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**IMMATERIAL CAPITAL**

**IDEAS OF HUMAN AND SOCIAL CAPITAL IN THE OLDER HISTORICAL  
SCHOOL OF GERMAN POLITICAL ECONOMY**

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Tiivistelmä – Abstract <p>Mark Blaugin mukaan klassinen taloustiede hylkäsi Adam Smithin inhimillistä pääomaa koskevan ajattelun idut. Smithin keskeinen idea selitti palkkaeroja ammattitaitoisen ja ammattitaidottoman työvoiman välillä ja piti ammattitaidon kehittämistä ja koulutusta investointeina. Koska saksalainen taloustieteen historiallinen koulukunta täydensi tai oli jopa vastavoima klassiselle taloustieteelle, tässä työssä tutkitaan mitä modernin inhimillisen pääoman käsitteen elementtejä on löydettävissä Saksan vanhemman historiallisen kansantaloustieteen koulukunnan teoksista. Kehittivätkö Wilhelm Roscher (1817–1894), Bruno Hildebrand (1812–1878) ja Karl Knies (1821–1898) Smithin ajatuksia pidemmälle tai toiko heidän työnsä kenties ideoita nykyiseen ajatteluun? Koska sosiaalisen pääoman käsitteen historiaa harvoin tarkastellaan 1800-luvun näkökulmasta ja tiedetään, että historialliset taloustieteilijät suhtautuivat hyvin kriittisesti yksilön itsekkyyteen perustuvaan taloustieteeseen, tässä työssä tutkitaan myös mitä sosiaalisen pääoman teorian aineksia Roscherin, Kniesin ja Hildebrandin töissä oli.</p> <p>Roscherin, Kniesin ja Hildebrandin näkemykset pääomasta poikkesivat merkittävästi toisistaan, etenkin kun käsite laajeni koskemaan yksilöiden kykyjä tai sosiaalisia ilmiöitä. Roscherin aineettoman pääoman käsite sisälsi alkeellisessa muodossa monia keskeisiä nykyisen inhimillisen ja sosiaalisen pääoman ideoita. Hildebrandin mielestä moraalisiin piirteisiin perustuva luottamus oli vaihdettavissa taloudelliseen pääomaan luoton avulla. Näin ihmisen moraalinen arvo sai pääoman voiman. Karl Kniesin mukaan yksilön henkisiä tai fyysisiä ominaisuuksia saati sosiaalisia ilmiöitä ei voinut selittää pääoman käsitteen avulla eikä sisällyttää käsitteeseen. Roscherin yhteisvastuun käsite (Gemeinsinn) ja Hildebrandin mentaalinen pääoma voidaan tulkita keinoiksi selittää kollektiivista toimintaa. Lisäksi työ sivuaa pääoman käsitteen käyttöä 1800-luvulla. Näkemykset, joiden mukaan pääoman idea laajeni ihmisiin ja heidän kykyihinsä vasta 1960-luvulla tai että sosiaaliset siteet pääomana olisi ollut pelkkä metafora ennen nykyistä teoriaa, vaikuttavat riittämättömiltä. Inhimilliset kyvyt kuten myös sosiaaliset siteet ja luottamus määriteltiin pääomaksi jo 1800-luvulla. Tosin käsitteen sisältö oli erittäin vaihteleva.</p>	
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<p>Tiivistelmä – Abstract</p> <p>According to Mark Blaug, classical economists abandoned Adam Smith’s germs of human capital thought. Smith’s core idea aimed to explain the wage differentials between skilled and common labor and saw education and the acquiring of valuable skills as investments. As the German Historical School is seen as a foil or even a counterforce to classical economics, this thesis studies, what elements of the modern human capital concept, if any, it is possible to find in the writings of the Older Historical School of economics? Did Wilhelm Roscher (1817–1894), Bruno Hildebrand (1812–1878), and Karl Knies (1821–1898) develop Smith’s thoughts further or is there to be found original contributions to modern thought? In addition, because the studies on history of the social capital concept seldom look beyond the twentieth century, and it is known that German historical economists were highly critical of self-interest based economics, this thesis asks, what aspects of contemporary social capital theory are included in the works of Roscher, Knies, and Hildebrand?</p> <p>Roscher, Knies, and Hildebrand had differing views concerning capital, especially when extending the concept to the areas of human capabilities and social sphere. In embryonic form, Roscher’s concept of immaterial capital includes most of the ideas now spoken as human and social capital. Hildebrand saw that trust based on moral characteristics could be changed to financial capital through credit, i.e., moral worth gains the <i>power</i> of capital. Karl Knies saw that neither personal mental or physical characteristics, nor social phenomena could be explained with or included in the concept of capital. Roscher’s concept of public spirit (Gemeinsinn) and Hildebrand’s mental capital can be interpreted as means to explain collective action. The latter included also aspects of human and social capital. In addition, paper gives some insights on how the concept of capital was used during the nineteenth century. View that only in the 1960s was the idea of capital expanded to cover people and their capacities, or that social ties as a form of capital was simply a metaphor until the birth of contemporary conception, are shown inadequate. Human skills and capacities as also social ties and trust were <i>defined</i> as capital already in the nineteenth century. The concept, however, was remarkably diverse.</p>	
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# 1. INTRODUCTION

*“I shall argue, however, that classical political economy made virtually no contribution to the theory of human capital; indeed, in some respects it undermined its foundations.”*

*Mark Blaug*

*“Our empirical investigation reveals that human capital is the most important factor of production in modern economies.”<sup>2</sup>*

*Deutsche Bank Research*

Mark Blaug’s notion about classical economics and human capital gave the inspiration to my thesis. According to Blaug, classical economists abandoned Adam Smith’s germs of human capital thought; they even dropped his analogy of skilled worker as an expensive machine. It aimed to explain the wage differentials between skilled and common labor and saw education and the acquiring of valuable skills as an investment in oneself by incurring present costs for the sake of the future benefits.<sup>3</sup> As the German Historical School was a foil or even a counteraction to the classical school, it would be interesting to see what elements of the modern human capital concept, if any, it is possible to find in the writings of the Older Historical School of economics. Did Wilhelm Roscher (1817–1894), Bruno Hildebrand (1812–1878), and Karl Knies (1821–1898) develop Smith’s thoughts further or is there to be found original contributions to modern thought?

More to this, since already Friedrich List (1789–1846), an important forerunner of the Historical School seen sometimes as its founder, placed community over individual, though only insofar as it advanced the success of individual, it is interesting to see what aspects of the contemporary and at the moment very trendy social capital theory are included in the works of Roscher, Knies, and Hildebrand. In addition, for List human

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<sup>1</sup> Mark Blaug, *Economic History and the History of Economics* (Washington Square, New York: New York University Press, 1986), 150.

<sup>2</sup> Stefan Bergheim, 'Human Capital is the Key to Growth – Success Stories and Policies for 2020', *Current Issues, Deutsche Bank Research*, ed. by Stefan Schneider (August 2005) <<http://www.dbresearch.com>> [accessed 13 March 2006], 5.

<sup>3</sup> This state of affairs, in Blaug’s opinion, was changed only after Marshall. Mark Blaug, *Economic History and the History of Economics*, 1986, 154–155.

skills and acquired abilities of human beings were the most important components of a nation's stock of capital.<sup>4</sup> Thereby, the List's statement: "the power to create riches is indefinitely more important than the riches themselves," will serve as a second starting point for this study.<sup>5</sup> What were these human and social powers for these historical economists, and to what degree is it possible to see these powers through the contemporary concepts of human and social capital?

Furthermore, I will show that a simplistic unhistorical view concerning the concept of capital and the lack of knowledge about nineteenth century political economy prominent in some literature certainly gives an inadequate picture of how the concept of capital was used during the nineteenth century. For example, John Field claims in his *Social Capital* (2003) that only in the 1960s was the idea of capital expanded to cover people and their capacities. This is certainly wrong, as is his claim, which he shares with Robert Putnam that social ties as a form of capital was simply a metaphor until the birth of contemporary conception.<sup>6</sup> Human skills and capacities as also social ties, networks, and trust were *defined* as capital already in the nineteenth century. Not every political economist accepted this view in the nineteenth century, nor does every economist or sociologist now in the twentieth-first.

In literature the names Roscher, Hildebrand, and Knies are most commonly connected with the Older Historical School. There are others who by their work could be included to this study, but since the school is usually defined with an account on these three, it is possible precisely through them to find out what were the views of the school on human capital, if there were any.<sup>7</sup> The second generation of historical

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<sup>4</sup> B. F. Kiker, 'The Historical Roots of the Concept of Human Capital,' *Journal of Political Economy*, 74 (1966), 486.

<sup>5</sup> List as the founder of the school: Geoffrey Martin Hodgson, *How Economics Forgot History: The Problem of Historical Specificity in Social Science* (London; New York: Routledge, 2002), 58. About the relation between individual and community, and the citation above: Heinz Rieter, 'Historische Schulen', in *Geschichte der Nationalökonomie*, ed. by Otmar Issing and Peter Dobias (München: Vahlen, 2002), 140.

<sup>6</sup> John Field, *Social Capital* (London: Routledge, 2003), 9–12.

<sup>7</sup> E.g., Schumpeter, Blaug and Ekelund & Hébert present this grouping: Robert B. Jr. Ekelund, Hébert, Robert F., *A History of Economic Theory and Method* (New York: McGraw-Hill, 1990), 251; Mark Blaug, *Great Economists Before Keynes: An Introduction to the Lives & Works of One Hundred Great Economists of the Past* (Brighton: Wheatsheaf, 1986), 207; Joseph A. Schumpeter, *History of Economic Analysis* (New York, London: Oxford University Press: Allen & Unwin, 1963). See also Grimmer-Solem's complete list of Historical School based partly on

economists, the Younger Historical School, would be at least equally interesting to study in its relation to human capital, since it was during the Schmoller's "reign" of academic establishment that German economics and policy differed most from the Great Britain and the *Verein für Sozialpolitik* introduced new kind of social legislation. To be able to say something about the Historical School as a whole, as arbitrary or abstract this grouping may be, it is necessary to know what was there already in the beginning.

Usually, the studies of the history of economic thought stand somewhere between two opposite assumptions about economics and social sciences in general. Ekelund and Hébert express this polarity with two views considering ideas. First is that the ideas "are the *only* things that matter" and the second that "*every* idea is a more or less faithful expression of the time period in which it emerged." Mark Blaug presents this dichotomy as a one between 'absolutism' and 'relativism.'<sup>8</sup> Although Blaug was espousing 'absolutism' against 'relativism' in the first editions of his *Economic Theory in Retrospect*, he has later shifted his emphasis to include historical reconstructions alongside rational ones. Robert G. Backhouse argues that the belief that ideas can be understood only in historical context has been a part of Blaug's methodology from the beginning.<sup>9</sup> The question about relativism and absolutism is especially interesting in the Historical School, since its approach was relative and its origins lay in the critique of the more abstract and absolutist views of classical political economy<sup>10</sup>. Regardless of whether one is an absolutist or a relativist, one can see economic and social ideas as tools used to solve problems through policy. Admitting that our culture, institutions involved in the production of knowledge, and the context of our problems shape the

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the Schumpeter's work: Erik Grimmer-Solem, *The Rise of Historical Economics and Social Reform in Germany, 1864-1894* (Oxford, New York: Clarendon Press, Oxford University Press, 2003), 22.

<sup>8</sup> Robert B. Jr. Ekelund, Hébert, Robert F., *A History of Economic Theory and Method*, 1990, 7; Mark Blaug, *Economic Theory in Retrospect* (Homewood, Ill: R. D. Irwin, 1962), 1-7.

<sup>9</sup> Roger E. Backhouse, 'Mark Blaug as a Historian of Economic Thought', in *Historians of Economics and Economic Thought: The Construction of Disciplinary Memory*, ed. by Steven G. Medema and Warren J. Samuels (London and New York: 2001), 32. Blaug's influence to the history of economic thought is not trivial; he is already written history about.

<sup>10</sup> Roscher's view was that different theories can be right at the same time, but only in within their own time, place and among their own *Volk*. Wilhelm Roscher, *Grundlagen Der Nationalökonomie: Ein Hand- Und Lesebuch Für Geschäftsmänner Und Studierende* (Stuttgart: Cotta, 1906), 75-76, §. 25.; Lewis H. Haney, *History of Economic Thought: A Critical Account of the Origin and Development of the Economic Theories of the Leading Thinkers in the Leading Nations* (New York: Macmillan, 1920), 487.

methods employed to generate knowledge for policy,<sup>11</sup> we stand closer to the relativist view. Despite this, however, it is plausible to believe that economic theories and abstractions have a life of their own, though their roots may lie in the current conditions of their time.<sup>12</sup>

Besides aforementioned, there are some points to consider from the methodological point of view. The debate around the Historical School revolves usually around its inductive, historical method. Seeing historical economics as a merely methodological way of contemplation does not offer an adequate picture and can show any discipline as inclined towards dogmatism. A pure methodological viewpoint shows economics as fixed to stable paradigms and schools; the irreducible core is served in basic statements. These paradigms often rise to such heights that they sanctify current models.<sup>13</sup> This is important here at least in two ways. To bundle the Historical School or, let us say Classical Political Economy, in one paradigm or research program in Kuhnian or Lakatosian sense does not necessarily do justice to the diversity of views associated<sup>14</sup>. Second, besides methodology, it is important to understand epistemology and logic behind scientific statements. In this sense, Hegelian and Kantian philosophies are in the background of the Historical School. This paper, however, studies whether Roscher's, Knies', and Hildebrand's works include ideas of human and social capital thought, and if, what were they like. To explain their views through social context or epistemology, methodology, and logic would require a study of different scope.

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<sup>11</sup> As in Erik Grimmer-Solem, *The Rise of Historical Economics and Social Reform in Germany, 1864-1894*, 2003, 14. Or as Douglas C. North puts it: "– the way knowledge develops shapes our perceptions of the world around us and in turn those perceptions shape the search for knowledge." Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge, New York, Port Melbourne: Cambridge University Press, 2004), 76.

<sup>12</sup> Robert B. Jr. Ekelund, Hébert, Robert F., *A History of Economic Theory and Method*, 1990, 7–8.

<sup>13</sup> Leonhard Bauer Bauer and Hermann Zehetner Rauchenswandtner, Cornelius, 'Wilhelm Roscher's "Antiplatonismus" als Vorstufe einer historischen, institutionellen Betrachtungsweise der Ökonomie', in *Historische Schulen*, ed. by Jürgen G Backhaus (Münster: Lit, 2005), 5.

<sup>14</sup> Though Blaug has argued that the central tradition of the economics since Adam Smith is best understood as a Lakatosian scientific research program. Therefore, it might be interesting to study which of its hard core assumptions of competitive theory can be found from, e.g. Roscher, who did not deny the importance of theory, but instead wanted to improve Classical Economics with his historical viewpoint. In addition, since Blaug's hardcore assumptions include such as constant tastes, independence of decision-making and perfect mobility of factors, to study how Roscher's views about historical uniqueness and limiting role of institutions relates to these, might be of interest. Roger E. Backhouse, 'Mark Blaug as a Historian of Economic Thought', 2001, 30–31.



Therefore, the method of this study is comparative and its outlook more absolutist than relativist. It is my intention to study how did they define capital, did their definitions allow human capital, and how did their definitions differ. Consequently, ideas are studied to be able to evaluate them in relation to the development of the economic theory, here human and social capital thought, not as reflections of their time and place. This is not a statement about the nature of the world of ideas but a matter of necessity, since to even begin analyzing why someone wrote as he or she did, one has to know what that someone wrote. It is the premise here that then one must see what is there to explain, i.e., what is unique in the context of chosen ideas and what is important from the chosen point of view. Then one could ponder why; what was there in that time that made him or her think of this or that problem as he or she did, though this is a step not thoroughly taken here.<sup>15</sup>

To keep ones feet on the ground, one must pay attention on some features of the nineteenth century. Eric Hobsbawm has reminded that to explain nineteenth-century social investment, e.g., in universal primary schooling, as if reformers had intended to assist economic growth, is dubious. For the most of the nineteenth-century Europe, it was ideological and political reasons: to instill religion, morality, and obedience among the poor, not a conscious effort to invest to the higher productivity for the economy.<sup>16</sup> This has to be considered in the case of the Older Historical School, if one searches traces of human capital thought from their works, but there is also the possibility to see the problem from the viewpoint of development. Historical economists saw development as a series of higher and higher stages on which societies raise through *Bildung*.<sup>17</sup> Today economic growth and higher productivity are often, unfortunately

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<sup>15</sup> Of course one can start from the context of time and place. This is common in history, but in the writer's opinion, if this view is abused when studying ideas, it is pure relativism and makes us unreflective products of our environment. An interesting but gloomy example of a worldview shaped by this kind of relativism is served in William G. Sumner's *Folkways* (1906). At its best, however, it can show what a fellow man, which despite the times gone still has resemblance to us, did and thought in circumstances unfamiliar to us.

<sup>16</sup> E. J. Hobsbawm, 'Historians and Economics: II', in *On history*, (London: Abacus, 1998), 153.

