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Karl Knies's Heidelberg Lecture on Economics : An Introduction

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I Knies as Methodologist and Teacher

In the history of economic thought, Karl Knies (1821-1898)¹⁾ is known as the author of the most consequent methodological reflection in the German Historical School, *Political Economy From the Viewpoint of Historical Method* (1.ed., 1853; 2. ed., 1883).²⁾ Opposed to an abstract deductive approach and favoring an inductive approach within a historical and comparative perspective, he denied the existence of general law in economics and limited its validity to the range of analogical coincidence. However, his other publications such as *Statistics* (1850) and *Money and Credit* (1873-79)³⁾ are not so strongly affected by the historical relativism of the author. As Schumpeter commented, his methodology "is very interesting as such but, considering his own practice, does not mean very much."⁴⁾

After his move from Freiburg in 1865, Knies continued to teach in Heidelberg for over thirty years. General Economic Theory (*Allgemeine Volkswirtschaftslehre*) was his primary course among other courses of Public Finance (*Finanzwissenschaft*), and of Applied Economics and Economic Policy (*Praktische oder spezifische Nationalökonomie und Volkswirtschaftspolitik*). Knies established his reputation there and his courses attracted not

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1) See Schefold (1987) to know Knies's life and works in short.

2) See Eiserman (1956) for the understanding Knies's methodology.

3) On this work see Eisermann (1996) and Häuser (1996).

4) Schumpeter (1976), p. 508.

only German students but also foreign students coming from all over the world.⁵⁾

But what kind of economics did Knies offer to his students? It is clear that his *Political Economy* was not appropriate as a textbook for students, most of whom had no serious interest in the methodological problems in economics at all. At that time, as K. Tribe (1988) suggests, most economic courses in German universities followed a rather routine pattern that had been established in the early 19th century.⁶⁾ Still, how Knies blended his methodological position to the ordinary economics course makes a question worthy of discussion to clarify the relationship between theory and methodology in the German historical economics. This becomes all the more important, because in recent Max Weber studies Knies is seen as the key person who influenced Max Weber through his peculiar ethical understanding of economics.⁷⁾ In the final part of this introduction I will discuss the Knies-Weber relationship briefly.

II The Note in the Bücher Library

Like a miracle, a student's notes of Knies's lecture on General Economic Theory was found in the hidden corner of a bookshelf in the economics library of my university! It was a notebook with the title, *Allgemeine Volkswirtschaftslehre vorgegetragen von Geh. Rat Knies, S18-K.86S*, and the name of the student who took the notes, Wolfgang Mittermaier. Archival research confirmed that Knies taught a course of the exact same title in the summer semester of 1886, which was taken by 62 students including Wolfgang Mittermaier.⁸⁾

This notebook was discovered in the private collection of another German historical economist, Karl Bücher (1847-1930), which had been acquired by Kyoto University in the turbulent years after the First World War (1921)⁹⁾. Since it was once (1924) registered on the old card catalog as "Knies, Allgemeine Volkswirtschaftslehre. Manuskript. 4,154 p.," it cannot be said as a genuine discovery. But both the new card catalog of the economics/law library now in use and the special book catalog, *Katalog der Karl Bücher-Bibliothek in der wirtschaftswissenschaftlichen Fakultät der Universität zu Kyoto* (1970), do not contain it. From reasons unknown, this notebook was left unregistered when the new catalog was formed and the book catalog was printed. Until I rediscovered it in March 1996, this precious material had continued its sleep for over seventy years.¹⁰⁾

Bücher never studied in Heidelberg and had no close relation with Knies. When Knies

5) This is not an exaggeration. We can find such names as J. B. Clark (1874/75 WS), Eugen v. Böhm-Bawerk and Friedrich Wieser (1876 SS), and Noburu Kanai (1887 SS) in the list of payers for his courses. Schumpeter wrote, "Karl Knies was above all a great teacher who made Heidelberg a center of study and research in which the most diverse types were welcomed and made to work together." (Schumpeter 1976, p. 850)

6) A German orthodoxy was made by K. H. Rau with his textbook, *Lehrbuch der politischen Oekonomie*, 3 vols., 1826-37. Rau was Knies's predecessor in Heidelberg.

