Bridging Old and New Institutional Economics: Gustav Schmoller and Douglass C. North, Seen with Oldinstitutionalists’ Eyes

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Abstract

In the last years, a dialogue and comparison between old and new institutionalism set in. In some recent writings, R. Richter pointed out the similarity of their questions and critique of neoclassical theory. He tries to show that Schmoller as an old institutionalist shies away from theorizing while e.g. D. C. North does not. We argue that both give reasonable alternative answers to methodological and theoretical problems of every institutional analysis which can be formulated in five dichotomies.

Keywords: institutionalism, historical school, old and new institutional economics

JEL Classification: B1, B4, K0, N0

In the presence of advances in new institutional research, an intensified dialogue across the borders of established institutionalist research traditions, a rising interest in Schmoller as the heir of the younger historical school, and a heterodox, institutional and historical reorientation of some younger economists in Germany, R. Richter undertook a comparison of Schmoller and North as representatives of new and old institutionalism [1996]. As a (if not the) leading exponent of new institutionalism in Germany, he was editor (now co-editor) of JITE till 1994 and (jointly) responsible for the reorientation of the journal once published as Zeitschrift für die gesamte Staatswissenschaft since 1844 (on the history of JITE see Sauer-mann [1978]). Not only Schmoller's dissertation [1860] was published in the journal. Its old name suggests a certain proximity to the old institutionalist tradition to which Schmoller belongs. Besides discussions in the book reviews, it is the journal's first analysis of old institutionalism from a new institutionalist perspective. In the following we will discuss Richter's article in an integrative perspective and with some sympathy for the old institutionalist viewpoint. Even though this contribution was published a couple of years ago, it is still of great interest because
it highlights specific viewpoints of new institutionalist analysis its relationship to old institutionalism.

1. G. Schmoller and D. C. North: A first approximation

In his seminal article, Richter gives an overview of Schmoller’s life and studies, his historical method and contributions, his reputation as a historian, his role as an organizer of institutionalized research, and of Schmoller’s “Grundriss” [1996, 568–573]. Juxtaposing quotes from Schmoller on the one and Coase and North on the other hand the following similarities stand out: the critique of classical orthodox theorizing and the hypothesis of economic man, the definition and importance of institutions, organizations, “formal” and “informal constraints,” and of “ideology.” [1996, 573–580]. But Richter identifies three main dissimilarities [1996, 580–586]: (1) Schmoller holds a homo sociologicus model of man, the new institutionalists take a sophisticated homo oeconomicus view (see also Richter and Furubotn 1996, 39f.). (2) Schmoller’s Grundriss offers “more a sociological analysis of institutions . . . linked to strong ethical goals . . . he remains more on the idealistic side . . . What is completely missing . . . are cost considerations of any kind. There are no allusions to frictions or transaction costs” ([1996, 581]; see also Richter and Furubotn 1996, 127]). New institutionalists explain informal constraints rationally, like North they use invisible hand arguments, and consider opportunity and transaction costs. (3) A difference in attitude towards theorizing and model building is evident, naturally progressing from informal (Coase) to semiformal (Williamson) and fully formal analysis (e.g. Grossman and Hart) in new institutionalism, starting with Menger’s book on method who is seen as a precursor of neoclassical economics.

Old institutionalists do not deny the need of deductive reasoning but they demand that all relevant causes have to be known, and so Schmoller “was against any kind of theorizing as long as the set of behavioral assumptions were not completed” [1996, 582]. This led to Schmoller’s wait and see attitude. Surprisingly—but with some reservations—in the Methodenstreit Richter hands over the prize to Schmoller. Richter’s final conclusion is straightforward: old and new institutionalists asked the same questions; but in old institutionalism they are hanging in the air, due to the “latter-day” attitude towards deductive reasoning he blocked the further development” [1996, 587]. It took a hundred years before the new institutionalists with their analytical spirit were asking relevant institutional questions “and answering them (which Schmoller did not do)” [1996, 587].

With his summarizing statement, that the historical school and American old institutionalism “was fundamentally hostile to theorizing” [1994a, 2, all quotes in German are our translations], Richter shares a widely held critical opinion. “The problem with the Historical School and many other of the early Institutionalists is that they wanted an economics with institutions but without theory” (Langlois [1986, 5]). In the following we will try another attempt at reconciliation.