<sup>17</sup> 'Bildung' can be translated as education, but usually it refers to more general concept of culture or civilization. It is somewhat strange that historical economists are often accused of obfuscating latter research with stage theories, since Adam Smith had a stage theory of economic development much earlier, and it has certainly had more influence on modern economics. One of the accusations: Henry William Spiegel, *The Growth of Economic Thought*

perhaps, synonyms for development; thereby, if an analogy is permitted, what *Bildung* was to the stage of society's development then, human capital is to the economic growth and productivity now. However, there is always the danger of reflecting, with modern language and concepts, something into past that is not there.<sup>18</sup>

Availability has played its part with primary sources and research literature. First editions of Roscher's, Knies' and Hildebrand's works were not available and German studies of Historical School are numerous, but hard to get in Finland. Wilhelm Roscher's *Die Grundlagen der National Ökonomie* (1854), the first part of his five-volume work *System der Volkswirtschaft* (1854–1894)<sup>19</sup>, contains Roscher's views on fundamentals of political economy and defines its central concepts. Roscher's massive work was so popular that after the turn of the century more than twenty editions was printed, and almost every edition had additions and improvements. I have used twelfth and twenty-fourth editions, published in 1875 and 1906. Roscher's earlier programmatic publication *Grundriss zu Vorlesungen über die Staatswissenschaft nach geschichtlicher Methode* (1842), with which he launched the Historical School, is not used, but his lifework *System der Volkswirtschaft* contains his original and central ideas. It is also a magnum opus on the history of economic thought praised by Robert B. Ekelund and Robert F. Hébert as follows:

“— — Roscher showed an ability as a historian of economic thought without peer in the nineteenth century.”<sup>20</sup>

Karl Knies' main work *Politische Oekonomie vom Standpuncte der geschichtlichen Methode* (1853)<sup>21</sup> brought him a professorship in *Kameralwissenschaften*. However,

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(Durham, NC: Duke University Press, 1991), 417. Smith's stages: Bertram Schefold and Kristian Carstensen, 'Die klassische Politische Ökonomie', in *Geschichte der Nationalökonomie*, ed. by Otmar Issing (München: Vahlen, 2002), 76.

<sup>18</sup> E.g., according to Roger Smith, the seventeenth-century English pamphlet writers started to describe economic activity separately from other aspects of collective life: the beginnings of a form of economic thinking may lie there, but it was not 'economics'. Roger Smith, *The Fontana History of Human Sciences* (London: Fontana, 1997), 28–29.

<sup>19</sup> Vol. I., *Die Grundlagen der National Ökonomie*, 1854; vol. II., *Die Nationalökonomik des Ackerbaues und der verwandten Urproduktionen*, 1859; vol. III., *Die Nationalökonomik des Handels und Gewerbflusses*, 1881; vol. IV., *System der Finanzwissenschaft*, 1886; vol. V., *System der Armenpflege und Armenpolitik*, 1894.

<sup>20</sup> Robert B. Jr. Ekelund, Hébert, Robert F., *A History of Economic Theory and Method*, 1990, 252.

Schumpeter sees this work only as a programmatic book – it stresses the historical relativity of policies and doctrines –, which has gained a commendation not quite deserved. Schumpeter ranks Knies as the most eminent of the three mainly on the grounds of his work in the field of economic theory, and regards *Politische Oekonomie* as his only connection to the Historical school.<sup>22</sup> There is a more precise account on capital in his *Geld und Credit* (*Das Geld* 1873, *Der Credit* 1876-1879). Bruno Hildebrand's theoretical main work *Die Nationalökonomie der Gegenwart und Zukunft* (1848) brought him a reputation as one of the souls of the Older Historical School. This book meant as the first volume of a larger work (he never continued it) includes criticism of Adam Smith and socialists' systems. It emphasizes moral-science character of economics (*Kulturwissenschaft*) averse to economics based on physics and natural law (*Naturwissenschaft*). It is common to Knies' and Hildebrand's works here that they meant them to be textbooks used in universities. A common practice in Germany was that an academic, or one who aspired to be one, had to write a general account on his subject, on which he based his teaching. Roscher sought audiences also among businessmen as the subtitle *Ein Hand- und Lesebuch für Geschäftsmänner und Studierende* of his *System der Volkswirtschaft* indicates.

Most of the research literature considering the Historical School concentrates on the younger vein of the school; this may be a result of its greater influence on German policy and on economics generally. Only few references in literature connect human capital with Roscher, Knies, and Hildebrand. Roscher, however, appears in some articles tracing the past of the human capital thought.<sup>23</sup> Erik-Grimmer Solem's *The Rise of Historical Economics and Social Reform in Germany 1864–1894* (2003) examines German economics in its social context and depicts how discipline was reformed into a tool of social reform by Schmoller and his disciples. In addition, it offers a good account on the Historical School in general – the older generation included. A good general presentation is also *German Historical School: the Historical and Ethical Approach to Economics* edited by Yeuichi Shionoya. Geoffrey M. Hodgson studies historical specificity in economics and different schools of thought that have fostered it

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<sup>21</sup> Here is used its new, improved and enlarged edition: Karl Knies, *Die Politische Oekonomie Vom Geschichtlichen Standpunkte* (Braunschweig: Schwetschke, 1883).

<sup>22</sup> Joseph A. Schumpeter, *History of Economic Analysis*, 1963, 808.

<sup>23</sup> B. F. Kiker, 'The Historical Roots of the Concept of Human Capital', (1966), 481.

in his *How Economics Forgot History* (2001). *Die Ältere Historische Schule: Wirtschaftstheoretische Beiträge und wirtschaftspolitische Vorstellungen* (2005), edited by Christian Scheer, and *Historische Schulen* (2005), edited by Jürgen G. Backhaus, offer latest German studies on Historical School – the first mentioned especially on Roscher, Knies, and Hildebrand. Furthermore, there is no reason to neglect Schumpeter's *History of Economic analysis*, since a great body of research is partly commentary – approving or rejecting – to its views. Steven G. Medema's & Warren J. Samuels' (eds.) *Historians of Economics and Economic Thought: The Construction of Disciplinary Memory* (2001) adds a good account on history of economic thought as a discipline and on its methods.

There is an abundant literature concerning human capital, but two articles tracing the history and the foundations of the concept are worth mentioning here. B. F. Kiker's *The Historical Roots of the Concept of Human Capital* (1966) shows that the concept or idea of human beings or their abilities as capital is as old or older as modern economics as a discipline.<sup>24</sup> Second is Scott R. Sweetland's *Human Capital Theory: Foundations of a Field of Inquiry* 1996, which looks through seminal studies of the field. Similarly, since a general view of the field is here necessary, two books discussing social capital and the research of the concept are to be mentioned. John Field's *Social Capital* (2003) and *Social Capital: A Review and Critique* edited by Stephen Baron et al. are good general accounts on the subject.

The most common definition of capital is probably the one, which refers to the equipment and structures used to produce goods and services in conjunction with other inputs such as labor, land, and enterprise, i.e., capital is man made means of production. Human capital theory extends this definition to people as it sees the skills, knowledge, and experience possessed by an individual or population in terms of their value or cost to an individual, organization, or country, or as a resource contributing to economic growth. In other words, human capital theory states that individuals and society derive economic benefits from investment in people.<sup>25</sup> Theory of social capital, though quite

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<sup>24</sup> Depends where one starts counting and what is seen as “modern.” Kiker sees the foundations of modern economics in Sir William Petty from the seventeenth century.

<sup>25</sup> Scott R. Sweetland, 'Human Capital Theory: Foundations of a Field of Inquiry', *Review of Educational Research*, 66 (Autumn, 1996), 351.

diverse, refers to norms and networks of reciprocity, trust, cooperation, and the social and economic returns derived from them. The Older Historical School of economics includes here Roscher, Knies, and Hildebrand as its main members, though whether the name or this grouping is plausible is a question that recurs repeatedly in literature considering German nineteenth-century economics.

This study is organized so that the following chapter introduces the Older Historical School of German political economy as a historical phenomenon. The third chapter briefly discusses the modern usages of human and social capital and sheds some light to historical usages. In fourth chapter I will try to describe the basis on which Roscher, Hildebrand, and Knies built their concepts of capital. The chapter *Capital in People* concentrates on human capital side – skills and abilities – in their texts, whereas in chapters six and seven some aspects of their theories, predominantly social relations; solidarity; and trust, now considered as social capital, are discussed. Chapter eight gives some insights on how the members of historical school saw two important parts of human capital thought, namely, education and wage differentials.

## 2. THE OLDER HISTORICAL SCHOOL

### 2.1. ESSENCE AND EXISTENCE

*“It is also that, especially today, when a single paradigm reigns apparently unchallengeable in economics, it is wise to consider the eventual fate of another school whose hegemony was once equally complete.”*<sup>26</sup>

The Historical School has its foundations in German philosophic revolution. Kant’s argument that knowledge cannot have content without reference to experience and Hegel’s representation of historical development were important to School’s development. Hegel criticized also the idea of self-regulating market, since he saw the state as necessary for economic, social, and political cohesion.<sup>27</sup> School derived some of its central features from German historicism, i.e., positivism, relativism, and socio-cultural focus.<sup>28</sup> The School is also interpreted as a reaction to rationalism and enlightenment, to the British classical economics – especially its allegedly universal theories –, and Marxian and neo-classical economics as its descendants. The major concepts of social science in which the Historical School had a great influence have been institutions, evolution, and national social policy. Historical and ethical methods were also its characteristic features.<sup>29</sup> In literature, the school often divides to three phases and the first, the Early or Older German Historical School, usually includes names Roscher, Knies, and Hildebrand. Albeit Wilhelm Roscher often collects the credit of having founded the School, Geoffrey M. Hodgson starts the era dominated by the German historical School from Friedrich List’s *Das nationale System der politischen Ökonomie* (1841) and ends it to the death of Werner Sombart in 1941.<sup>30</sup>

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<sup>26</sup> Bruce Caldwell, 'There Really Was a German Historical School of Economics: A Comment on Heath Pearson.', *History of Political Economy*, 33 (2001), 654.

<sup>27</sup> Geoffrey Martin Hodgson, *How Economics Forgot History: The Problem of Historical Specificity in Social Science*, 2002, 56.; Lewis H. Haney, *History of Economic Thought: A Critical Account of the Origin and Development of the Economic Theories of the Leading Thinkers in the Leading Nations*, 1920, 485.

<sup>28</sup> Heinz Rieter, 'Historische Schulen', 2002, 123.

<sup>29</sup> Yuichi Shionoya, 'Introduction', in *The German historical school: the historical and ethical approach to economics*, (London, New York: Routledge, 2001).

<sup>30</sup> Geoffrey Martin Hodgson, *How Economics Forgot History: The Problem of Historical Specificity in Social Science*, 2002, 58.

It is debatable whether it is even possible to speak about Roscher, Knies, and Hildebrand in the sense of a 'school.' Schumpeter defined the term 'school' as a definite sociological phenomenon and stated that their views were not enough uniform nor were they enough different from other economists of all ages.<sup>31</sup> Also, Heath Pearson and David F. Lindenfeld have denied the existence of the Older Historical School: Pearson, e.g., by presenting Roscher's historical method as a masterstroke of marketing and as a means to hitch his own research program to the coattails of the German Historical School of Jurisprudence and by pleading to Schumpeter's authority.<sup>32</sup> Lindenfeld sees that only by providing unifying concepts, such as 'historical economics,' 'culture' or 'society' on which the next generation forged its methodologies and research programs, the Older Historical School prefigured the younger.<sup>33</sup> Erik Grimmer-Solem offers a comprehensive account on different usages of the word 'school' applied to Historical School. He sees the rubric 'Historical School' as vague and overburdened, and of little use to systematic, critical study. Grimmer-Solem ends up using 'historical economics.'<sup>34</sup>

However, Mark Blaug has listed common denominators of the Older Historical School. These include the belief that the clear exposition of the aims and methods of economic inquiry must predominate over the development of the substantive doctrines; that all economic truths are relative and valid only for a set of national and historical circumstances; that therefore, economics must proceed via vigorous criticizing of the past; that economic development moves through stages similar to biological development; and that a variety of social policies are needed to help the working class and to stop the spread of the socialism.<sup>35</sup> In addition, Bruce Caldwell has reminded in his article *There Really Was a German Historical School of economics – A Comment on Heath Pearson* that almost all schools of economics include differing lines of thought. He also argues convincingly against Pearson's implications, though does not try to deny

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<sup>31</sup> Joseph A. Schumpeter, *History of Economic Analysis*, 1963, 507–508 and 808–809.

<sup>32</sup> Heath Pearson, 'Was There Really a German Historical School of Economics?' *History of Political Economy*, 31 (1999), 547–562, passim.

<sup>33</sup> David Lindenfeld, F., 'The Myth of the Older Historical School of Economics.', *Central European History*, 26 (1993), 416.

<sup>34</sup> Erik Grimmer-Solem, *The Rise of Historical Economics and Social Reform in Germany, 1864-1894*, 2003, 19–36.

<sup>35</sup> Mark Blaug, *Great Economists Before Keynes : An Introduction to the Lives & Works of One Hundred Great Economists of the Past*, 1986, 207.

her starting point.<sup>36</sup> In addition, Geoffrey M. Hodgson has noted that with Pearson's strict criteria to demarcate 'school,' it would be difficult to "identify any single school in the history of the subject."<sup>37</sup>

Whatever the stance taken, discussion above shows that the term 'Historical School' with its variations is widely used shorthand for three generations of economists in Germany. Even when the term is criticized, it has to be mentioned and defined. Therefore, the Historical School will probably continue to be part of histories of economic thought, though our conceptions and interpretations of it may change.

Furthermore, to assess the significance and the position of the historical school on some still important economic and social questions, one can draw some rough parallels between the nineteenth and twentieth century economics. In the face of the diversity of both classical and historical economics, the following are necessarily simplifications and none of them can be applied to all economics included in the schools. Whereas classical economics put its emphasis on individual, the historical school emphasized communities and social groups. Whereas classical economics was pro free trade, the historical school had since Friedrich List a twist towards trade regulation and customs. Whereas classical school promoted laissez faire and distrusted government interventions, the historical school saw that the state had an important role in economy – not least in securing the subsistence of the lower classes. Where classical economics saw a self-interest maximizing individual, the historical school saw often a member of a group or a nation with civic virtue. Where classical economics wanted to find universal rules and formulas of economy, the historical school doubted their existence and opted for more empiric and descriptive research.

Then some parallels from the twentieth century that are connected to above mentioned juxtapositions. After the postwar era of individualism, social sciences are again interested in social groups, social cohesion and social cooperation – for example, through concept of social capital. In an era of globalization, free trade is seen both as a

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<sup>36</sup> Bruce Caldwell, 'There Really Was a German Historical School of Economics: A Comment on Heath Pearson.' (2001), passim.

<sup>37</sup> Geoffrey Martin Hodgson, *How Economics Forgot History: The Problem of Historical Specificity in Social Science*, 2002, 56.



blessing and a curse. Rich west is promoting free trade, but still protecting its own markets especially in agriculture. The problem of free market system, or laissez faire as it was called during the nineteenth century, versus government regulation manifests itself in the triumph of Keynesianism after 1930s, when John Maynard Keynes proved that classical theory could not grasp the reality of the Great Depression. Last thirty years has seen the revival of distrust against fiscal policies and government regulations, partly thanks to Milton Friedman's and his disciples' work preaching the joys of free market economy.<sup>38</sup> The self-interest maximizing individual of classical economics is today presented by rational choice theory and studied with game theories, and sometimes results bring up something such as fairness that traditionally is not part of what economics understands with the economic man – *Homo economicus*.<sup>39</sup> And finally, the question how much abstraction and assumptions is allowed in economic formulations is still part of the discussion in economics.<sup>40</sup>

## 2.2. ROSCHER, KNIES, AND HILDEBRAND

Wilhelm Georg Friedrich Roscher was born on October 21, 1817, in Hanover to a family of a civil servant. In 1827, he was left half-orphan. He studied in grammar school (das Gymnasium) in Hanover but moved to Göttingen in 1835 to study antiquity and history. His teachers in Göttingen were Friedrich Christoph Dahlman (1785–1860), the leader of the *Göttingen Sieben*<sup>41</sup>; Georg Gottfried Gervinus (1805–1871), author of the five-volume *Geschichte der poetischen Nationallitteratur der Deutschen*; and Karl Otfried Müller (1797–1840). Following his graduation, he continued his studies in

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<sup>38</sup> See Paul Krugman's interesting view about Friedman's role in promoting free market economy policies and how these policies have left the wages of great majority of workers behind and increased income differences: Paul Krugman, 'Who Was Milton Friedman?', *The New York Review of Books*, 54:2 (February 15, 2007).

<sup>39</sup> See, e.g., Joseph Henrich et al., "'Economic Man' in Cross-Cultural Perspective: Behavioral Experiments in 15 Small-Scale Societies', *Behavioral and Brain Sciences*, 28 (December 22, 2005), 795–815.

<sup>40</sup> See, e.g., chapter *Inexactness, ceteris paribus clauses and "unrealistic assumptions"* in Daniel M. Hausman, 'Philosophy of Economics', *Stanford Encyclopedia of Philosophy*, ed. by Edward N. Zalta et al. (2003) <<http://plato.stanford.edu/entries/economics/>> [accessed January 22, 2007].

<sup>41</sup> The group of seven professors who were dismissed by the new ruler Ernest Augustus, because they did not approve the prince's arbitrary abrogation of the constitution. Glenn R. Sharfman, 'Dahlman, Friedrich Christoph', *Encyclopedia of 1848 Revolutions*, ed. by Roy Austensen, Joseph O. Baylen and Helmut Bleiber (2005) <<http://www.ohiou.edu/~Chastain/dh/dahlman.htm>> [accessed 22 April 2006].