7) Hennis (1984, 1988), Swedberg (1998), Kobayashi (2000).

8) I thank archivists and librarians of Heidelberg University for their kind help to my investigation.

9) Bücher's will to sell his library was known to the small circle of collectors in 1920. By the arrangement of Prof. Gotaro Ogawa, Kyoto University, Baron Koyata Iwasaki, the head of the Mitsubishi concern, purchased it and donated it to the Faculty of Economics of Kyoto University. This was a generous present of a millionaire to the economic faculty that had been separated from the law faculty just two years ago. See the preface of the *Katalog* (1970).

10) The neglect of this note is all the more strange, since Kyoto University had several scholars who showed keen interest in German economics including Knies.

made this lecture course in 1886, Bücher was teaching in Basel. However, Wolfgang Mittermaier, Knies's student, was a relative of Bücher, since he married Emilie Mittermaier, Wolfgang's cousin, in 1882¹¹⁾. Wolfgang became a jurist and occupied the position of Professor of Criminal Law at the University of Gießen and then of Heidelberg.¹²⁾ In his *Recollections* Bücher wrote that he had met Wolfgang often.¹³⁾ Bücher Library keeps a book authored by Wolfgang that was published in 1911.¹⁴⁾ So, we may safely assume that Bücher acquired the notebook directly from Wolfgang, though when this occurred is not certain.

III Composition of the Course

At present, the notes are bound with a blue hard cover thanks to the Economic Faculty's special budget to care and catalogue this collection in the end of the 1960s. The notes consist of 4 contents pages and 154 main text pages (18cm × 23cm), of which all of them were apparently paginated by Mittermaier. After the last page ("Ende 31 Juli 1886"), three block notes were written in two unnumbered pages. In the main text pages, 5-6 cm wide left margins were left for corrections and additions. The notes were in most cases scrupulously written. In general, Mittermaier seems to have been an honest transcriber of Knies's lectures, but in some pages he adopted an objective style and mentioned Knies to represent his peculiar view to the problems concerned. The notes contain many marginal notes and additions. Most of them are written roughly and far more difficult to read than the main body.¹⁵⁾ Under the first impression that they were sometimes more detailed and clearer than a student could attain at best, I once wondered whether the writer of the marginal notes could be Knies.¹⁶⁾ But at present I am inclined to believe that the notes in their entirety were written by Mittermaier, though he may have been assisted by his colleagues of the same course in making corrections and additions in the margin.

The course was taught from 11 to 12 every weekday. As it began on May 3 and ended on July 31, 1886, the number of lectures, ca70, seems to correspond with the number of chapters. However, the length of notes on each chapter differs considerably. In case the corresponding coincidence of chapters and lectures is correct, it follows that the exactness of the reproduction of the lecture has a wide divergence and we cannot regard every part of the notes as a loyal reproduction of Knies's words.

Before entering the summary of the course¹⁷⁾, it is useful to know the composition of the

11) Bücher (1919) p. 273f. and 445.

12) Wolfgang Mittermaier was born in 1867 and died in 1956. Messrs Jürgen Mittermaier and Claus Mittermaier kindly provided information in regards to the lineage of Mittermaier.

13) Bücher (1919) p.445.

14) W. Mittermaier, *Wie studiert man Rechtswissenschaft? Das Studium der Rechtswissenschaft und zweckmässige Einrichtung*. Stuttgart: W. Violet, 1911.

15) In the transcript, we had to omit those notes that were not directly intended to correct the main text. See the explanatory notes of the transcription.

16) I first reported the discovery of the notebook in p. 117f. of Häuser, Eisermann, and Yagi (1996). At that time I didn't know that the student that made the notes was Bücher's relative and assumed that the notes had been made by some order of Knies.

