other veterans of Methodenstreit — found a way to synthesize elements of the "new school" and "old school" positions. In the mid-1880s, the ethical component of "new school" doctrine had won his sympathy. By the late 1890s, his contributions to marginal productivity doctrine had led him to conclude that this type of formal modelling could generate criteria for evaluating the "ethics" of income distribution.

The Methodenstreit in late nineteenth century America ended in "a peace without victory." Nevertheless, an important change in American economics had occurred — and it was noticed by foreign observers, among them Alfred Marshall. In the 4th edition of his Principles of Economics, published in 1898, he wrote as follows:

The greatest relative advance during recent years is perhaps that which has been made by America. A generation ago, the "American school" of economists was supposed to consist of the group of Protectionists who followed Carey's lead. But new schools of vigorous thinkers are now growing up; and there are signs that America is on the way to take the same leading position in economic thought, that she has already taken in economic practice.5

Can retrospective review of methodological controversy of a century back shed any light on our contemporary situation? Four conclusions suggest themselves:

1. The "job security" concerns that helped to shape the truce in the nineteenth century Methodenstreit have little relevance today. It may, however, be the case that methodological posture still has a bearing
on an economist's eligibility for academic appointment and retention in particular institutions.

2. Public perceptions of disarray among economists may still provide grounds for legitimate worry for late twentieth century professionals, as it did for late nineteenth century ones. The nature of the problem, however, has mutated. As the language of professional discourse has become more technical, the lay public has reduced access to what is at stake in methodological polemics. The bemused citizen may simply wonder whether or not the professionals have anything to communicate.

3. If the experience of a century ago is any guide, it is probably vain to expect that methodological controversy will produce convergence toward a common position on "correct" procedure.

4. Methodological debate — even if ultimately inconclusive — is still healthy and worthwhile to the extent that it widens conceptual awareness and moves the terms of discourse to higher ground.

Notes:


2. The exchanges in *Science* included the following contributions: Richard T. Ely, "Ethics and Economics" (June 11, 1886) and "The Economic Discussion in Science" (July 12, 1886); and Simon Newcomb, "Aspects of the Economic Discussion" (June 18, 1886) and "Can Economists Agree upon the Basis of their Teachings?" (July 9, 1886).

3. This episode is treated more fully in William J. Barber, "Should the American Economic Association Have Toasted Simon Newcomb at Its 100th Birthday Party?", *Journal of Economic Perspectives*, Summer 1987.