Berlin at the guidance of August Boeckh (1785–1867) and Leopold von Ranke (1795–1886). After a brief period as a professor of political science (Staats- und Kameralwissenschaft) in Leipzig, he received a post to teach history and political science in Göttingen. He also started to teach a course in political economy (die Nationalökonomie). Designations as associate professor (der Extraordinarius, 1843) and professor (der Ordinarius, 1844) followed soon. After an appointment to the Universität Leipzig in 1848, he never abandoned Leipzig again despite offers of appointment to München, Wien, and Berlin.<sup>42</sup> Roscher is usually regarded as the founder of the Historical School and its methodological mentor. He died on June 4, 1894, in Leipzig.

Roscher was after natural laws of Political Economy, but in his view, these laws were always relative to ever-changing set of institutions. He admitted that what was general to economies was in many ways analogous to the mathematical sciences and that when studying complex economic phenomena, it was proper to assume other factors as constant and ask what happens if the one under consideration is changed. However, he reminded that formulas achieved this way were in the end only abstractions, and therefore, in the transition to practice and also in finished theory the infinite variety of real life had to be taken into account. Roscher saw that Political Economy was about what is, what has been, and how it came to be so. For him normative analysis and ideal systems were transitory and conflicting because they were based on differing natures and social configurations. Therefore, the task of economic study was to describe the anatomy and physiology of social or national economy.<sup>43</sup>

Karl Knies came from a petty-bourgeois background, and he had to earn his living as a teacher early on. He was born in Marburg on March 29, 1821. Knies studied history, political science, theology, and philology in Philipps-Universität. He started his career as a grammar school teacher, but after his dissertation, he was appointed as a private lecturer. His financial situation was difficult, and therefore he aspired to paid professorship. However, since he had not published any extensive scientific publication, he had to abandon the university. In 1855, his torment ended after he had published his

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<sup>42</sup> Klaus-Gunther Wesseling, 'Roscher, Wilhelm Georg Friedrich (1817-1894)', *Biographisch-Bibliographisches Kirchenlexikon*, ed. by Friedrich-Wilhelm Bautz (1994) <[http://www.bautz.de/bbkl/r/roscher\\_w\\_g\\_f.shtml](http://www.bautz.de/bbkl/r/roscher_w_g_f.shtml)>.

<sup>43</sup> Robert B. Jr. Ekelund, Hébert, Robert F., *A History of Economic Theory and Method*, 1990, 252–253.

*Die politische Ökonomie vom Standpunkt der geschichtlichen Methode*, and received an appointment to professorship in the university of Freiburg. Knies died on August 3, 1898, in Heidelberg.<sup>44</sup>

Bruno Hildebrand was born on March 6, 1812, in Naumburg, where he received an excellent education in the well-known Gymnasium Schulpforta. In 1836, he began as a private lecturer in university of Breslau, and in 1836, he was appointed to associate professorship there. Two years later he was appointed as professor to Philipps-Universität in Marburg. There, he published his *Xenophontis et Aristotelis de oeconomia publica doctrinae illustratae* (1845) and his theoretical main work *Die Nationalökonomie der Gegenwart und Zukunft* (1848). Hildebrand was active in political life, but after the disturbances of the 1848, the Kurhessian parliament was closed. Hildebrand lost his appointments and had to flee to Switzerland for ten years. There he established the first cantonal statistical office. After his return to Germany, he started internationally influential *Jahrbücher für Nationalökonomie und Statistik*, later known as *Hildebrands Jahrbücher*. Hildebrand was very critical of classical theory and especially he attacked Ricardo accusing him for being materialistic, universalistic, and cosmopolitan. Max Weber saw that it was exactly, or only, Hildebrand, who really implemented historical method in his studies<sup>45</sup>. He died on January 29, 1878, in Jena.

There are some major distinctions in the backgrounds of Roscher, Knies, and Hildebrand. Roscher came from the upper social strata of government officials, whereas Knies and Hildebrand, though also sons of officials, rose from poverty. Furthermore, Roscher's commitment to Lutheranism instilled in him obedience of government authorities. Knies and Hildebrand were instead active liberals and became victims of political persecution.<sup>46</sup>

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<sup>44</sup> These short bios on Hildebrand and Knies are based on short biographies published on the web page of the University of Marburg, (<http://www.wiwi.uni-marburg.de/>).

<sup>45</sup> Gerhard Kolb, *Geschichte Der Volkswirtschaftslehre: Dogmenhistorische Positionen Des Ökonomischen Denkens* (München: Vahlen, 2004), 111.

<sup>46</sup> Henry William Spiegel, *The Growth of Economic Thought*, 1991, 420.

### 3. THE POWER TO CREATE RICHES

#### 3.1. A BRIEF HISTORY OF THE HUMAN CAPITAL CONCEPT

*Schooling, a computer training course, expenditures of medical care, and lectures on the virtues of punctuality and honesty also are capital. That is because they raise earnings, improve health, or add to a person's good habits over much of his lifetime. Therefore, economists regard expenditures on education, training, medical care, and so on as investments in human capital. They are called human capital because people cannot be separated from their knowledge, skills, health, or values in the way they can be separated from their financial and physical assets.*

*Gary S. Becker<sup>47</sup>*

There are, and has been, many strands of human capital thought. It is often the case that the more distant history of the concept is bypassed with a cursory remark and those who have brought the idea in to light in a modern sense are referred constantly. This has the effect of making certain concepts, ideas, and theories appear as if they were more modern than is the case and, at least to uninitiated observer, of representing them as if they were born without predecessors.<sup>48</sup> When considering the concept of human capital, Jacob Mincer, Gary S. Becker, and T. W. Schultz get credited the most, though for a reason. There will be first a look at their seminal studies from the fifties and sixties and then a brief glance on what has been said before.

Mincer introduced the concept in 1958 in his *article Investment in Human Capital and Personal Income Distribution*<sup>49</sup>. His model accessed the nature and causes behind income inequality. Mincer concluded that training and skills, i.e., human capital, had a significant effect on personal income. Furthermore, he saw that some industries had

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<sup>47</sup> Gary S. Becker, 'Human Capital', *The Concise Encyclopedia of Economics*, ed. by David R. Henderson (2002) <<http://www.econlib.org/library/Enc/HumanCapital.html>> [accessed 30 November 2006].

<sup>48</sup> B. F. Kiker noted that the failure of current authors to cite predecessors was one of the reasons for his essay about history of the concept: B. F. Kiker, 'The Historical Roots of the Concept of Human Capital,' (1966), 497.

<sup>49</sup> Jacob Mincer, 'Investment in Human Capital and Personal Income Distribution', *The Journal of Political Economy*, 66 (August 1958), pp. 281–302.

higher human capital ratios, as did others with nonhuman capital. Mincer's model measured two types of training, informal and formal, by incorporating years of education and years of work experience. Results indicated that years of work pursued in education were compensated with higher earnings.<sup>50</sup>

Mincer's paper studied human capital through years of education and years of work experience; a common procedure, since they are easy to measure and then study in relation to income. Solomon Fabricant's study *Basic facts on productivity change* (1959) took a more wide-ranging view. He saw that methods and assumptions underlying productivity figures constantly underestimated the importance of the intangible capital investment and stated therefore that:

“- - society's intangible capital includes all the improvements in basic science, technology, business administration, and education and training, that aid in production - whether these result from deliberate individual or collective investment for economic gain or are incidental byproducts of efforts to reach other goals.”<sup>51</sup>

This emphasis on intangible capital followed Moses Abramovitz's discovery made in 1956, according to which traditional inputs could not explain completely the rise in national output.<sup>52</sup>

In his *Investment in Human Capital: A Theoretical Analysis* (1962) Gary S. Becker discussed schooling, information, and health as human capital investments, though he concentrated in on-the-job training, since he saw that it clearly illustrates the effect of human capital on earnings, employment, and other economic variables.<sup>53</sup> Though already his earlier work *Underinvestment in college education* (1960) had provided an important methodology for studying human capital investments, which was then applied

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<sup>50</sup> Scott R. Sweetland, 'Human Capital Theory: Foundations of a Field of Inquiry' (Autumn, 1996), 345.

<sup>51</sup> Sweetland's citation. *Ibid.*, 346.

<sup>52</sup> *Ibid.*, 347.

<sup>53</sup> Gary S. Becker, 'Investment in Human Capital: A Theoretical Analysis', *The Journal of Political Economy*, 70 (October 1962), 10.

in later monograph *Human Capital: A theoretical and empirical analysis, with special reference to education* (1964).<sup>54</sup>

Theodore Schultz emphasized the problem of differentiating between consumption and investment expenditures. He saw education exhibiting both characteristics. His work encompassed also many other types of human capital investments, which he saw including (1) health facilities and services (all expenditures that affect the life expectancy, strength, and stamina, and the vigor and vitality of the people); (2) on-the-job training; (3) formal education; (4) study programs not organized by firms; and (5) migration of individuals and families.<sup>55</sup>

Above mentioned studies and economists created during the sixties an immense interest in studying the relationships between human skills and abilities and economic outcomes. Albeit there were views that emphasized welfare at larger scale, mainstream economics tended to opt for Gary S. Becker's model, in which education or on-the-job training was placed in the centre, and was then studied with certain kind of cost-benefit analysis. For example, Becker saw that if returns on investments in human capital were lower than returns on conventional capital, this was a sign of overinvestment in education and on-the-job training. Contemporary human capital research has been more interested in intangible side of the human capital, e.g., education, skills and innovation than in tangible side (i.e., health, longevity, etc.). However, human capital has a tangible side, which has been partly sidelined from the human capital research, but has been more prevalent in different human welfare or development indexes such as UN Human development Index or Quality-of-life index by The Economist.<sup>56</sup>

Before the interest of the 1950s and 1960s on human capital, statisticians and actuaries most commonly connected human beings with analytical framework of

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<sup>54</sup> Scott R. Sweetland, 'Human Capital Theory: Foundations of a Field of Inquiry' (Autumn, 1996), 347.

<sup>55</sup> *Ibid.*, 348–349.

<sup>56</sup> Human Development Report Office of UNDP, 'Human Development Index', (New York: Human Development Report Office of UNDP, 2005) <[http://hdr.undp.org/docs/statistics/indices/index\\_tables.pdf](http://hdr.undp.org/docs/statistics/indices/index_tables.pdf)> [accessed October 26, 2006]; Economist Intelligence Unit, 'The Economist Intelligence Units's Quality-of-Life Index', *The World in 2006*, (New York, London and San Francisco: The Economist, 2005) <[http://www.economist.com/media/pdf/QUALITY\\_OF\\_LIFE.pdf](http://www.economist.com/media/pdf/QUALITY_OF_LIFE.pdf)> [accessed October 26, 2006], 2.

capital. These cost-of-production and capitalized-earnings approaches were developed to estimate the money or capital value of a human being as such or the population of a nation. Sometimes people were seen as capital goods, and there were no distinctions made between a human being and his skills, abilities, education and health.<sup>57</sup> Since these views concentrated on measuring the value, production costs and maintenance costs of a human being, they are left untreated here.

Acquired abilities and skills as capital and the idea of investment in human beings as a means of increasing productivity are the relevant ideas for this study and there is a throng of economics who fit here. As mentioned above, Adam Smith included skills and abilities to fixed capital. Similarly also Jean Babtiste Say (1767–1832) asserted that skills and abilities are acquired at a cost and tend to increase worker productivity as did John Stuart Mill (1806–1873), Wilhelm Roscher, Walter Bagehot (1826–1877), Henry Sidgwick (1838–1900) and Friedrich List. It was common for here mentioned that they saw capital as produced means of production and that they did not explicitly include human beings as capital. J. S. Mill’s idea that human beings are not wealth, but the purpose for which wealth exists, whereas acquired capacities exist as means and are obtained through labor, and are therefore wealth, is also common to modern views.<sup>58</sup>

Then there were those who could see human being as such as capital. These economists include names such as John Ramsay McCulloch (1789–1864), ardent expositor of Ricardianism; Nassau William Senior (1790–1864), a critic of above-mentioned Ricardianism; Henry D. McCleod (1821–1902), again a critic of Ricardian economics; Johann Heinrich von Thünen (1780–1850), a German precursor of marginalism; and Alfred Marshal (1842–1924), who popularized supply and demand functions and an was important part of “marginalist revolution.” What was common to this and above-mentioned group, according to B. F. Kiker, is that though they included human beings or their acquired skills and abilities in their concept of capital and saw investment in people as a means of increasing productivity, they did not use the concept

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<sup>57</sup> These calculations were often used to demonstrate the power of a nation, to determine the total cost of war or to help courts or compensation boards in cases of personal injury or death. Kiker mentions here Sir William Petty (1691), William Farr (1853), Ernst Engel (1883), Theodor Wittstein (1867) and Dublin and Lotka (1930). B. F. Kiker, 'The Historical Roots of the Concept of Human Capital.' (1966), 481–484.

<sup>58</sup> *Ibid.*, 485–486.

for any specific purpose nor did they try to estimate the stock of human resources in quantitative sense.<sup>59</sup>

Also quantitative estimates were made. For example, to estimate stock of human resources, J. Shield Nicholson capitalized the portion of national income that he assumed to be derived from what he called living capital (1891). In 1927 Edward A. Woods and Clarence B. Metzger developed five different methods to estimate the value of human capital stock. In addition to estimating the value of human capital stock, quantitative methods with human capital concept were developed to estimate the total economic losses of war, and, in the beginning of the twentieth century, several methods were developed to evaluate the losses caused by preventable illness and premature death, migration, and education. Especially interesting is the contribution of J. R. Walsh (in 1935), who asked many of the same questions as Schultz and G. S. Becker later. Walsh studied whether the expenditures incurred in professional careers were made in a profit seeking and whether they were stimulated by the same motives as investments in conventional capital. He found out that the value of a general college education exceeded the cost of its acquisition, but in the case of post-graduate degrees, cost exceeded value. In the latter case, however, he saw non-monetary returns such as travel, vacations and service to man.<sup>60</sup>

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<sup>59</sup> Exceptions being List (to promote protectionism), von Thünen (to aid distribute social justice), and Marshall (some estimates). *Ibid.*, 485–488.

<sup>60</sup> *Ibid.*, 488–495.



### 3.3. RELATIONSHIPS MATTER – SOCIAL CAPITAL

*“A nation is a soul, a spiritual principle. Two things which, in truth, make only one, constitute that soul, that spiritual principle. One is in the past, the other in the present. One is the possession in common of a rich legacy of memories; the other is the actual consent, the desire of living together, the disposition to continue to give value to the undivided inheritance they have received. Man is not improvised. The nation, like the individual, is the outcome of a long past of efforts, sacrifices and devotion. The worship of ancestors is the most legitimate of all; our ancestors have made us what we are. An heroic past, great men and true glory are the social capital on which the idea of a nation is based.”<sup>61</sup>*

*Lalor’s Cyclopedia of Political Science (1881)*

The citation above uses ‘social capital,’ perhaps for the first time, in similar sense as it is used today. It describes a bond, here common history, which binds a group of people together and gives meaning to their actions. Though here its usage seems to be mainly metaphoric. In political economy of the nineteenth century, social capital was used side by side with the term national capital. Böhm-Bawerk (1851-1914), an Austrian theorist of capital and interest, used it as a purely economic category of means of production of a nation, i.e. infrastructure, as opposed to private acquisitive capital.<sup>62</sup> Also Karl Marx’s usage was similar (translated from *gesellschaftliche Kapital*). A citation from Willford Isbell from 1915 expresses these views well:

*“Social Capital includes all those products of past industry used in the further production of social wealth.”<sup>63</sup>*

This usage has little to do with the current usage of social capital, though if it is seen as a collective good and as means of production, an analogy is possible.

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<sup>61</sup> Ernest Renan, 'Nation', *Cyclopedia of Political Science*, ed. by Joseph Lalor (New York: Maynard, Merrill, and Co, 1899)  
<<http://www.econlib.org/library/YPDBooks/Lalor/llCy732.html>> [accessed December 13, 2006].

<sup>62</sup> Eugen Böhm-Bawerk, *The Positive Theory of Capital*, trans. William Smart (New York: Strehert & Co, [1888 in German]1930), 62–63.

<sup>63</sup> Willford Isbell King, *The Wealth and Income of the People of the United States* (New York London: The Macmillan Company Macmillan & Co., ltd, 1915), 10.

The first approximately modern usage of the term was probably the one Lyda Judson Hanifan made in 1916 in her *The Rural School Community Center*. Alex MacGillivray and Perry Walker claimed in their *Local Social Capital: Making it Work on the Ground* that the first mention of the term was that made by Hanifan.<sup>64</sup> That is incorrect, since the *term* has really been around longer, though its content has changed quite bit. Robert D. Putnam's reference to Hanifan seems more felicitous, since he emphasized that Hanifan's account anticipated virtually all the crucial elements in later versions. He also spoke of a *concept* and not a term, which, at least if concept is here understood as depicting an idea, is more plausible view. For a *term* is a label or a name for something, but a *concept* carries an idea, theory or an abstraction. We can have endless amount of terms that denominate the idea that education increases the wage of an individual in the long run, but what ever we call it, the idea remains. Furthermore, Putnam stated that the term social capital was invented independently at least six times over the twentieth century, "each time to call attention to the ways in which our lives are made more productive by social ties."<sup>65</sup>

There are, however, some mentions of social capital with modern spices from the nineteenth century. There can be traced at least three differing usages of the term, which all carry some similarities with the modern notion. First, there is the usage of political economy that saw social capital as an aggregate of individual capitals, and often included public infrastructure (see Böhm-Baverk above). Usually this was about material goods or kind of an equivalent of GDP, but Pierre Joseph Proudhon (1809–1865) used 'social capital' to describe social aggregate of talent in individuals.<sup>66</sup> Though Proudhon is regarded more as an anarchist than as a political economist. Perhaps the only parallel here with modern thought is that social capital was seen as a public good. Second, the term social capital was sometimes, metaphorically though, used to mean things binding people or a nation together, as was the case in *Lalors Cyclopedia* above. Finally, there is the most modern of these three, used for some

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<sup>64</sup> Alex MacGillivray and Perry Walker, 'Local Social Capital: Making it Work on the Ground', in *Social Capital: Critical Perspectives*, ed. by Stephen Baron, John Field and Tom Schuller (Oxford: Oxford University Press, 2000), 197.