17) I first asked my friend, Prof. Takeshi Mizobata (Kansai Fukushi University, Ako) to make transcription of the notes. But as the result was still imperfect, I requested help from Prof. Birger P. Priddat (Witten-Herdecke). He kindly arranged Dr. H.-E. Caspary's help and sent the result to us. Without the aid from German side, the notes could not be published. My sincere thanks are directed to those mentioned above.

course. The first 4 chapters are used to prepare students for the course. The following 66 chapters are divided into ten parts, though Mittermaier misnumbered the final one as the XIth part.

Composition of the Course

Introductory remarks (Einleitende Vorbemerkungen)

- I. Basic relations and basic concepts (Grundverhältnisse und Grundbegriffe)
- II. Essence, ways and factors of production (Wesen und Arten der Produktion)
- III. Division of labor and integration of works in the formation of production
(Die arbeitsteilende Gliederung der Produktion und die Arbeitenvereinigung)
- IV. Economic trade in general (Die wirtschaftliche Verkehr im allgemeinen)
- V. Theory of price (Lehre vom Preis)
- VI. Theory of money (Lehre vom Geld)

- VII. Credit and the trade of credit (Kredit und Kreditgeschäft)
- VIII. General discussion on the distribution in the national economy
(Allgemeine Erörterung über die Verteilung der Güter in der Volkswirtschaft)
- IX. Income from the use of wealth (Einkommen aus Vermögensnutzungen)
- X. Consumption of goods (Consumtion der Güter)

This order follows a typical German style textbook that focuses on the life of goods from its production to its consumption. Though Knies divided the part of production and that of labor, it does not seem that he wished to develop his own theory on production. Rather, the significant parts of this course lie in the topic of circulation. Based on the criticism of the labor theory of value held by British economists and socialists (esp. Karl Marx), Knies centered his theoretical course on his own view of market price. Namely, that factors on the side of production influence the economic phenomena (such as market price) together with factors on the demand side through real actions of persons in the market. The peculiarity of the course is that it has two special parts on money and credit which run in a similar direction. This not only reflects the fact that Knies used his *Money and Credit* as a quasi-textbook in this part of the lecture, but also stresses on the concrete forms and various relations of trade on the market.

IV Summing up of the Course

The introductory chapters:

The definition of political economy that is given in the first chapter (§1), “The political economy deals with phenomena of common economic life of the people that emerge together with social and political formation within common orders.” (Die politische Ökonomie hat es zu tun mit der Erscheinung des wirtschaftlichen Gemeinschaftslebens der Menschen, wie sie sich mit sozialen und politischen Bildungen in gemeingültigen Ordnungen ergeben.”), suggests the peculiar perspective that Knies adopted for the whole arguments throughout the course. Indeed, this definition stresses that economic phenomena are situated in the common social life of the people, but on the other side it rejects the holistic claim that political economy should deal with the common social life of the people as a whole. As it is explained in later chapters (§§5,6), by

the term “economic”, Knies means the aspect of human life that is related to economic goods, i. e. goods that have economic value to people.

After a brief discussion of the relationship between jurisprudence and economics (§2), Knies defines the course as the “theoretical economics” thereby establishing general concepts of economic phenomena and thus the basis for two economic disciplines, i.e. “economic policy” and “public finance” (§3). The economic literature and textbooks Knies introduces in §4 are not so many. K. H. Rau’s *Grundsätze* and Roscher’s *Lehrbuch* are mentioned at the top and are followed by Schäßle, and A. Wagner, G. Schönberg’s *Handbuch*, and G. Cohn’s *Lehrbuch*. Two of his own books, *The Political Economy* and *Money and Credit* were mentioned under the rubric of the “small works” besides H. v. Mangoldt’s *Grundriß* and H. Bischof’s *Grundzüge*. It is interesting that Knies adds the remark “A sort of introduction” to his *Political Economy*.

The First Part on Basic Concepts

Following the typical German textbook style, Knies begins his reflection in economics from the pair of wants (Bedürfnis) and goods (Güter). (§5) “In general we call only those objects for the satisfaction of our wants goods.” (Im allgemeinen nennen wir nur die Gegenstände zur Befriedigung unserer Bedürfnisse Güter.”<S.9>) But free goods do not call forth economic action. It is economic goods (wirtschaftliche Güter) “that exist in so limited amount that gives rise to a heated desire or make special efforts necessary for its emergence or acquisition.” (die in so beschränkter Menge vorhanden sind, daß ein mehrheitlicher Begehrt entsteht, oder besondere Anstrengung nötig machen für ihre Entstehung oder Erlangung.<S.10>) From this quantitative definition of “economic goods” Knies criticized socialists who adhered to the product of human labor as the criterion for “economic goods”.

The following three chapters §§ 6-8 are used to discuss several ways of the classification of goods. First, economic goods are classified from the viewpoint of the wants that correspond to them (§6). Then, that of “material goods” (Sachgüter), “services” (Dienstleistungen), and “relations” (Verhältnisse). (§7) Mobile and immobile, consumable and non-consumable, fungible and non-fungible, and so on. (§8)

In three chapters on “economic value” (§§ 9-11), Knies criticizes British economists and socialists who focused their attention to ‘value in exchange’ (Tauschwert) and neglected ‘value in use’ (Gebrauchswert). He asks himself, “What is then that is common to all goods? The properties, that are useful for satisfying external human wants.” (Was ist das nun, was alle Güter gemeinsam haben? Das Merkmal, daß sie brauchbar sind zur Befriedigung eines äußeren menschlichen Bedürfnisses.<S.19>) But usefulness is recognized only through the real use in which the useful nature of goods are exerted as use effect. “Use effect distinguishes itself from the general useful capability of goods from the fact that it is attributed to one goods in specially determined grade. If we would name it, we would say ‘measure of use effect’. Here first we would recognize the economic value of goods.” (Nutzwirkung aber unterscheidet sich von den allgemeinen möglichen Nützlichkeit der Güter besonders dadurch, daß es in besonders ganz bestimmten Maß einem Gut zukommt; wenn wir das bezeichnen wollen, so würden wir “Maß der Nutzwirkung” sagen. Hierin wollen wir den wirtschaftlichen Wert der Güter zunächst erkennen. <S.20>)¹⁸⁾ Further, Knies makes a polemic to the labor theory of value by suggesting that not all economic goods are the product of human labor.

Property (§12), possession and use of other's goods (§13), and fortune (Vermögen §14) are discussed respectively. In §15 the principle that characterizes economic action (Wirtschaften) is presented as the "economic principle" (Prinzip der Wirtschaftlichkeit). That is: "An action is then economic, when the aim, in case of a given aim, is reached with 'least possible cost'." (Ein Verfahren ist dann wirtschaftlich, wenn bei gegebenen Ziel dies mit 'möglichst geringen Opfern erreicht wird.<S.31>) "In order to be economic, the result must be larger than the sacrifice." (Das Ergebnis muß größer sein als das Opfer, um wirtschaftlich sein zu können. <S.31>)

Finally, the economic relations between individual economies are discussed. Besides the free individualistic trade and exchange, Knies added "charitable action" (Karritativverkehr) and government intervention (Staatsaktion).

Parts on Production and Labor

In the second part, Knies follows the production factors theory and discusses nature, capital, and labor respectively. In §20 Knies mentions Marx and Rodbertus's exploitation theory, which regards capital as the sum of exploited labor, but he criticizes the over-valuation of labor compared to other two factors (§23). It is interesting that Knies stresses the "sensitive-intellectual" aspect of labor and opposes to naturalistic view of labor force. In §24 he maintains that the work of a high-paid worker can be less valuable than that of a low-paid worker. (§24) In the last chapter (§25), Knies makes a contrast between free workers and subjected workers and cites the tendency of the replacement of black slaves by free white workers in the American South. Knies admits, "The motive of self-interest is very important" (Sehr wichtig ist das Motif des Eigennutzes. <S.46>), but he is against the theorists who would reduce everything to this selfish motive and make it the only principle for economics. He mentioned the "interest of the whole" and maintained: "The aid of the state may and must appear, where the individual aid is no more sufficient, without eliminating the latter. The selfish effort with no consideration of others is not permitted, though everyone has to care his welfare first." (Die Staatshilfe kann und muß eintreten, wo die Einzelhilfe nicht mehr ausreicht, ohne daß diese aber aufhören soll. Ein Streben nach Eigen wohl ohne jede Rücksicht auf die andere ist unerlaubt, wenn natürlich auch jeder zuerst sein Wohl beachten muß. <S.46>)