<sup>65</sup> Robert D Putnam, *Bowling Alone : The Collapse and Revival of American Community* (New York: Simon & Schuster, 2000), p. 19, see also footnote 12 of the same page.

<sup>66</sup> The term 'social capital' is from translation by B. R. Tucker. Pierre-Joseph Proudhon, 'What is Property? An Inquiry Into the Principle of Right and of Government', (Princeton, Mass: 2006) <<http://www.gutenberg.org/dirs/etext95/pprty10.txt>> [accessed January 19, 2007].

reason mostly in fiction. For example, Josiah Gilbert Holland (1819–1881), an American novelist and poet, described a scene where a couple with “unquestionably good descent” and impressive hobbies were a source of social capital for people with humbler origins.<sup>67</sup> Here social capital was something gained through a network of acquaintances.

When discussing the current notion of social capital there are at least three authors – Pierre Bourdieu, James Coleman, and Robert Putnam – who are almost universally mentioned. In Bourdieu’s work social capital has been sort of a sidetrack, but he is also partly behind the recent interest in the concept of social capital. During the 1960s and 1970s Bourdieu was interested in social space. Social capital was initially a metaphor with connections to wide selection of different forms of capital. In his 1970 published *Reproduction* the concept of ‘capital’ was “the central but curiously ill-defined explanatory gambit – –”<sup>68</sup> Bourdieu used linguistic capital, cultural capital, scholastic capital, social capital, and implicitly economic capital without thorough definition of the concepts.<sup>69</sup> For long, cultural capital was the central concept to Bourdieu. It was shaped for example through school tuition and family circumstances. He saw that cultural capital did not just mirror the ownerships of financial capital, but could to some extent compensate it, or at least operate independently, in the pursuit of power and status.<sup>70</sup>

In general, Bourdieu’s work concentrated on reproduction of social hierarchies and how different forms of capital (especially cultural) interacted in this process. Therefore, social and cultural capital was something that mainly elites possessed and used to reproduce their relative social positions and to legitimize their dominion.<sup>71</sup> Social

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<sup>67</sup> Josiah Gilbert Holland, 'Sevenoaks: A Story of Today', (New York: Grosset & Dunlap, 1875) <<http://www.gutenberg.org/files/15214/15214.txt>> [accessed January 19, 2007], IX.3. Also, “their acquaintance was really part of her social capital,” in Francis Hopkinson Smith, 'The Fortunes of Oliver Horn', (New York: C. Scribner's Sons, 1902) <<http://www.gutenberg.org/dirs/etext02/tfooh10.txt>> [accessed January 19, 2007], XI.8.

<sup>68</sup> Stephen Baron, John Field and Tom Schuller, 'Social Capital: A Review and Critique', in *Social capital : critical perspectives*, ed. by Stephen Baron, John Field and Tom Schuller (Oxford; New York: Oxford University Press, 2000), 3.

<sup>69</sup> Ibid.

<sup>70</sup> John Field, *Social Capital*, 2003, 14.

<sup>71</sup> Ibid., 13–17.; Stephen Baron, John Field and Tom Schuller, 'Social Capital: A Review and Critique', 2000, 3.

capital was a kind of a multiplier. Different individuals receive an unequal return on same cultural or economical capital depending on how they are able to mobilize the capital of a group (e.g. family, elite schools, nobility). The value of and individual's ties (i.e. his social capital) depends on the number of one's connections and the amount of cultural, social, or economical capital each of these connections possesses.<sup>72</sup>

Later, in his article *The Forms of Capital* (1997) Bourdieu presented more unitary concept of capital, which, however, still had three appearances, i.e. economic, cultural, and social. Focus changed from the inter-relation of different forms of capital on how these different appearances of capital transform themselves into other to maximize accumulation. Here Bourdieu defined social capital as:

*“the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition – – which provides each of its members with the backing of collectively-owned capital.”<sup>73</sup>*

James Coleman's work has been particularly influential in English speaking world. Coleman aspired to draw together insights from both sociology and economics. Gary S. Becker, who at the time was also employed in the university of Chicago, used rational choice theory of economics to study education, health and discrimination. Rational choice theory is based on the belief that all behavior results from individuals seeking their own interests; therefore, it predicts that usually an individual follows his or hers best interests even if cooperation might pay better in the long run. Where cooperation takes place, the rational choice theorists have to show that it is consistent with postulates of individualism and self-interest. Coleman used social capital to explain why humans choose to cooperate even when competition seems to facilitate the seeking of immediate interests better. The creation of social capital was not a conscious process; social capital rose as an unintended consequence in the seeking of self-interest. To Coleman social capital was a resource because it involved the expectation of reciprocity

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<sup>72</sup> John Field, *Social Capital*, 2003, 17.

<sup>73</sup> Bourdieu's citation from Stephen Baron, John Field and Tom Schuller, 'Social Capital: A Review and Critique', 2000, 4–5.

and went beyond individual through wide networks governed by trust and shared values.<sup>74</sup>

Second important line of thought, perhaps also influenced by Becker, was Coleman's empirical concentration on the relationship between educational achievement and social inequality. Criticizing then dominant human capital theory in policy thinking, Coleman emphasized the role of social capital in acquisition of educational credentials. He found out that family and community characteristics seemed to outweigh factors related to the nature of school itself. This was especially beneficial to children, whose families had least to contribute to their cognitive development, because, as Coleman argued, the community norms upon parents and pupils endorsed teachers' expectations. This is how social capital could diminish disadvantage caused by weak economic and social footing. Unlike Bourdieu's social capital, Coleman's conception was there for the whole wide social spectrum.<sup>75</sup>

Coleman defined social capital as:

*“the set of resources that inhere in family relations and in community social organization and that are useful for the cognitive or social development of a child or young person. These resources differ for different persons and can constitute an important advantage for children and adolescents in the development of their human capital.”*<sup>76</sup>

Here Coleman's emphasis on education and cognitive development is clearly seen. Furthermore, he saw that by establishing obligations; expectations; and trustworthiness, and by creating channels for information and sanction backed norms, social relations could be seen as capital resources.<sup>77</sup>

From the three authors discussed here, Robert Putnam has done perhaps most to bring the concept of social capital to popular discussion. In his seminal study *Making*

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<sup>74</sup> John Field, *Social Capital*, 2003, 20–22.

<sup>75</sup> Stephen Baron, John Field and Tom Schuller, 'Social Capital: A Review and Critique', 2000, 6. John Field, *Social Capital*, 2003, 22–23.

<sup>76</sup> *Ibid.*, 25.

<sup>77</sup> Stephen Baron, John Field and Tom Schuller, 'Social Capital: A Review and Critique', 2000, 6.

*Democracy Work* (1993) Putnam studied differences between regional administrations in the north and south Italy. Though the core of the study concentrates on institutional performance, here he brought up the concept of social capital in connection to rotating credit associations, in which every participator gives a small sum to the collective fund, which is then delivered to every participator in turn. When explaining institutional performance, Putnam saw civic community and participation as the most important explanatory value. As markers of civic community Putnam saw civic engagement, political equality, solidarity, trust, tolerance, and social structures of cooperation.<sup>78</sup>

In his *Bowling Alone* (2000) Putnam turned his attention towards United States and identified a general secular decline in levels of social capital. Putnam's villain in this process was television; time spent in front of the screen is away from sustaining networks of sociability. In *Bowling Alone* Putnam wrote that just as physical and human capital, social capital, i.e. social networks, have value. Just as physical and human capital, social capital can increase both individual and collective productivity.<sup>79</sup> Furthermore, Putnam said that:

*“Whereas physical capital refers to physical objects and human capital refers to properties of individuals, social capital refers to connections among individuals – social networks and the norms of reciprocity and trustworthiness that arise from them. In that sense social capital is closely related to what some have called ‘civic virtue.’ The difference is that ‘social capital’ calls attention to the fact that civic virtue is most powerful when embedded in a dense network of reciprocal social relations.”*<sup>80</sup>

Previously Putnam had emphasized how networks, norms, and trust enabled participants to pursue shared objectives more efficiently.<sup>81</sup>

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<sup>78</sup> Putnam's role in the discussion: Ibid., 8–9. Civic community: Robert D Putnam, Robert Leonardi and Raffaella Nanetti, *Making Democracy Work: Civic Traditions in Modern Italy* (Princeton, N.J: Princeton University Press, [1993] 1994), 86–91.

<sup>79</sup> Robert D Putnam, *Bowling Alone : The Collapse and Revival of American Community*, 2000, 18–19.

<sup>80</sup> Ibid., 19.

<sup>81</sup> Stephen Baron, John Field and Tom Schuller, 'Social Capital: A Review and Critique', 2000, 9.

It is interesting how in Putnam norms of reciprocity and trustworthiness seem to rise from social connections, whereas for example Francis Fukuyama sees that trust, networks and civil society arise as a result of social capital. For Fukuyama social capital in itself is an informal norm that promotes cooperation between one or more individuals: “The norms that constitute social capital can range from a norm of reciprocity between two friends, all the way up to complex and elaborately articulated doctrines like Christianity or Confucianism.”<sup>82</sup>

### 3.4. FRAMEWORK FOR THIS STUDY

It is important to note here that this paper discusses human capital and social capital on the conceptual level. This means that the focus is on ideas included in these theories. The formal contemporary economic analysis is so far removed from the methodology of Historical School, and for that matter from the classical political economy too, that if the mathematical formal side of the modern human capital theory were incorporated to the concept, the starting point for this study would be almost entirely anachronistic. Furthermore, it is plausible to ask why to look nineteenth century’s German political economy through modern concepts of economics, since their epistemological and methodological backgrounds are so different. This, in fact, is the tasty part, since so similarly, though not identically, were the human and social factors then and now afloat.

In her *Civil Society and Democratic Renewal*<sup>83</sup> (2000) Lindsay Paterson presents some insights considering the danger of anachronism when using the concept of social capital in studying works of eighteenth and nineteenth centuries. Her article discusses some aspects of social capital theory found in Scottish moral philosophy of eighteenth century and after. Lindsay reminds that there is an historical sociology of ideas as well as of social structures. Political philosophies are themselves historically specific and can transform through time: i.e., what political and social thinkers write depends not only on the distinctive forms of state and civil society they encounter but also on what has been

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<sup>82</sup> Francis Fukuyama, 'Social Capital and Civil Society', Prepared for delivery at the IMF Conference on Second Generation Reforms, (October 1, 1999) <<http://www.imf.org/external/pubs/ft/seminar/1999/reforms/fukuyama.htm>> [accessed February 2, 2007].

<sup>83</sup> Lindsay Paterson, 'Civil Society and Democratic Renewal', in *Social Capital: Critical Perspectives*, ed. by Stephen Baron, John Field and Tom Schuller (Oxford: Oxford University Press, 2000), 39–55.

written and thought before them.<sup>84</sup> This is especially easy to grasp, if one thinks of the immense effect the philosophers of antiquity had on social and political writing from renaissance to nineteenth century. Most of the writers during this period had had classical education and were reading the same classics, whose ideas they then applied to social and political problems of their day. Further, Lindsay sees that the mere fact of intellectual change over time does not mean that drawing parallels between ideas is worthless, especially over the couple of years of modern industrialism.<sup>85</sup>

In their article *Social Capital: A Review and Critique* Tom Schuller, Stephen Baron, and John Field present three ‘conceptual genealogies’ for mapping the origins of social capital. The first one, which limits to those writings that use the term explicitly, is out of the question here, because nor Roscher, Knies, or Hildebrand used the precise term social capital. Their second strategy, which takes core elements of social capital theory such as trust and networks and seeks their traces in literature, lends itself well for the purposes of this paper. The origins of human and social capital theory hardly lie in the writings of the older historical school, but as stated above, some similarities might be of interest. The third and the most extensive genealogy including all theories, which seem to be somehow related to social capital, is also applicable here. These two latter strategies are well fitted for studying the features similar to both human and social capital theory in older historical school of economics.

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<sup>84</sup> Ibid., 52–53.

<sup>85</sup> Ibid., 53.



## 4. UNDERTONES IN DEFINITIONS

*“Things relating to man's actions never can be classified with precision on any scientific principle.”<sup>86</sup>*

*Alfred Marshal on defining capital (1890)*

*“It is not the definition that is the matter of dispute, but the thing defined; or, as I should prefer to say, the terminology. The material difference in the definitions is not so much that the one thing to be defined appears to each one in a different light, as that each one is defining an entirely different thing; and thus definitions that are really incompatible come within the same ring-fence, because each one claims the expression Capital for the object he is defining.”<sup>87</sup>*

*Böhm-Bawerk on defining capital (1888)*

The concept of capital was not fixed during the eighteenth and nineteenth centuries. This comes clearly forward if we compare, e.g., Adam Smith's and Adam Müller's usage of the concept. Adam Smith (1723–90), a Scottish political economist and moral philosopher – and a hopeless sleepwalker<sup>88</sup> – is always mentioned when the history and the development of economics and economic theory are considered. He defined capital as the part of the stock (wealth), which is not used to immediate consumption and can therefore be used to production or to bring revenue. This is further divided to circulating and fixed capital.

*“To maintain and augment the stock which may be reserved for immediate consumption is the sole end and purpose both of the fixed and circulating capitals.”<sup>89</sup>*

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<sup>86</sup> Alfred Marshall, 'Principles of Economics', ed. by (London: Macmillan and Co., Ltd, [1890]1920) <<http://www.econlib.org/library/Marshall/marP60.html>> [accessed December 14, 2006], App.E.6.

<sup>87</sup> Eugen Böhm-Bawerk, *The Positive Theory of Capital Trans. William Smart*, [1888 in German]1930, 36.

<sup>88</sup> Robert B. Jr. Ekelund, Hébert, Robert F., *A History of Economic Theory and Method*, 1990, 99.

<sup>89</sup> Adam Smith, 'An Inquiry Into the Nature and Causes of the Wealth of Nations', ed. by Edwin Cannan (London, Methuen and Co., Ltd., 1904). <<http://www.econlib.org/library/Smith/smWN6.html>> [accessed 29 November 2006], II.1.26.

Circulating capital that brought revenue by “changing masters” consisted of money; stock of provisions; materials, and intermediate products; and completed, though not yet delivered work. Money belonged here only in the sense that it could represent any other type and served to circulate any other three to their proper consumers. Fixed capital consisted of all useful machines and instruments of trade that facilitate and abridge labor, profitable buildings, improvements of land, and the acquired and useful abilities of all the inhabitants or members of the society.<sup>90</sup>

Adam Müller (1779–1829), Austrian consul general for Saxony often accused of opportunism, emphasized the constructive powers of man, state, and society in his romantic political economy. In his theory he subordinated individual to serve higher organic whole and saw money as a binding factor in society. He challenged the market economy based concept of capital by introducing his “true” concept of capital, which subsumed, as Gerhard Kolb has interpreted, God, man, the nature, and culture.<sup>91</sup>

When it may be stated that Roscher expanded Smith’s view with social relations and some social organizations, Knies could not stand from man inseparable characteristics in the definition of capital, and Hildebrand could pick bits and pieces from both Adam’s without much reflecting the diversity of the concept, it comes clear that the meaning of capital fluctuated not only in time, but from writer to writer. The content of the concept varied from concrete means of production through very abstract notions of social structure and organization to even all-embracing culture. In deed, it has been seen as a bone of contention of theorists and as the most controversial concept of economical terminology.<sup>92</sup> This situation has not fully changed; the concept is still ambiguous and mistakable in contemporary economics, though for different reasons. Modern textbooks of economics usually pass by the definition of capital in few pages, whereas Smith or Roscher used dozens of pages.<sup>93</sup>

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<sup>90</sup> Ibid., II.1.1–26.

<sup>91</sup> Gerhard Kolb, *Geschichte der Volkswirtschaftslehre : Dogmenhistorische Positionen Des Ökonomischen Denkens*, 2004, 104–105.

<sup>92</sup> Marie-Elisabeth Hilger, 'Kapital, Kapitalist, Kapitalismus', in *Geschichtliche Grundbegriffe: historisches Lexikon zur politisch-sozialen Sprache in Deutschland*, ed. by Otto Brunner, Werner Conze and Reinhart Koselleck (Stuttgart: Klett-Cotta, 1982), 399.

<sup>93</sup> See, e.g., Nicholas Gregory Mankiw, *Grundzüge der Volkswirtschaftslehre* (Stuttgart: Schäffer-Poeschel, 2004), 429–430.

#### 4.1. PRODUCTS FOR PRODUCTION – ROSCHER’S CAPITAL

Wilhelm Roscher saw the history of the concept of capital as a curious example of confusion that may follow if scientific concepts are also used in daily life. In a footnote more than two pages long he offered literature references about capital from ancient Greece to his own time trying in the process to sort out what was currently relevant. He saw that as the public of his own times confounded the concepts of money and capital, interests, and the price of money, the same was true of earlier writers.