The third part deals with the division of labor and the form of production management and firms. Knies discussed the merit and demerit of the division of labor and argued for the legislation to avoid the latter. In clear contrast to socialists, Knies is more optimistic in that he expects reduction of working hours by the introduction of machinery (§29). His discussion with Marx and socialists continues also in §31, where Knies criticizes their naïve enthusiasm to the productive association. According to Knies, the task of business choice and risk bearing makes this form of production applicable only to a limited sphere where business risk is rather low. (§30)

18) Knies introduced here also Rau's concept of "concrete value" (konkreter Wert) that is related to a certain quantity of goods.(§ 10)

Parts of Transactions and Price

In the fourth part, Knies followed the development of economic transactions up to the emergence of the merchant class. It is interesting that Knies has the concept of different degree of “ability of circulation” (Zirkulationsfähigkeit) of goods (§33) and noticed its enhancement by the progress in the means of transportation (§34)

In the chapters on price, Knies focuses his attention on market price, whereby the “total demand of a commodity” (§36) plays a key role. The chapter on the determination (§39) of the price is one of the most interesting chapters in this lecture, since Knies combines his concept of value with price, thus clearly revealing his view on market mechanism. Supposing a simple exchange between two persons, Knies denied the (British economists's and Marx's) view that they would see the bestowed amount of labor in their goods. In Knies's view, they see “the value in use” (Gebrauchswert) i.e. the “intensity of want” that the good in the hand of the partner could satisfy. On one hand, the higher the “intensity of want” of a person, the more he is inclined to accept a high price. On the other hand, the goods in his possession are dependent on the “liquidity” (Disponibilität) or the “capability of payment” (Zahlungsfähigkeit). In the market where price is determined by the relationship between supply and demand, Knies supposes that the “average intensity of individual demand” would determine the “average market price”. This reveals that Knies remains still in the pre-marginalist stage of value theory.¹⁹⁾

He further criticizes the view that the cost of production directly determines prices, arguing that it only affects the price indirectly by the increase or decrease of supply according to its difference with the market price. (§39) The same can be said on the side of demand. “Consumers affect the determination of price so far as they limit or do the opposite under higher prices.” (Die Konsumenten wirken auf die Preisbestimmung insofern ein, als sie bei höheren Preisen ihre Konsumtion beschränken oder umgekehrt.) Here he almost recognizes the difference in price-elasticity among goods. (§40)

In the last chapter of this part (§41) Knies declares his peculiar view on the “law” in economics: “Determination of prices does not follow an unchangeable natural law. The society affects here together; The will of individuals that seek to work most economically would also leads to the most various results. However, individuals often seek for pleasure without economic principle or serve for another so that the latter would favor them on return. One gives higher chip in order to be serviced finer, sets cheaper prices lest he should lose customers... In small trade, individuals are more compromise oriented, but in large trade with non-acquaintance they behave directly as egoistic as possible. Those who see a natural law in price go too far, as those who explain the price from the psychology of the nation, or the emotion of individuals.” (Die Bestimmung der Preise geschieht nicht nach einem unabänderlichen Naturgesetz. Die Gesellschaft wirkt hier mit; ebenso der Wille des Einzelnen, der möglichst wirtschaftlich zu handeln sucht, was zu den verschiedensten Folgen führt. Oft aber sucht der Einzelne ohne wirtschaftlichkeit größere Annehmlichkeit oder um dem an deren zu dienen, damit dieser ihm wieder wohlthute. Man gibt bessere Trinkgelder, um besser bedient zu werden, setzt niederere Preise, um den Kunden nicht zu verlieren... Im Kleinverkehr wird der Einzelne mehr dem

19) Knies belongs to the so-called school of ‘value in use’ theory (Gebrauchswertschule) . See Brandt (1992), S. 169ff.

anderen nachgeben, im Grosverkehr mit Unbekannten möglichst direct egoistisch sein. Zu weit gehen die, welche den Preis blos aus Naturgesetz ansehen und ebenso die, welche den Preis blos aus der Volkpsychologie erklären, dem Gemut des Einzelnen. <S.77>

Parts of Money and Credit

In these parts Knies's own work, *Money and Credit*, is mentioned directly after the titles of the parts. In the first chapter (§42) Knies described the difficulty of the evaluation of value in the economy without money and in the following chapter (§43), the selection of several goods as money. "The money is the object by which the exchange value of other objects is measured and serves for the convenience of exchange." (Das Geld ist der Gegenstand, an dem der Tauschwert der anderen Gegenstände gemessen wird, und das zur Erleichterung des Tausches dient. <S.79>) As this citation suggests, the function of money as the measure of value is the most essential function in Knies's view. He deals with this function in §44, he criticizes Marx's abstraction of the value in use from the two commodities. He maintains, "Goods have value in use commonly. All the economic goods differ in the way of their use, but all have the common feature that they satisfy some want." (Die Güter haben den Gebrauchswert gemein. Sämtliche wirtschaftliche Güter sind zwar differenziert in der Art ihres Gebrauchs, aber alle haben das gemeinsam, daß sie irgendein Bedürfnis befriedigen. <S.83>) Since in Knies's view, the degree of the "intensity" of the satisfied want is the value, only those goods that can satisfy some sort of human want and thus have value themselves can serve as the measure of value. Thus, paper money is not money from Knies's viewpoint (§44).

In the part about credit, Knies distinguished credit business from exchange, in that the former combines present and future (§53). He explained the variations of credit relations and the views of economists on them. He admits the productive function of credit that enables the inter-temporal trade as well as its contribution to the saving of money (§56).

Parts of Distribution

In the beginning of this part, Knies admits that distribution is the most crucial problem of a national economy that deals with hot issues in contemporary politics. (§57) After some discussion on revenue and income, Knies added "entrepreneurial profit" to the prevailing three income schemes and thus acquired the following four income schemes. (§59)

Possession of land	Possession of capital	labor	entrepreneurial activity
rent	interest	wage	entrepreneurial profit

In the interpretation of the first two income categories, Knies adopts the use (Nutzung) theory of wealth. That is the rent is the remuneration to the use of land. But Knies seems to have a wider view of interpreting the use of land and capital than British economists. He critically examines Ricardo's rent theory, mentioning the possibility of the cutting of rent, and gave suspicion to the concept of "indestructible force of nature" in recourse to Liebig's mineralogy. (§62) In the chapter of the possession of capital (§63), he maintains three points; first, the interest is the price of the use of capital; second, the level of interest is determined at the market; and third, there is no natural rate of the interest.

The part of the income from labor is interesting from the viewpoint of historian of economics. On the grounds that labor and worker are not separable, Knies criticizes the (Marxian) concept of labor force as a commodity. However, this does not deny the determination of wage on the market where the demand and supply of the labor meet. The maximum wage is given by the usable value. In the analogy of the production cost the standard of the wage should reflect the living cost of a worker and his family. But if some workers propose a cheaper wage than the normal wage standard in order to attain jobs, the wage standard declines. Resulting in a level that does not guarantee healthy living or expels a considerable part of workers from their job. "Here the public aid and the private aid, a charitable wage increase, must appear in order to make the industry to raise the wage up to the level of living cost." (Hier muß staatliche und private Hilfe, eine caritative Lohnerhöhung eintreten, die eigentliche der Industrie zuzuweisen wäre, da der Lohn zu den Produktionskosten gehört. <§66, S.140>) He justified the intervention of the state by the "principle of insurance" (Prinzip der Versicherung).