To understand Roscher’s concept of capital, one needs to know how he defined economic goods. Roscher divided all economic commodities into three classes: A. Persons and personal services; B. things, movable and unmovable; and C. relations to persons or things. From these both persons and personal services, and relations between persons and things are of interest when considering his views on capital and human capital. With persons and personal services, Roscher means that every individual can be seen as a means to satisfy other’s needs. He stretches this view to slavery and even cannibalism, but states that it is people’s services or skills and abilities in modern society that this concerns. In addition, totality of person’s services and skills for a short period belongs to this category.<sup>94</sup>

The relations between persons or between persons and things Roscher explained with customership and different type of contracts and conventions people have in life. For example, in a long run a firm benefits financially, if its customers have trust and confidence in it. Roscher saw that through the advancement of the culture these valuable relationships would multiply and become more important.<sup>95</sup> With this definition, Roscher strikes to the heart of what is at present considered as social capital. Social capital “refers to the intangible elements of human relations embodied in levels of trust and the quality of social networks.” Recent discussion has also linked social capital to political and economic performance.<sup>96</sup>

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<sup>94</sup> Wilhelm Roscher, *Grundlagen der Nationalökonomie: Ein Hand- Und Lesebuch Für Geschäftsmänner Und Studierende*, 1906, 6–7.

<sup>95</sup> Ibid.

<sup>96</sup> R. W. Jackman, 'Social Capital', in *International Encyclopedia of the Social & Behavioral Sciences*, ed. by Neil J. Smelser and Paul B. Baltes (Oxford: Pergamon, 2001), 14216.

Because above mentioned goods could be used to production, they enter Roscher's concept of capital. All products used for further economic production or stored for later use are, according to Roscher, capital. He divided the capital of nations in ten commodity classes.<sup>97</sup> From these classes, immaterial or incorporeal capital (*unkörperliche Kapitalien* or *Quasikapitalien*) is the most interesting here. With immaterial capital Roscher meant relations such as *Kundschaft* (customership) but also from human work contribution (*menschlichen Arbeitskraft*)<sup>98</sup> inseparable acquirements or skills (*Fertigkeit*) acquired through experience or education (*wissenschaftliche Studien*). State and many institutions such as Church fall into this category too.<sup>99</sup>

Further on, Roscher divided all capital classes by whether they are used to produce material commodities (*sächlicher Güter*) or personal commodities and useful circumstances (*persönlicher Güter, nützlicher Verhältnisse*). This division is thereby similar as in commodities mentioned above. The first three capital classes (see footnote 31) are productive capital (*Produktivkapitalien*) and the rest working capital (*Gebrauchskapitalien*), although all capital classes can serve in the production of material commodities, personal commodities, and useful circumstances. Therefore, according to Roscher, productive capital and working capital interact in manifold ways. Roscher used library as an example; from the viewpoint of private property library is production capital, but for a Nation as a whole it is working capital.<sup>100</sup> Furthermore, he divided capital to fixed and circulating capital.<sup>101</sup>

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<sup>97</sup> A. Bodenmeliorationen, B. Bauwerke, C. Werkzeuge, Maschinen und Geräte. D. Arbeits- und Nusstiere, E. Verwandlungstoffe, F. Hilfstoffe, G. Unterhaltsmittel, H. Handelsvorräte, I. Geld und K. Unkörperliche Kapitalien (Quasikapitalien). Wilhelm Roscher, *Grundlagen der Nationalökonomie : Ein Hand- Und Lesebuch Für Geschäftsmänner Und Studierende*, 1906, 122–124.

<sup>98</sup> Best translation here is probably 'work contribution' or 'work input', though *Arbeitskraft* can be translated just as 'labor'.

<sup>99</sup> *Ibid.*, 122–124. See also footnote 8 on page 127. Roscher saw that the state (*Staat*) is fundamental for economic activity. Church or theaters and museums have an economic function (*Zweck*) but their other functions are as a rule more important. This is said in a footnote, which refers to Knies' *Geld und Kredit* (1873). This footnote is missing from the twelfth edition (published 1875) and naturally from previous editions. Similar differences are probably numerous, but due to the fact that the first edition was not available, are left untreated.

<sup>100</sup> *Ibid.*, 128. "Ein Hauptunterschied zwischen Gebrauchs und Produktivkapital liegt darin, daß sich jenes, auch bei zweckmäßigster Benutzung, nicht so unmittelbar wie dieses in seinem Ertrage selbst ersetzt."

<sup>101</sup> *Ibid.*, 131.

## 4.2. LOOKING BEYOND ADAM SMITH – KNIES’ HISTORICAL

### DEFINITION

In his *Geld und Credit* Karl Knies took a critical view to the definitions of capital of his own time. Albeit everyone admitted its importance as a concept, the definitions of capital varied widely.<sup>102</sup> Knies saw that only through historical presentation this diversity becomes comprehensible, and therefore, he describes how the concept has evolved from Hellenes and from the Roman law to his own times. Knies saw that the physiocrats pushed aside the mercantilist concept of capital, which was closer to the ancient and medieval concept and was based on loan amount and its interest. By emphasizing the conditions of agricultural production and by opposing the limitation of the term ‘capital’ only to a sum of money, they managed to leave their mark on political economy and modern economics. They defined capital as annual surplus of any goods.<sup>103</sup> To this point, Knies was on the same lines.

Knies saw that the definition of capital was central to political economy as a discipline, but its significance extended to the areas of practical social life too. Ambiguous and from writer to writer changing definition complicated, e.g., attempts to solve social problems caused by the rapid industrialization.<sup>104</sup>

Knies demarcated persons and the fragments of their body and intellect outside capital. Economic goods formed what was to be called capital:

*So it must be then held as an elementary, absolute requirement for beneficial treatment of doctrine of capital that at most only economic goods or*

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<sup>102</sup> On diversity: ”Und wie dürfte man wohl das Eingeständnis verweigern, dass wenn selbst unter hervorragenden Männern der Wissenschaft der Eine nur die mit Hilfe menschlicher Arbeit hergestellten sachlichen Produktionsmittel unter Kapital begreifen will, während ein Zweiter auch die Grundstücke in ihrer natürlichen Beschaffenheit hinzurechnet, ein Dritter auch vorräte von Genussmitteln, ein Vierter auch die Kenntnisse des Gelehrten, ein Fünfter auch die Stimmittel einer Sängerin, ein Sechster alle menschlichen Arbeiter, ein Siebenter auch den Staat, die National-ehre eines Volkes u. s. w.” Karl Knies, *Das Geld: Darlegung der Grundlehren von dem Gelde* (Berlin: Weidmann, 1885), 24–25. According to the citation above, it would seem that some kind of elementary human capital thought was quite common.

<sup>103</sup> Ibid., 27–28. Knies cites Turgot: “Es ist absolut gleichgiltig ob der, das Kapital darstellende Gütervorrat in einer Masse Metalles oder in irgend anderen Dingen besteht, weil das Geld jede Art von Gütern repräsentiert, wie jede Art von Gütern das Geld repräsentiert.”

<sup>104</sup> Ibid., 43.

*economic goods only in this respect can be understood as capital, but not the persons or from them inseparable fragments of their body or intellect.*<sup>105</sup>

However, economic goods were to Knies only another symbol, which had to be defined to define capital. By the same token, his theory of value was important to his definition.

Since capital was almost identical to economic goods, there had to be a way to distinguish these goods from the general stock. Here too, Knies saw that many of the then current theories were wrong. Knies agreed in principle with Smith and Turgot<sup>106</sup> that a part of the stock, which was used to subsistence and continuation (*Verbrauchsbedürfnis*) could not be counted as capital. The surplus left over after obligatory expenses was the base of the capital. J. S. Mills view that goods had not only objective qualities that made them capital, but also an exchange value to another goods, was some kind of transition position. When carried further it had led to views according to which goods had no natural characteristics that made them capital, but became capital in the will of the economic man. Capital would then be based on pure abstraction, and this Knies could not accept.<sup>107</sup>

Knies saw that this situation was a consequence of a change of focus in political economy. Earlier man had been only one element or a factor of production, but a necessary step of man and his economy to the foreground of study had led to overreaction, which had entangled will and intellect to the concept of capital and the theory of value. The views of Roscher, Schäffle, and Mangoldt<sup>108</sup> emphasized that the value of a good was the value that people attached to it in their will and consciousness. According to Knies, this was comparable to the situation in Goethe's poem – "*Wär*'

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<sup>105</sup> Ibid., 40. "So muss es denn als ein elementares, absolutes Erfordernis für die gedeiliche Behandlung einer Lehre vom Kapital gelten, dass unter Kapital höchsten Falles alle wirtschaftlichen Güter oder die wirtschaftlichen Güter in irgend einer Beziehung, nicht aber menschliche Personen oder von ihnen untrennbare, die Persönlichkeit selbst mitkonstituierende Fragmente des Leibes oder des Geistes verstanden werden könnten."

<sup>106</sup> Anne-Robert-Jaques Turgot, 1727–1781, one of the leading "economists" of the 18th Century France.

<sup>107</sup> Karl Knies, *Das Geld : Darlegung der Grundlehren Von Dem Gelde* (Berlin: Weidmann, 1885), 42–43.

<sup>108</sup> Alber Schäffle's saw concept of value as indicating the elements of intelligence and spirituality. Grimmer-Solem counts K. E. Mangoldt (1824–1868) as 'proto-neoclassical' economist because his work anticipated marginalist revolutions. Also Roscher developed marginal valuation. Erik Grimmer-Solem, *The Rise of Historical Economics and Social Reform in Germany*, 2003, 32.

*nicht das Auge sonnenhaft, die Sonne könnt' es nie erblicken.*” A man observes, or his eyes have to be like sun to observe, but he cannot still make the sun what it is.<sup>109</sup>

Knies saw that values of things to men were connected to their real attributes. The value of a good had to be its recognized measure of beneficial (concrete) effect, not something wholly dependent of people’s intellects, wills, or meanings attributed by them. If the economic life is depicted exclusively dependent of inner world of man, which would then define prices, it is, according to Knies, a wrong presentation of value. Knies believed that his own view, which emphasized the usage and the real attributes of goods, would eventually win.<sup>110</sup> However, modern economics is based on the subjective theory of value. Knies seems to have had a differing opinion compared to, e.g., Hildebrand, since the latter saw that man was always the gauge of price, not production costs or real qualities.<sup>111</sup> Roscher’s concept of value was also subjective, and therefore Roscher and Hildebrand are sometimes seen as anticipating the subjective theory of value and Austrian theory of marginal utility.<sup>112</sup>

Similarly, for Knies, as natural characteristics of a good had an impact to its worth, natural characteristics had also an effect on which goods could be used to production – and be therefore capital – and which goods were for consumption.<sup>113</sup> In modern language, the essence of capital for Knies was in capital goods – goods used for production.

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<sup>109</sup> Karl Knies, *Das Geld*, 1885, 44.

<sup>110</sup> *Ibid.*, 45–47.

<sup>111</sup> Bruno Hildebrand, *Die Nationalökonomie der Gegenwart Und Zukunft Und Andere Gesammelte Schriften* (Jena: Fischer, 1922), 136., §. 36.

<sup>112</sup> Heinz Rieter, 'Historische Schulen', 2002, 142.

<sup>113</sup> Karl Knies, *Das Geld*, 1885, 46.

### 4.3. HILDEBRAND'S BEATIFIC MONEY AS A MOTOR OF PROGRESS

Bruno Hildebrand developed a stage theory, which, in his opinion, examined the area common to all economies. *Vertheilung* (allocation or distribution) as opposed to production and consumption was not dependent of labor, climate, or the nature of the land, but was the base of different economic models: the social element in society, which made the division of labor possible. It tied together the two economic spheres of life, i.e., production and consumption. The three economic models based to the instrument of allocation and common to the development of every economy were natural, money, and credit economies.<sup>114</sup> Hildebrand's concept of capital intertwines with these models or stages, particularly with the preconditions that raise economy to a higher stage.

In natural economy, capital was not yet one of the factors of production: economy was stagnant, men bound to the ground, and land and labor were the only sources of goods – man was a slave of nature living only for the moment. Only after economy produced more than it consumed, capital began gradually accumulate from this surplus and the usage of money started to become more common.<sup>115</sup>

According to Hildebrand, money changed everything. It was the general measure of value and the medium of exchange, but, above all, it freed consumption from time and place. Money could store the surplus from production for future use. Therefore, it became the base and the driving force for the development of the national capital and tied the production factors of nature and human labor with the new factor of production, i.e., capital. Through capital money economy revolutionized the whole process of production, but the economic model of the society affected also the whole social life. It freed people from under the yoke of soil, and created a new social class of capitalists, which, unlike previous elites, was open to all.<sup>116</sup>

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<sup>114</sup> Bruno Hildebrand, 'Naturalwirtschaft, Geldwirtschaft Und Creditwirtschaft', *Jahrbücher für Nationalökonomie und Statistik*, II (1864), 3–4. Direct trade of goods in natural economy, money as a medium of exchange in money economy, and trade through credit and credit as a medium of exchange in credit economy.

<sup>115</sup> *Ibid.*, 9–11.

<sup>116</sup> *Ibid.*, 12–14 and 17.



Money made possible the accumulation of capital. Together with freeing of peoples physical and mental labor power it created a process of circulation and competition, which could endlessly increase productive powers of the society. *Kapitalkraft*, or financial capacity, intertwined tighter and tighter with science, and thereby changed the whole process of life and production of the people. Capital, now roaming free, had also negative side effects, which were not possible during the former centuries. It destroyed small enterprises, centralized industries, and built new monopolies, which were as harmful as state monopolies earlier, though centralization increased efficiency. Hildebrand saw that the productive power of capital grew in geometrical relation to its quantity.<sup>117</sup>

Similarly as Knies, Hildebrand saw that there had been an important change in the focus of political economy. Hildebrand attributed this change to Adam Smith, who had for the first time focused on man and his society as a source of wealth, instead of putting the nature and raw materials first. Hildebrand compared this change to that of caused by Kant with his *Kritik der reinen Vernunft* (1782). According to Hildebrand, before Kant there was on one the hand pure empiricism based on experience and on the other dogmatism based on reason, but Kant saw man, with his reason and inner experience, as capable of finding the truth (*Wahrheitserkenntnis*).<sup>118</sup> Kant created a synthesis between rational and empirical views of epistemology.<sup>119</sup>

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<sup>117</sup> Bruno Hildebrand, 'Die Gegenwärtige Aufgabe der Wissenschaft der Nationalökonomie', *Jahrbücher für Nationalökonomie und Statistik*, I (1863), 10–16.

<sup>118</sup> Bruno Hildebrand, *Die Nationalökonomie der Gegenwart und Zukunft und Andere Gesammelte Schriften*, 1922, 14, §. 3.

<sup>119</sup> Herwig Blankertz, *Die Geschichte der Pädagogik: Von der Aufklärung bis zur Gegenwart* (Wetzlar: Büchse d. Pandora, 1982), 26.

## 5. CAPITAL IN PEOPLE

*“Fourthly, of the acquired and useful abilities of all the inhabitants or members of the society. The acquisition of such talents, by the maintenance of the acquirer during his education, study, or apprenticeship, always costs a real expence, which is a capital fixed and realized, as it were, in his person. Those talents, as they make a part of his fortune, so do they likewise of that of the society to which he belongs. The improved dexterity of a workman may be considered in the same light as a machine or instrument of trade which facilitates and abridges labour, and which, though it costs a certain expence, repays that expence with a profit.”<sup>120</sup>*

Adam Smith’s definition of his fourth class of fixed capital is quite elegant. Furthermore, if we are to consider Roscher’s, Knie’s, and Hildebrand’s relation to Smith, it is helpful to see also his analogy between man and a machine in its original form:

*“When any expensive machine is erected, the extraordinary work to be performed by it before it is worn out, it must be expected, will replace the capital laid out upon it, with at least the ordinary profits. A man educated at the expence of much labour and time to any of those employments which require extraordinary dexterity and skill, may be compared to one of those expensive machines. The work which he learns to perform, it must be expected, over and above the usual wages of common labour, will replace to him the whole expence of his education, with at least the ordinary profits of an equally valuable capital. It must do this too in a reasonable time, regard being had to the very uncertain duration of human life, in the same manner as to the more certain duration of the machine.”<sup>121</sup>*

These Adam Smith’s notions contain the core idea of human capital – a part of it called at present intangible human capital: know-what, know-how, and know-why. This is the

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<sup>120</sup> Adam Smith, 'An Inquiry Into the Nature and Causes of the Wealth of Nations,' ed. by Edwin Cannan (London, Methuen and Co., Ltd., 1904), II.1.17.

<sup>121</sup> Ibid., I.10.9.

narrow view of human capital theory, which Jacob Mincer proved empirically in his 1958 article *Investment in Human Capital and Personal Income*. Comprehensive theory includes tangible side in the form of longevity, health, and physiological conditions.<sup>122</sup> Smith's view takes in to account skills and talents not only as possession of an individual, but from the viewpoint of the society too, and furthermore, includes an important idea of investment to human capital, which will "will replace to him the whole expence of his education, with at least least the ordinary profits of an equally valuable capital".<sup>123</sup> In 1960 Gary S. Becker developed a model, with which he could study the rate of return of college education compared to average return to business capital.<sup>124</sup>

## 5.1. IMMATERIAL CAPITAL IN PEOPLE

Wilhelm Roscher's immaterial capital (*unkörperliche Kapital*) was a wide-ranging concept. When applied to human skills and abilities, Roscher used soil enrichment as an example in two ways. Similarly as soil enrichment increased the ground rent of the land, the capital used to education increased the wages. Roscher counted also the subsistence costs of the student from the beginning of studies to the point, when the student received full pay. Costs of the studies had to be also compensated in wages. For example, the salary of a theologian was lower than doctor's or lawyer's because the additional income (*Zubrotekommen*) during the years of study as also the cost of education were lower in the case of theologian.<sup>125</sup>

Second example was also connected to education and land. Scientific studies and confidence brought by experience helped farmer to improve the fertility of his land and

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<sup>122</sup> About tangible and intangible human capital, see Paul A. David and Lopez John Gabriel Goddard, 'Knowledge, Capabilities and Human Capital Formation in Economic Growth', *NZ Treasury Working Paper Series 01/13*, (10 April 2001) <<http://www.treasury.govt.nz/workingpapers/2001/twp01-13.pdf>> [accessed September 25, 2006], 5. Mincer's article: Jacob Mincer, 'Investment in Human Capital and Personal Income Distribution' (August 1958), 301–302.

<sup>123</sup> Adam Smith, 'An Inquiry Into the Nature and Causes of the Wealth of Nations', ed. by Edwin Cannan (London, Methuen and Co., Ltd., 1904), I.10.9.

<sup>124</sup> Scott R. Sweetland, 'Human Capital Theory: Foundations of a Field of Inquiry' (Autumn, 1996), 347.

<sup>125</sup> Wilhelm Roscher, *Grundlagen der Nationalökonomie : Ein Hand- und Lesebuch für Geschäftsmänner und Studierende*, 1906, §. 167, 497–500. See specially footnotes 7 and 10.

thereby its productivity.<sup>126</sup> Therefore, it is possible for a farmer to invest his time and money to study productivity rising farming techniques, thus, augmenting his immaterial capital, here seen as experience, knowledge, and skills concerning farming. Both views are perfectly in line with the modern human capital theory.

Furthermore, as Roscher included persons and personal services to his classification of goods, and as goods used for further production were capital, also persons and personal services could be counted as capital. Though for services, this required usually a transformation of form, which means that a person, whose products (here services) were transitory, had to capitalize his products through exchange to gain material capital.<sup>127</sup> Here, person's skills and abilities were capital for himself. As another example Roscher used a physician, who by developing his professional skills treats his customers better, thus gains more customers, and therefore, gets paid better.<sup>128</sup>

Roscher's view made it also *possible* to see whole person with his abilities as capital to someone else, to a state, firm, or an individual. Since Roscher's *Die Grundlagen der National Ökonomie* was first published in 1854 and slavery abolished, e.g., in United States in 1865, it is no wonder that in the roughest form this meant slavery. Still, he stated that to see whole person only as a mean to satisfaction of other's needs was averse to humanitarianism. In modern society, a person could be seen as capital only through the services offered and abilities possessed by him, a person and his efforts as a whole only for a definite time period.<sup>129</sup> Therefore, Roscher did not want to see human beings as a whole as economic goods nor as capital. Instead Nassau William Senior, who could see human being as capital, asserted that there is little difference between talking about the value of a slave or of a free man, for the only difference is that the latter sells himself for a certain period, whereas the slave is sold for his lifetime.<sup>130</sup>

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<sup>126</sup> Wilhelm Roscher, *Grundlagen der Nationalökonomie : Ein Hand- und Lesebuch für Geschäftsmänner und Studierende*, 1906, 124.

<sup>127</sup> *Ibid.*, 132.

<sup>128</sup> *Ibid.*, 26.

<sup>129</sup> *Ibid.*, 6.

<sup>130</sup> B. F. Kiker, 'The Historical Roots of the Concept of Human Capital.' (1966), 486.

Roscher's view on labor clarifies the power he saw in inner characteristics of man.

“- - the hand and the reason make the man what he is. Sure it concerns also economic work, as any other work, that it becomes the more effective, the more the mind prevails over the matter in it.”<sup>131</sup>

He divided labor to six classes, and the first was discovery and invention. He also distinguished services (*Dienstleistungen*) that produce personal and immaterial goods. Examples of this kind of producers were physicians, teachers, artist, clergy and judges, who produced and maintained immaterial goods such as state and church.<sup>132</sup>

Above mentioned had also, as did all skilled workers, what Roscher called *geistige Kapital*, i.e. mental or intellectual capital. Here he cites Nassau William Senior (1790–1864), an English economist, who had estimated that if a physician or a lawyer earns 4000 pounds, 3000 pounds could be attributed to his unusual talent and success and 960 pounds is payment of interest to his intellectual capital. Senior saw only remaining 40 pounds as wage.<sup>133</sup>

## 5.2. KARL KNIES AND SMITH'S GREAT ABERRATION

Adam Smith based his concept of capital on material goods, stock accumulated, but he divided it to the portion of the general stock, which is reserved for immediate consumption and which affords no revenue or profit, and to the part that is to afford revenue. Later one Smith calls capital. In this respect Knies was on the same wavelength, but the rest of the Smith's theory of capital concerning people's skills and abilities was like a red rag to Knies. Knies saw that though the meaning of capital had changed from ancient times through the Middle Ages, from mercantilism to physiocrats, Adam Smith took a position according to which the definition of capital in political economy was not dubious or in need of clarification. This made it possible to say “*das*

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<sup>131</sup> ” – die Hand und die Vernunft machen den Menschen zum Menschen. Doch gilt es von der wirtschaftlichen Arbeit, wie von jeder anderen, daß sie um so wirksamer wird, je mehr der Geist in ihr über die Materie vorherrscht.” Wilhelm Roscher, *Grundlagen der Nationalökonomie: Ein Hand- und Lesebuch für Geschäftsmänner und Studierende*, 1906, 105.

<sup>132</sup> Classification of labor: A. Discovery and invention, B. occupation of natural resources, C. production of raw materials, D. secondary production (processing of raw materials), E. allocation of goods (i.e., trade), and F. services. *Ibid.*, 105–106.

<sup>133</sup> *Ibid.*, 498–499., §. 167. See footnote 5.

*und das ist 'Kapital.'*” Knies regarded Smith’s accounts on capital as a personal achievement but also blamed him about the mishmash around the concept of capital.<sup>134</sup>

Adam Smith’s fourth mode of fixed capital – “*the acquired and useful abilities of all the inhabitants or members of the society*” – was according to Knies contradicting all predecessors and required a whole new viewpoint. Acquired skills and abilities seen as persons fixed capital, and therefore as a part of nations wealth, was comparable to new machines and technology – higher returns compensate incurred expenses. This view caused variations and uncertainty on what was generally possible to call capital and abolished the distinction between man and the outside world. Furthermore, Knies saw that Smith made the determination of whether something is or is not capital dependent from the viewpoint and circumstances.<sup>135</sup> Knies’ position on what Adam Smith did to the concept of capital expresses itself in following:

*“How much effort and ingenuity in the course of time has been spent to get over the disarray created by Smith!”<sup>136</sup>*

In certain sense, Knies had a point. Smith’s “acquired and useful abilities” opened a door for increasing variety of different types of capital. If the definitions by different political economists were confusing during the nineteenth-century, the twentieth-century saw a new emergence of terms such as human capital, social capital, cultural capital, and intellectual capital, all descendants of, or at least influenced by the Adam Smith’s influence on modern concept of capital. The emergence was a *new* emergence, since at least German economics had concepts that included many of the ideas in latter concepts. For example, Adam Müller spoke of scientific and mental capital and Karl Marx mentioned human capital in his article *The Emancipation Question* (1859)<sup>137</sup>

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<sup>134</sup> Karl Knies, *Das Geld*, 1885, 29. In fact, it is not clear whether Knies regards Smith’s achievement as a positive one in any sense, however influential it may have been.

<sup>135</sup> Ibid., 30. “Überdies musste der unvermeidliche Streit über die Berechtigung der Smith’schen Auffassung von Produktivität und Einkommen nun auch zu einem Streite über Das, was Kapital sei, werden. Wie hätte die Frage ausbleiben können, wo denn die wissenschaftliche Bedeutung dafür belegen sei, dass ein Wohnhaus für den Eigentümer zwar Kapital sein sole, wenn er es vermietet, aber nicht, wenn er selbst es bewohnt; – –“

<sup>136</sup> Ibid., 30–31. “Wie viel Mühe und Scharfsinn ist im Laufe der Zeit aufgeboden worden, um über die von Smith geschaffene Verwirrung hinauszukommen!”

<sup>137</sup> Karl Marx, 'The Emancipation Question', *New-York Daily Tribune* (January 17 and 22, 1859), here from Marxist Internet Archive, <<http://www.marxists.org/archive/marx/works/1858/12/31.htm>> [accessed April 9, 2006].

Roscher had his immaterial capital including many features of human and social capital, as did Hildebrand's mental capital (discussed later). Similar concepts were fostered on British Isles. For example, Nassau William Senior used 'mental capital' when referring to workers knowledge and habits, and saw that the costs of education had to be compensated in wages.<sup>138</sup> Friedrich List's formulation of mental capital is also worth mentioning:

*“The present state of the nations is the result of the accumulation of all discoveries, inventions, improvements, perfections, and exertions of all generations which have lived before us; they form the mental capital of the present human race, and every separate nation is productive only in the proportion in which it has known how to appropriate these attainments of former generations and to increase them by its own acquirements — —”*<sup>139</sup>

Here, it might be possible to speak about circular “progress” in economics, which means that when confronted with similar problems and phenomena, economics tend to find similar solutions and explanations.<sup>140</sup> It is, however, perhaps more felicitous view that the concept of capital has carried wide range of meanings as long as it has been used.

Knies disliked also John Stuart Mill's view that the distinction between capital and not capital is not in the attributes of the goods, but in the will of the capitalist. The same goes for Henry Macleod's<sup>141</sup> statement that every economic element that shows profit is capital. Knies saw that with Smith's views, these had lead to a situation, in which such phenomenon rose to a category of means of production, of which nothing precise is possible to say. Furthermore, economists could now see children and their upbringing as

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<sup>138</sup> Nassau W. Senior, 'Political Economy', (London: Richard Griffin and Company, 1854) <<http://www.econlib.org/library/Senior/snP4.html>> [accessed 9 November 2006], ch. 4, para. 81.

<sup>139</sup> Friedrich List, 'The National System of Political Economy', ed. by J. Shield Nicholson Trans. Sampson S. Lloyd (London: Longmans, Green, and Co. 1909) <<http://www.econlib.org/library/YPDBooks/List/1stNPE12.html>> [accessed 9 November 2006], II.12.13.

<sup>140</sup> Ernst Helmstädter, 'Die Geschichte der Nationalökonomie als Geschichte ihres Fortschritts', in *Geschichte der Nationalökonomie*, ed. by Otmar Issing and Peter Dobias (München: Vahlen, 2002), 10–12.

<sup>141</sup> Scottish economist (1821–1902), tried to develop a theory of money starting from a theory of credit.

capital investments and their future income as return on capital. Similarly, all people could be counted as assets or capital. To Knies' regret, this aberration had found some room in German textbooks through writers like Roscher.<sup>142</sup> Roscher, however, as mentioned, did not consider it proper to see human being as capital in modern society.

Knies regarded the situation where the concept of capital was so open to various interpretations as awkward and serious for economics and practical life. Simple discussion about accumulation of capital through saving or about the cost of capital investment got an unexpected twist, when somebody remembered that, e.g., also the state was capital.<sup>143</sup> Although Knies did not expect a quick change to the state of affairs, he nevertheless gave his proposition to correct the *Irrungen* made by the greatest authorities.

*“The domain of study in political economy is, as seen, economic social life of Man, thus those fields of interest and fields of activity, which in their entirety depict the whole existence of human character. Human individuals are treated here with their needs and accomplishments, with their sufferings and pleasures, in opposition to their outside world, which is constituted by the things they need, which they make subservient to themselves, which they want to utilize. It is, therefore, an essential prerequisite that political economy, from the first to the last word, separates “economic goods” as “external” things from human individuals, who are here emphasized themselves as “producers”, “consumers,” etc.”<sup>144</sup>*

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<sup>142</sup> Karl Knies, *Das Geld*, 1885, 34–36.

<sup>143</sup> *Ibid.*, 38–39.

<sup>144</sup> ”Die Forschungsgebiet der Nationalökonomie ist, wie schon bemerkt, das wirtschaftliche Gemeinschaftsleben der Menschen, also einer jener Interessenbereiche und Tätigkeitskreise, die in ihrer Gesamtheit das ganze Leben der menschlichen Persönlichkeit darstellen. Die menschlichen Personen treten hier mit einem Bedürfnis und Erlangen, mit einem Thun und Genießen ihrer Außenwelt gegenüber, welche die Gegenstände umschließt, die sie brauchen, sich dienstbar machen, verwenden wollen. Es ist deshalb ein unumgängliches Erfordernis, dass die Nationalökonomie vom ersten bis zum letzten Wort die ’Wirtschaftlichen Güter’ als ’äußere’ Gegenstände von den menschlichen Persönlichkeiten abscheidet, die sich hier als ’Produzenten’, ’Konsumenten’ u.s.w. zur Geltung bringen.” *Ibid.*, 40.



Knies saw that inner goods, i.e., fragments of body or mind, could and should not be understood through the concept of capital.<sup>145</sup> The language of science did not need either concepts such as *Personenkapitales* or *Quasikapitalien*.<sup>146</sup>

Still, the third factor of production, i.e., capital and its accumulation, was dependent of individuals and character of the people. Capital power (*Capitalkraft*) was dependent of labor power (*Arbeitskraft*) and the nature.

*The accumulation of capital depends directly from the character of the people, from the grade of their intelligence, from their diligence in work, from the strength of their needs and drive to pleasure, from their precautions and foresight for future etc., whereas at the same time in the character of the environment the possibilities, the easiness or the arduousness, of the extraction of capital are given.*<sup>147</sup>

Therefore, the inner characteristics of the people are central to capital accumulation, but Knies does not count them as capital.

### 5.3. INDUSTRIOUSNESS AND INTELLIGENCE

As stated above, Hildebrand saw that money economy turned the process of production inside out and affected the whole social life. This development had also implications on how inner qualities of individuals affected the society and production. According to Hildebrand, the accumulation of capital, in addition to freeing people from under the yoke of soil, formed a society, in which man could look for job best suitable to his abilities and predilections and brought free competition to the society. Furthermore, it gave people room to develop their faculties and talents and started a process, in which moral and mental characteristics such as industriousness and intelligence became productive. Tight interrelationship between science and technology

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<sup>145</sup> Ibid.

<sup>146</sup> Ibid., 42.

<sup>147</sup> Karl Knies, *Die Politische Oekonomie Vom Geschichtlichen Standpunkte*, 1883, 95. “Denn die Sammlung des Capitals hängt unmittelbar von der Beschaffenheit des Menschen, von dem Grade seiner Einsicht, von seinem Arbeitsfleiß, von der Stärke seiner Bedürfnisse und Genusstriebe, von seiner Vorsorge für die Zukunft u.d.w. ab, während gleichzeitig in der Beschaffenheit des Territoriums die Möglichkeit, Leichtigkeit oder Schwierigkeit der Capitalgewinnung gegeben ist.”

led to innovations, and mechanical work started to move from men to machines. Wide diversity of human production powers replaced constancy and uniformity, and talent started to shape the hierarchies of society.<sup>148</sup> Rapidly accumulating capital and the development of science remodeled not only the production, but also the whole process of life.<sup>149</sup>

Hildebrand spoke of moral and mental characteristics or faculties and talents as capital and saw them as objects of cultivation and perfection, though the focus was on the mental capital of nations, not that of individuals.<sup>150</sup> This cultivation could yield profit in social position and living conditions for individual. This productivity of mental powers influenced the world of material and comestible goods and vice versa. Hildebrand regarded cause and consequence as intertwined in political economy, and therefore the growth of an economy was a cyclical process, in which every consequence became a cause in itself.

*“Human labor produces comestible goods that produce and maintain more human labor. The mental powers of a nation produce science and education that increase the economic powers, these produce physical welfare that further produces mental powers.”<sup>151</sup>*

Therefore Hildebrand saw mental powers as important factor of production and that it was possible invest in them. Hildebrand’s view was similar to Friedrich List’s:

*“The augmentation of the national material capital is dependent on the augmentation of the national mental capital, and vice versa.”<sup>152</sup>*

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<sup>148</sup> Bruno Hildebrand, 'Naturalwirtschaft, Geldwirtschaft und Creditwirtschaft' (1864), 16–17.

<sup>149</sup> Bruno Hildebrand, 'Die Gegenwärtige Aufgabe der Wissenschaft Der Nationalökonomie' (1863), 11.

<sup>150</sup> Bruno Hildebrand, 'Die Gegenwärtige Aufgabe der Wissenschaft Der Nationalökonomie, Zweiter Artikle', *Jahrbücher für Nationalökonomie und Statistik*, I (1863b), 141–142.

<sup>151</sup> Bruno Hildebrand, *Die Nationalökonomie Der Gegenwart Und Zukunft Und Andere Gesammelte Schriften*, 1922, 61–62. “Die Arbeitskraft des Menschen schafft Nahrungsmittel und die Nahrungsmittel schaffen wieder Arbeitskraft. Die geistigen Kräfte einer Nation erzeugen Wissenschaft und Bildung, diese vermehren Wohlsein, und durch dieses werden wieder geistige Kräfte produziert.” ‘Bildung’ should be perhaps translated here as ‘civilized culture.’