The basis for which Knies separates entrepreneurial profits from the interest of capital is explained in §68. Knies stresses the existence of risk and the significance of choice engaged by entrepreneurs.

The Last Part on Consumption

The course is concluded by the discussion of consumption. According to Knies, consumption is the final stage of the life of a good and the goal of economic activity. Though Knies recognized that market economy might deteriorate the living standard of workers, he expressed optimistic words in the very end of his lecture. "Looking back to the history, we see that development has taken place in such a way that the consumption increases and can increase. Hereby a considerable democratization of the luxury consumption took place. We see there a rash and urgent demand of people in the past and the present." (Blicken wir auf die Geschichte, so sehen wir, daß eine Entwicklung so stattfindet, daß die Konsumtion zunimmt und zunehmen kann. Es findet dabei eine gewisse Demokratisierung der Genußkonsumtion statt. Sehen wir hierbei nur auf die rasche, dringliche Beförderung der Menschen einst und jetzt. <§70, S.153-54>)

V Knies's Lecture in the History of German Economic Thought

After reading through the notes, we can make several general remarks on the feature of the Knies's course on economic theory.

1) First, we can say that Knies offered a moderate blend of economic theory and methodological position, which seems to me successful as a general course in economics. Although it may have been "boring" — as confessed by one attendant to his mother²⁰ —, especially when one took it without any prior knowledge, the historical position with which Knies made warning against the belief of "natural law" in economics contributed to give the course a depth of the insight. The mean position Knies adopted in the course is best expressed in his approval of "the economic principle" (§15) as the criterion of economic action, though he denied the absolute validity of the "self-interest" in economics. (§25) The student who had once felt that the course

20) Max Weber to his mother, May 2, 1882. Weber (1936), S. 41.

was 'boring' came to change his view: "Now that I have gained a few basic economic concepts through studying Adam Smith and others, Knies makes a quite different impression on me than he did a year ago, when in mid-semester I went once and found it dreadfully dreary. Only he speaks too fast, one has the greatest difficulty in taking notes from what he says, for his lecturing is even more fluent than that of Kuno Fischer. It is only his voice - it always seems troubled by the world, as if he regretted all the facts that he introduces - that weaken the impact of his extremely intelligent and creative disquisitions."²¹⁾

2) In Knies's course, Smith and Ricardo always occupied the position as the starting point of reflection or the target of critical examination. The second general feature of the course lies in its polemical nature. The evident criticism is directed to socialists and in particular, to Marx. The main target of the criticism in this course was precisely the labor theory of value that had been inherited from British economists to Marx. What is unique in Knies is that he not only rejected it but proposed an alternative explanation based on the peculiar German interpretation of the "value in use". Knies's *Money*, published in 1873 as the first volume of *Money and Capital* contains a criticism of Marx's *Capital* (1867) that attributed the common property of the two commodities in exchange for the common feature as the product of labor. Instead, Knies argued that the common feature that both commodities have value in use in any way is the base on which the exchange is performed. In Knies's view, the substance of the 'value in exchange' is not the 'abstract human labor' as Marx maintains, but the "common value in use" of the goods concerned in the exchange. The 'value in use' presupposes that the want to satisfy and the intensity of the satisfaction of the wants determines the individual demand toward the goods. Thus, in Knies's view of the market, wants, therefore demand in each form, plays a more significant role than production cost or embodied labor.²²⁾

3) However, in the mid-eighties when Knies made this lecture course at Heidelberg, the marginalist approach to the demand theory had already emerged. The problem in identifying the exact degree of dependence of want-satisfaction on the concrete amount of goods (the 'concrete value' a la Rau) was solved by the introduction of the concept of marginal utility by Austrians as well as W. S. Jevons and L. Walras. Knies must have known this, because two ardent proponents of Carl Menger's value theory, Eugen Böhm-Bawerk and Friedrich Wieser, had attended his seminar. However, he still adhered to the 'average' explanation as is shown in his analysis of market price (§39).