<sup>152</sup> Friedrich List, 'The National System of Political Economy', ed. by J. Shield Nicholson Trans. Sampson S. Lloyd (London: Longmans, Green, and Co. 1909), II.19.20.

Hildebrand's concept of mental capital was probably related to Adam Müller's views. Hildebrand wrote his *Die Nationalökonomie der Gegenwart und Zukunft* (1848) as a textbook in the sense that it introduces the main currents of economic thought beginning from mercantilists and ending with socialists. When discussing Müller, he emphasized things that are included in his own idea of mental capital. However, even though Müller's view of Adam Smith's concept of capital was inadequate, Hildebrand failed to present Smith's concept of capital in correct light, which leaves an impression that his view about Smith was similarly lacking. Müller did not advert the acquired and useful abilities of all the inhabitants or members of the society, which Smith saw as fixed capital.<sup>153</sup> In a chapter named *Müllers Kritik der Smithschen Theorie* Hildebrand cites Müller:

*“Finally, Smith knew only one form of capital, material, external capital. But beside it there is at least equally important or even more important intellectual capital.”*<sup>154</sup>

This is certainly wrong, but Hildebrand did not remind the reader here or in the later chapter where he offered sharp critic on Müller.<sup>155</sup> One has to still remember that he is presenting Müller's views here. Yet, it seems strange in the sense that as we saw above, at least Knies regarded Smith as the one to blame for opening the concept of capital to interpretations, which break the division between man and the outside world.

The account discussing Müllers view on continues as follows:

*“First is presented and developed through the common commodity of money, the second through the common commodity of speech. In speech grows the capital of national wisdom, the experience and the ethos from generation to*

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<sup>153</sup> Bruno Hildebrand, *Die Nationalökonomie der Gegenwart und Zukunft und Andere Gesammelte Schriften*, 1922, 5–15.

<sup>154</sup> ”Endlich kennt Smith nur eine Kapitalart, das physische, äußerliche Kapital. Neben diesem gibt es aber noch ein wenigstens ebenso wichtiges oder noch wichtigeres geistiges Kapital.” Ibid., 33.

<sup>155</sup> Ibid., 41–45.

*generation and forms for all times the biggest lever of national economy, a lever, which during the latest centuries has been left entirely without attention.*<sup>156</sup>

Even if Hildebrand did not see the Müller's failure to offer a full review of Smith's concept of capital, one has to note that Hildebrand's description of Müller's views goes further than Smith's notion of skills and abilities as capital. To Smith skills and abilities were important in the sense, in which they promoted the production goods and affected the individual's productivity, but Müller's view elevates *geistiges Kapital* to something very wide-ranging and abstract that penetrates whole culture. Despite the high level of abstraction, Müller saw his mental capital as the fourth factor of production besides common labor, land, and nature.<sup>157</sup> In addition, in the text it also goes with the name of *wissenschaftliche Kapital*.<sup>158</sup> In his critic of Müller's views, Hildebrand saw that the merits of Müller's theory were in his intention to replace from Adam Smith originating mechanical and material concept of bourgeois society with one emphasizing public spirit and the power of intellectual or mental culture to the national economies.<sup>159</sup>

However, Hildebrand did not neglect material side of the economy. He saw that humankind was going towards a future, in which machines did mechanical and soul-destroying works and in which every individual could satisfy his physical needs increasingly through mental and intellectual education.<sup>160</sup>

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<sup>156</sup> "Jenes wird durch das Gemeingut des Geldes, dieses durch das Gemeingut der Sprache repräsentiert und entwickelt. In der Sprache wächst das Kapital der Nationalweisheit, der Erfahrung und Gesinnung von Generation zu Generation und bildet zu jeder Zeit den größten Hebel der Volkswirtschaft, einen Hebel, der gerade in den letzten Jahrhunderten ganz außer acht gelassen worden ist." Ibid.

<sup>157</sup> Ibid., 39.

<sup>158</sup> Müller's view was that during the Middle Ages the clergy had controlled *wissenschaftliche Kapital*, thereby it was productive for the whole. In the absence of common interest (*Gemeinschaftlichkeit*), activities of the current moment went to waste. Ibid.

<sup>159</sup> Ibid., 41.

<sup>160</sup> "geistiger Bildung" Ibid., 186.

## 6. CAPITAL IN ECONOMIC AND SOCIAL RELATIONS

### 6.1. MULTIPLYING VALUABLE RELATIONS – TRUST AND CUSTOMERSHIP

Roscher derived his category of goods referring to relations between persons and between persons and things from Roman law. He mentions *res incorporales*, which in Roman civil law meant things that cannot be touched: things that consist in right or the mind alone can perceive. He believed that it was usually possible to evaluate these goods similarly as material goods. Customership, different contracts between the actors of economy, and trust between these actors were examples of these goods. Roscher's examples were descriptive. When explaining the worth of relationships, he saw that when a new entrepreneur buys a newspaper company, he does not buy mere appliances or buildings but, above all, existing relationships to employees and subscribers. Similarly, he saw that a theatre director's relationship to a good actor was useful for both and also part of director's and actor's wealth. When describing the worth of trust (*Vertrauen*), Roscher saw that a big part of a trading firm's value was in the confidence and trust that it aroused in its customers, thereby saving them from many worries and difficulties. In addition, an army commander could do wonders with an army he has himself organized and trained, but be a worthless chap with a foreign army perhaps in a foreign country. Roscher saw that through the progress of culture, people would become more and more sociable, and therefore these valuable relations would multiply.<sup>161</sup> When used commercially or as means production, these economic goods were capital.

The fact that Roscher included trust, relations, and reputation to his concept of capital may be due to his immense erudition. He wrote about Demosthenes, who, when the culture of ancient Greece was at its height, discussed good reputation as immaterial capital. Demosthenes called his capital either ἀφομῆ or ἔρανος. According to Roscher, also the Roman concept of 'peculium' had similar features.<sup>162</sup>

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<sup>161</sup> Wilhelm Roscher, *Grundlagen der Nationalökonomie: Ein Hand- und Lesebuch für Geschäftsmänner Und Studierende*, 1906, 7., §. 3. General's relation to his soldier could also have an exchange value. Roscher used Italian mercenaries of the fifteenth century as an example, see footnote 6.

<sup>162</sup> *Ibid.*, 124., §. 42, see footnote 1.

For Roscher, also institutions such as state, judiciary, and church were immaterial goods, which created favorable circumstances and sustainability for economy, and therefore were immaterial capital. According to Roscher, the state was in fact the most important economic good and the most important form of immaterial capital.<sup>163</sup> When writing about useful relations as economic goods or as immaterial capital, Roscher saw state especially as good managing of public affairs.

Roscher's notion of useful relations and trust as capital has an important point of contact with modern notions of social capital, because Roscher saw that these relations could be an advantage for all or have an exchange value only for an individual. Therefore, relations could be seen as public goods (*Gemeingut*) or private goods.<sup>164</sup> If one compares Roscher's category of goods referring on relations, his views on public goods such as state or church, or his views on cooperative economies with most influential definitions of social capital, similarities are striking. Robert Putnam sees social capital as "*features of social organization, such as trust, norms, and networks that can improve the efficiency of society by facilitating coordinated actions.*" Pierre Bourdieu has concluded that social capital is "*– – the sum of resources, actual or virtual, that accrue to an individual or a group by virtue of possessing a durable network of more or less institutionalized relationships of mutual acquaintance and recognition,*" and James Coleman has defined social capital as a useful resource available to an actor through his or her social relationships.<sup>165</sup> In these definitions the nature of social capital both as public and private good is clearly seen.<sup>166</sup>

In his *Nationalökonomik des Handels und Gewerbfleizes* Roscher discussed different modes of co-operation of economic actors. He emphasized the role of the savings associations and funds in mediating between the capitalists and the poor workers and craftsmen. Furthermore he wrote of production cooperatives

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<sup>163</sup> Ibid., 106 and 124. About state as an economic good, see pp. 7–9.

<sup>164</sup> Ibid., 133, §. 45. See also footnotes 6 and 7 on page 9, §. 3.

<sup>165</sup> Citations and Coleman's definition from John Field, *Social Capital*, 2003, 4, 15, and 23.

<sup>166</sup> About public and private advantage see also Paul Dekker, 'Social Capital of Individuals: Relational Asset or Personal Quality', in *Investigating social capital: Comparative perspectives on civil society, participation and governance*, ed. by Sanjeev Prakash and Per Selle (New Delhi, Thousand Oaks, London: 2004), 88.

(*Productivgenossenschaften*), trade unions, entrepreneur cooperatives or associations (*Unternehmergenossenschaften*), cartels, and trade courts (*Gewerbegericht*). Since Roscher saw these institutions, which are based on the social cooperation and mutual trust, as new products of freedom of trade, it is possible to see these as those useful relations, of which Roscher spoke of when defining capital and economic goods, and which would multiply thanks to economic and civic development. However, here he did not explicitly speak of them as capital. These institutions Roscher saw mainly in positive light, though he was unsure whether the moral state and the good-heartedness of the workers was already on high enough level for the trade unions. He could see even cartels as having something positive effect for the economy, since he thought that they would cut overproduction.<sup>167</sup>

Roscher saw poor relief as deeply connected to religion. He saw that it had to be based on religion, but pure ecclesiastical poor relief was not enough for Germany of his time.<sup>168</sup> However, he stated that:

*“The capital of the poor is the love of the believers.”*<sup>169</sup>

Though Roscher is speaking metaphorically here, the same connection between capital – or at least social capital – and religion has been made in recent discussion. For example in collection *Religion as Social Capital: Producing the Common Good* (2003) edited by Corwin Schmidt. Especially in United States religion and churches are often seen as producing more social capital than any other institutions. There are studies according to which two thirds of small groups active there are somehow connected to churches and synagogues, and what is more striking, two thirds of those active in social movements claim that they get they get their motivation from religion.<sup>170</sup>

Also Putnam has seen religious participation as an important factor in community life and its health. As Roscher, he sees faith-based organizations serving civil life in two

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<sup>167</sup> Wilhelm Roscher, *Nationalökonomik des Handels und Gewerbfleisses: Ein Hand- und Lesebuch für Geschäftsmänner und Studierende* (Stuttgart: 1899), §. 155–160.

<sup>168</sup> Wilhelm Roscher, *System der Armenpflege und Armenpolitik* (Stuttgart: J. G. Cotta'sche Buchhandlung Nachfolger, 1906), 67, §. 13.

<sup>169</sup> “Das Kapital der Armen sei die Liebe der Gläubigen,” *Ibid.*, 86, §. 15.

<sup>170</sup> John A. Coleman, 'Religious Social Capital: Its Nature, Social Location, and Limits', in *Religion as social capital: producing the common good*, ed. by Corwin Smidt (Waco, TX: Baylor University Press, 2003), 33.

ways. First, by providing social support to members and social services to wider community and, second, by nurturing civic skills, i.e., by “inculcating moral values, encouraging altruism, and fostering civic recruitment among church people.”<sup>171</sup> For Roscher too the church was something that provided social services; this of course is natural, since in Europe poor-relief and schooling had traditionally been duties of churches. Religion had also an important role in tackling with self-interest.

## 6.2. KNIES AND HIS CRITIQUE OF STATE AS CAPITAL

Knies admitted the importance of administration and the state to economy,<sup>172</sup> but it had nothing to do with capital. He criticized Roscher’s view of state as capital in several occasions.<sup>173</sup> Knies also denied the categories such as personal capital or *Quasikapitalien*, which included in Roscher’s view above-mentioned public goods.

*“ – in political economy with capital can be understood anyway only economic goods, in any case not human persons or something from them inseparable, which is why necessarily ‘the worker’, ‘especial skillfulness, knowledge and abilities ’ of man, as well as the state, nationalism [Nationalehre] and the like are out of the question. The language of science does not need either the awkward help of ‘so called’ personal capitals or ‘Quasikapitalien ‘ ”<sup>174</sup>*

Because Karl Knies had so hostile attitude towards including individual abilities or beneficial social relationships under the flag of capital, it would be a hit below the belt to explain his views of education, national spirit or moral development through our modern concepts. For the rest of the theme discussed in this paper, I have left Knies views out, for he was sure that public-spirit, education or even the ability to innovate were not capital and should not be called capital even metaphorically.

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<sup>171</sup> Robert D. Putnam, *Bowling Alone: The Collapse and Revival of American Community*, 2000, 79.

<sup>172</sup> Karl Knies, *Die Politische Oekonomie vom Geschichtlichen Standpunkte*, 1883, 106–107.

<sup>173</sup> E.g., Karl Knies, *Das Geld : Darlegung der Grundlehren von dem Gelde*, 1885, 38.

<sup>174</sup> “ – in der Nationalökonomie unter Kapital jedenfalls nur wirtschaftliche Güter verstanden werden dürfen, keinesfalls menschliche Personen oder etwas von ihnen als Personen Untrennbares – weshalb notwendigerweise die ”Arbeiter”, die ”besonderen Geschicklichkeiten, Kenntnisse und Fertigkeiten” der Menschen, sowie der Staat, die Nationalehre u. dgl. außer Frage bleiben. Auch der mislichen Aushilfe des ”sogennanten” Personenkapitales und der ”Quasikapitalien” bedarf die Sprache der Wissenschaft nicht.”



### 6.3. CULTIVATING PERSONAL AND MORAL CREDIT

*“Credit is the trust to the fulfillment of an existing contract, and at the same time the sum of those attributes, on which this trust is based.”<sup>175</sup>*

Above Hildebrand actually gives a formula to estimate the value of trust between two actors: trust equals how much credit one can get. This relates to the final phase in Hildebrand’s stage theory: credit economy. According to Hildebrand, credit was something given not only those who had something, but also for those who *were* something. He saw person’s moral attributes as a possible debt guarantee, and therefore there could be revenue in trust – in trust to the person’s future achievements.<sup>176</sup> This way, through the trust aroused by the moral attributes, Hildebrand connected personal qualities to the concept of capital, and therefore, in the credit economy:

*“The Moral Worth of Man Gains the Power of Capital.”<sup>177</sup>*

Hildebrand saw that if this personal or moral credit was cultivated and realized through banks and credit institutions, it was possible to remove the monopoly of capitalists, and the gulf between the propertied classes and those who had nothing but their labor and moral character. He considered banks as the heart of the societal organism, which could amass all financial capacity of the society, and immediately distribute it to the areas in need. Banks and credit institutions were to be the mediator between the rich and the poor. The first mentioned were the educators of the poor and carried the moral obligation imposed to them by property and proprietorship.<sup>178</sup>

When writing about mental talents and faculties in connection with credit, Hildebrand used capital more like a metaphor or analogy for the mental powers, social relations, and the returns they yield. Perhaps it is because here he writes more from the point of view of an individual. It is possible to invest in and cultivate mental powers and faculties; they yield profit in social life and materially; but still they are *like* or *gain the power of capital*, not, at least clearly expressed, capital. Whether this distinction has any

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<sup>175</sup> “Credit ist das Vertrauen in die Erfüllung eines gegebenen Versprechens, und zugleich die Summe von Eigenschaften, welche dieses Vertrauen begründen.” Bruno Hildebrand, 'Naturalwirtschaft, Geldwirtschaft Und Creditwirtschaft' (1864), 19.

<sup>176</sup> Ibid., 22.

<sup>177</sup> Ibid. “Der moralische Werth des Menschen erhält die Kraft des Capitals.”

<sup>178</sup> Ibid.

meaning, is another thing? It is hard to say that Hildebrand spoke of *human capital*, but he certainly spoke of something, which is like capital, works like capital and which many other writers saw as a mental, human, or scientific capital. Furthermore, in other context, namely when writing about moral powers and intelligence of people in the sense of nation (*Volk*), he used mental capital without hesitation (see ch. 7.3).

To Hildebrand, moral worth and the credit economy had also social meaning, which comes close to *social glue* used in contemporary social science<sup>179</sup>. Money economy had brought people to new sphere of powers (mainly *Kapitalkraft*) and to new kind of life, but it had created egocentric interest economy and disbanded society to atoms. Credit economy bound men again through mental and moral bonds:

“— — it connected the highest mobility to inner stability, universalized the financial capacity of the nation, worked for the removal of proletariat and gave thereby rise to an economic way of life, which combined the advantages of the both earlier epochs of economic development.”<sup>180</sup>

This was something that could not be done by single institutions. Hildebrand saw credit as a mental and moral power comparable to science. Honesty, conscientiousness, mutual trust, and public moral of the people were its building stones. If these were not available, institutions such as banking could not help, because they were only the organs of credit.<sup>181</sup>

Bangladeshi Muhammad Yunus developed an interesting modern application of credit as an instrument of social and economic development in the 1970s. This idea of micro-credit, in which applicants for loan form “solidarity groups” acting as co-guarantors, has since spread to dozens of countries and was awarded with the Nobel Peace Prize for 2006. As the Nobel Committee put it:

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<sup>179</sup> John Field, *Social Capital*, 2003, 5.

<sup>180</sup> Bruno Hildebrand, 'Naturalwirtschaft, Geldwirtschaft Und Creditwirtschaft' (1864), 22. “— — sie vereinigt die grösste Beweglichkeit mit der innern Festigkeit, sie veralgemeinert die Kapitalkraft der Nation, sie Arbeitet an der Beseitigung des Proletariats und ruft so eine ökonomische Lebensordnung hervor, welche die Vorteile der beiden früheren wirtschaftlichen Entwicklungsepochen miteinander verbindet.”

<sup>181</sup> *Ibid.*, 22–23.