With the exception of Böhm-Bawerk's *Rights and Relations* (1881), most of the literature that was mentioned in the course are classics or textbooks and not those that represent the theoretical works in the then frontier. In 1880s Knies directed his effort to the revision of his two main works, i. e. *Political Economy* and *Money*, whose second editions were published in 1883 and 1885 respectively. In *Political Economy*, he rejected the newest trend of mathematical economists fundamentally; in *Money* he kept his position as metallist and neglected the state theorists such as Knapp. It was in 1883 that the course title of the General Theoretical Economics was fixed to the title of these notes. This course reflects Knies's conservative position in eco-

21) Max Weber to his father, May 5, 1883. Weber (1936), S. 74. I used K. Tribe's translation in Hennis (1988), p. 128

22) See Yagi (1996) that examined Marx-Knies debate from the Marxian point of view.

conomic theory in the period of proceeding marginal revolution.²³⁾

4) As for the aspect of social view and policy implication, Knies repeatedly stresses the social elements in the economics and the necessity of state intervention when individuals fail to attain socially favorable results. He included “social and political conditions in communal orders” in the definition of political economy (§1), stressed the element of “communal living” in the human wants (§5), and focused attention on the different result of “free” labor and slave labor (§25). Knies rejected the liberalism that had no social perspective, but his approval of “charitable action” and “state action” is not of the authoritarian nature like state socialists such as A. Wagner. Though he approved state intervention when necessary, his view on the modern economy is rather optimistic in contrast to the pessimism among socialists.

From these four features of the course we might be able to guess the route of a young scholar of economics. The student who once felt dreary but then recognized the value was Max Weber, who attended Knies’s course in 1882 and 1883²⁴⁾. Taking into account the fact that Weber wrote that Knies’s lecture became interesting to him after reading Smith, then what would be the influence of Marx criticism on the future direction of this promising youth? As for Knies’s negligence of marginalist theory, Weber seems to have paid effort to understand them before he succeeded Knies’s chair in 1897. In the syllabus he distributed for his lecture of General Theoretical Economics, literature of Austrian economists is listed with the same weight to that of historical economists²⁵⁾.

The element of personality of people in the economic life, which Wilhelm Hennis stressed by his expression of Knies’s political economy, ‘science of man’, is related to the first as well as the fourth feature of the course. The notes found in Kyoto were not so rich in concrete descriptions in this aspect, but Knies’s real lectures may have been more vivid and rich in citing examples or in arguing the conditions, processes, and results of the economic life of people. Still, the topic that Knies mentioned in relation to the ‘free’ and ‘unfree’ workers in the American South easily reminds us of the problem Weber mentioned in his inauguration lecture at Freiburg University (1895). Weber’s attitude to state intervention as well as his general view of economic progress seem not so far from that of Knies, though the old Knies did not express his value judgment so clearly as young Weber made it. It is reported that the Weber papers at the Central State Archive Merseburg conserves Weber’s excerpts from Knies’s works and notes on them which eloquently tell Weber’s close intellectual relation with Knies.²⁶⁾ This might reveal more of the details in the Knies-Weber relation. But, at present we can say at least, that Knies’s influence on Weber lies in the orientation towards economics that the course gave him, and not an abstract stress on the “personality” or “free will” of man.²⁷⁾

23) The same holds true also in the methodological aspect, since the course gives no explanation to the ‘debate on method’ (Methodenstreit) fought between Menger and Schmoller in 1883-84.

24) In 1882 Max Weber was just an occasional attendant at Knies’s class, since his name was registered only in the payers’ s list of General Economic Theory in the summer semester 1883 in Knies's file of the University Archive in Heidelberg.

25) See Yagi (1997) and Tribe (1995).

26) Hennis (1988), p.230 note79.

27) Kobayashi (2000) complains that Hennis’s argument is too abstract.

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