*“Loans to poor people without any financial security had appeared to be an impossible idea. From modest beginnings three decades ago, Yunus has, first and foremost through Grameen Bank, developed micro-credit into an ever more important instrument in the struggle against poverty.”<sup>182</sup>*

Peter Nobel has said that for the first time an economist was given a *real* Nobel Prize.<sup>183</sup> Hildebrand’s idea of credit as a mediator between those who have and those who don’t has therefore been proven in practice, though Muhammad Yunus has hardly got the idea from Hildebrand. In his Nobel lecture Yunus stated that profit maximization isolates firms from political, social, emotional, and mental dimensions. Yunus demanded new kind of social entrepreneurship with goals closer to the people and society through new definition of entrepreneurship. Current outlook of firms as only profit maximizing organizations limits, according to Yunus, the endless possibilities of actors on the free market.<sup>184</sup>

In fact, also Roscher attributed similar role to savings associations (*Vorschußvereine, Volksbanken*) than Hildebrand and now Yunus, when discussing new formations brought by the freedom of trade. Savings associations were middlemen between capitalists and small needs of capital. For example, a craftsman, whose only pledge was his ability to work, had difficulties to get credit, since unexpected sickness or death could destroy the pledge. Co-operational organizations and associations (*Verein*) that were big enough to carry such risks of individual members helped them to get credit.<sup>185</sup>

James Coleman used “the rotating-credit associations of Southeast Asia and elsewhere” as an example of the value of trustworthiness of the environment and saw them as efficient institutions amassing savings for small capital expenditures. He also used credit as an example when describing obligations, expectations, and

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<sup>182</sup> The Norwegian Nobel Committee, 'The Nobel Peace Prize for 2006', ed. by (October 13, 2006) <[http://nobelpeaceprize.org/eng\\_lau\\_announce2006.html](http://nobelpeaceprize.org/eng_lau_announce2006.html)> [accessed December 8, 2006].

<sup>183</sup> Hazel Henderson, 'Talospalkinto on Käenpoika Nobeleden Avokkaassa Pesässä', *Helsingin Sanomat*, December 8, 2006, section C7.

<sup>184</sup> 'Yunus Fordert „Neues Soziales Unternehmertum“', *Frankfurter Allgemeine Zeitung*, December 11, 2006, 6.

<sup>185</sup> Wilhelm Roscher, *Nationalökonomik des Handels und Gewerbflusses: Ein Hand- und Lesebuch für Geschäftsmänner Und Studierende*, 1899, 962–963., §. 156.

trustworthiness of social structures, which for him were the embodiments of social capital.<sup>186</sup> Credit associations as an example of cooperation and trust are to be found also from Putnam.<sup>187</sup>

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<sup>186</sup> James S. Coleman, 'Social Capital in the Creation of Human Capital', *The American Journal of Sociology*, 94 (1988), 102–103.

<sup>187</sup> Robert D. Putnam, Robert Leonardi and Raffaella Nanetti, *Making Democracy Work: Civic Traditions in Modern Italy*, [1993] 1994, 167– 171.

## 7. PUBLIC SPIRIT AND MORAL POWER

*1. Natural society consists of a horde of unorganized individuals. 2. Every individual acts in a manner calculated to secure his self-preservation or self-interest. 3. Every individual thinks logically, to the best of his ability, in the service of this aim.*<sup>188</sup>

*Elton Mayo about the basic concepts of economics traceable to Ricardo (1945)*

### 7.1. BELLUM OMNIUM CONTRA OMNES

All three authors discussed here saw societies and economies as more than as a sum of their parts. The individualist view of Adam Smith and his followers, especially Ricardo, were often the object of their critique. An economy based on mere self-interest took away what was good and valuable in humanity. Their views reflected the German tradition, in which the state and society had a more central role than across the canal. Especially for Hildebrand, mutual trust based on moral was the focal point of national economy and the whole state organism.

Nor could Roscher see mere self-interest as the only driving force of economy:

*“To base economy merely on self-interest would be as perverse as to base marriage merely on sexual urge.”*<sup>189</sup>

He was aware that to Adam Smith self-interest as a guiding principle of economy was only one side of the coin. Another side was *sympathy*, which was the central theme of Smith’s *Theory of moral sentiments* (1768). In fact, Roscher wrote that in Smith’s *Wealth of nations* self-interest was behind everything and had as one-sided role as did

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<sup>188</sup> According to reviewer, Mayo disagreed with these and saw the desire to stand well with one’s fellows and human instinct of association as more important than self-interest and logical reasoning: John W. Harriman, '[Untitled Review of *the Social Problems of an Industrial Civilization*]', *The American Economic Review*, 36(3) (1946/06), 394–395.

<sup>189</sup> Wilhelm Roscher, *Grundlagen der Nationalökonomie: Ein Hand- und Lesebuch für Geschäftsmänner Und Studierende*, 1906, §. 11., footnote 9, p. 29. This footnote is missing from the twelfth edition.

sympathy in *Theory of moral sentiments*.<sup>190</sup> Also Roscher saw the functioning of economy as a result of two opposing powers: centrifugal self-interest (*Eigennutz*) and centripetal public spirit (*Gemeinsinn*). Every normal economy, including every normal private economy, is directed to achieve highest possible profit with smallest possible cost. Here is included the instinct of self-preservation and sexual drive. This centrifugal power is balanced by centripetal power of public spirit.<sup>191</sup>

To Roscher public spirit was based on voice of God in us, i.e. conscience, though he saw that it was possible to outline this with philosophical delineation of equity, justice, benevolence, perfection, and inner freedom. Only through this force it was possible to control self-interest. Public spirit had also rational base:

*Mere reckoning reason must see that countless institutions and relations are to many individuals useful, if not necessary, but without public spirit impossible, because no individual could alone undertake the sacrifice needed to establish them.*<sup>192</sup>

Though still he saw, as did Adam Smith, that individual contributed to society when pursuing his own interests. For example, when an individual starts a business, he chooses a branch on which there is unsatisfied needs on the market, i.e. demand, and through his actions helps to satisfy these needs. However, whereas Adam Smith saw that every individual does his best to a society when minding his own business and seeking his own best, Roscher's formulation was a bit different in its crucial part:

*So it is also that from the beginning of trade all human interests have been thousandfold interconnected, thereby it has become a general rule that the surest way to satisfaction of one's own needs is to help others satisfy theirs.*<sup>193</sup>

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<sup>190</sup> Ibid., 29, §. 11. See footnote 9.

<sup>191</sup> Ibid., 25–26, §. 11.

<sup>192</sup> "Selbst der bloß rechnende Verstand muß erkennen, daß unzählige Anstalten, Verhältnisse zc. für viele einzelne nützlich, ja notwendig sind, ohne Gemeinsinn aber ganz unmöglich bleiben, weil kein einzelner die dazu erforderlichen Opfer übernehmen könnte." Ibid., 26, §. 11

<sup>193</sup> "So ist es auch, seit der Verkehr alle menschlichen Interessen so tausendfach miteinander verflochten hat, in der Regel das sicherste Mittel geworden, seine eigenen Bedürfnisse zu befriedigen, wenn man anderen zur Befriedigung der ihrigen hilft." Ibid., 26., §. 11

Putnam has noted that all prominent moral codes include the norm of generalized reciprocity, an equivalent of the Golden Rule, and it seems that Roscher's concept of public spirit serves this end too.<sup>194</sup> This does not mean that Roscher would have been on a naïve mission of altruism, but simply that he saw *Gemeinsinn* (public spirit) and *Eigennutz* (self-interest) as intertwined. A good doctor satisfied the needs of his/her customers better than a bad one and, in addition, got paid better.<sup>195</sup>

Roscher saw that the public spirit limited the impact of self-interest and war of all against all in society (*bellum omnium contra omnes*). It conciliated between the irresponsible self-interests of private economies, thereby calling them to form a well-organized organism. Roscher's usage of 'organism' was not unreflective. He noted that the analogy to nature was ancient, that it could lead astray in social studies, that the society was not similarly tied to nature as, e.g., human body. Still Roscher saw harmony and "natural laws" in national economies, though they were separated from the material world. Roscher's natural laws of political economy had to do with free reasoning beings that were answerable to their conscience and who together formed a species with ability to progress. This was the core of Roscher's concept of organism, and it is thereby only fitting that he saw the belief in societal theories based on Darwin's heredity, variability, and struggle for survival as illusory.<sup>196</sup>

Household economies, corporation economies, municipal economies and state finances were so important prerequisites and constraints for private economies, and also parts of the above-mentioned organism, (*Einzelwirtschaften*) that the latter could exist without the first mentioned only in the lowest levels of development. These economies possessed a will, thus, they had a purpose or were guided according to a plan. The whole national economy (or *Wolkwirtschaft* distinguished here from state's finances) was an aggregate of these wills and economies. Roscher saw that a nation and a national economy were realities, not just abstractions, in the sense that the parts were in detectable interaction to the whole. The will or the orderliness of a national economy unfolded itself in economic legislation and administration. Cooperative economies had

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<sup>194</sup> Robert D. Putnam, *Bowling Alone*, 2000, 134–135.

<sup>195</sup> Wilhelm Roscher, *Grundlagen Der Nationalökonomie: Ein Hand- Und Lesebuch Für Geschäftsmänner Und Studierende*, 1906, 26.

<sup>196</sup> *Ibid.*, 34–41, §. 13–14.

a similar role in economy, as did judiciary and customary law, common language, and customs. They created the norms, circumstances, and the organic whole (networks) within the limits of which the private economies had to work, and therefore could be beneficial or disadvantageous to economy.<sup>197</sup>

When describing how the public spirit helped to form national economies and smaller cooperative economies, Roscher did not speak about public spirit as capital. Still it was the feature of the human race that made possible to hold the reigns of self-interest and made cooperation possible. Therefore, if one wants to contemplate it from the viewpoint of modern social capital thought, there are mainly two interconnected possibilities: the concept or norm of reciprocity and on the other hand the problems of collective action. In his *Bowling Alone* Robert Putnam shifted his emphasis towards reciprocity in addition to trust, norms, and networks that had been in the centre of discussion.<sup>198</sup> Putnam saw that through social connections people are involved in sustaining the rules of conduct; thereby networks often involve mutual obligations of reciprocity. The norm of generalized reciprocity is the touchstone of social capital for Putnam and by it he means that a good deed done is not expected to be compensated immediately, but that someone somewhere down the road will return the favor. In this reciprocity that puzzled Alexis Tocqueville during his trip in America and that made Americans resist temptations to take advantage of each other nor Tocqueville or Putnam saw idealistic rule of selflessness obeyed, but mere pursuing of “self-interest rightly understood.”<sup>199</sup>

If one remembers how Roscher stated the maxim of economy and the effect of *Gemeinsinn*, i.e., to help yourself help others, it is easy to see his public spirit as his

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<sup>197</sup> Ibid., 30–31. “Es wird aber zweierlei erfordert, um eine Zusammenfassung von Teilen zu einem realen Ganzen zu machen: die Teile müssen untereinander in Wechselwirkung stehen, und das Ganze muß als solches nachweisbare Wirkung haben.” The usage of network is in my opinion plausible here, because the different economies form a whole, whose parts are interconnected. ”a group or system of interconnected people or things” “Network N.”, *The New Oxford American Dictionary*, ed. by Erin McKean (2005).  
<<http://www.oxfordreference.com/views/ENTRY.html?subview=Main&entry=t183.e51378>> [accessed 22 April 2006].

<sup>198</sup> Stephen Baron, John Field and Tom Schuller, 'Social Capital: A Review and Critique', 2000, 9–11.

<sup>199</sup> Robert D. Putnam, *Bowling Alone : The Collapse and Revival of American Community*, 2000, 20 and 134–135.



solution to the problems of collective action. Thomas Hobbes had tried to solve the problem of free riding and war of all against all with his Leviathan, whereas modern theorists have tried to solve why people choose to cooperate even when rational choice theory or game theory would predict otherwise and why, sometimes, they fail to cooperate for mutual benefit. Language used by Putnam et al. is close to Roscher, when they ponder why some areas of Italy have failed in cooperation: “Surely they must see that they would all be better off if only everyone would cooperate for the common good.”<sup>200</sup>

Also James Coleman tried to solve the dilemma of collective action through social capital. For Coleman relationships constitute capital resources by helping to establish obligations and expectations, increasing trustworthiness, and by setting norms. Coleman solved the problem by abolishing it: people were not making calculating choices to invest in social capital, but social capital raises as a by-product of activities engaged in for other purposes. That is, people engage in relationships seeking self-interest, relationships produce social capital, which then facilitates more efficient cooperation.<sup>201</sup>

A striking difference between Roscher’s notion of public spirit and social capital is that Roscher saw his *Gemeinsinn* as something inherent in the human nature. It was the voice of good in *us* or a set of abstract philosophical ideas. Nations and their ways were different and many aspect from nature to cultural development affected this, but public spirit was still the main factor that made social organism possible, and was therefore Roscher’s way solve the problem of “collective action” in a world of self-interested people. Or should we say that he abolished the problem by seeing people as not so self-interested as the mainstream of classical economics.

### **7.3. MORAL POWER AS MENTAL CAPITAL**

To Hildebrand, economic freedom was not enough to bring forth economic success for nations, but it was an important factor in the process because it fostered moral vigor and helped to fulfill conditions for the growth of moral power of the people. Hildebrand

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<sup>200</sup> Robert D Putnam, Robert Leonardi and Raffaella Nanetti, *Making Democracy Work: Civic Traditions in Modern Italy*, [1993] 1994, 161–165.

<sup>201</sup> John Field, *Social Capital*, 2003, 24–25.

saw public moral as comparable to intelligence. Intelligence increased the powers and capabilities of people, and since he ruled out natural laws from the sphere of political economy, public moral, or moral power, together with intelligence, became the soul of the every national economic organism. Public moral increased diligence, entrepreneurship, endurance in work, sense of duty, mutual trust, and self-sacrifice for the common good. This moral power ennobled individuals from their bounded egoistic world to the higher viewpoint of common welfare. It made people conscious of the connection between their actions and national work thereby giving their all activities a higher goal and consecration, which further gratified them in their work and improved performance.<sup>202</sup>

This moral might Hildebrand described as mental (*geistig*) capital of the people. Its creation was not easy. Nor economic institutions or administrative measures could alone create it, since it was a result of long history full of experience; full of intensive national culture; and required stable, free government. Where state was based on distrust, where government extended its centralized bureaucracy to every sphere of life, where everything was made subject to license, there could neither mutual trust nor personal or moral vigor or public spirit flourish. Hildebrand believed in self-government of individuals and different spheres of society, and nowhere else than in Great Britain were participation in public affairs and right to self-government and self-help so common. What was most important, when the state trusted its citizens and protected above-mentioned rights as sacred, then rose not only the ability of the people to identify and to fulfill central needs, but also its affection towards system of government; self-sacrifice for the common good; and moral, political, and economic power of the whole nation. Mental capital was the point of contact between the national economy and the whole state organism.<sup>203</sup> Therefore, Hildebrand's mental capital had a similar role, as did Roscher's concept of *Gemeinsinn*.

Hildebrand saw that trust aroused trust in society: "*The state harvested fruits of its sowing*."<sup>204</sup> It is also interesting that he saw Great Britain as the best example of not

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<sup>202</sup> Bruno Hildebrand, 'Die Gegenwärtige Aufgabe Der Wissenschaft Der Nationalökonomie, Zweiter Artikle' (1863b), 138–142.

<sup>203</sup> Ibid., 141–143.

<sup>204</sup> Ibid., 141. "Staat erntet die Frucht seiner Saat."

only self-government, but also of mutual trust and efforts for the public good. On the other hand, the fact that he accused English political economy of atomism; of emphasizing self-interest; and of cosmopolitanism, does not necessarily tell anything about the real social and economic order on British Isles. In this admiration is probably also in-built, though not explicit, criticism towards the political and economic circumstances of the German states.

As in his theory of credit economy, which of course is in connection with his notion of mutual trust, there are in Hildebrand's view of moral power as the soul of the economy and society some points of contact with the concept of *social glue*. It even seems that Hildebrand saw similar characteristics in Great Britain, as did the French writer Alexis de Tocqueville in the United States, when traveling throughout the country in 1831. Tocqueville emphasized the vibrant associational life and interaction in voluntary organizations as the backers of the American democracy and economic strength. They provided social glue that helped to bond individual Americans together, whereas in the Old World, the formal bonds of status and obligation held together traditional and hierarchical relationships.<sup>205</sup> Tocquevillian ideals – civic virtue, active citizens, and strong community associations – seem to be currently quite relevant, not only in sociology, but also in politics.<sup>206</sup> Similarly they were important for Hildebrand.

The main function of Hildebrand's mental capital was its power to raise people from their egoistic world of self-interest. By giving meaning to their work and actions, it gave an impetus to efficiency, self-sacrifice and collaboration. Hildebrand's viewpoint was that of a nation; mental capital was "ein geistiges Capital der Völker." Despite the principles of *laissez faire* and hypotheses based on natural law that aspired to remove this moral power, it was, according to Hildebrand, precisely the soul of every healthy national economic organism of the people.<sup>207</sup> In short, Hildebrand's mental capital facilitates cooperation. This is also what James Coleman's social capital does, but Coleman's theory has as its ancestry partly in "laissez faire" and hypotheses that

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<sup>205</sup> John Field, *Social Capital*, 2003, 5.

<sup>206</sup> President George Bush had informed earlier this year that he wanted his legacy to include a creation of Tocquevillian think-tank, 'It Took a Frenchman', *The Economist*, November 25, 93–94.

<sup>207</sup> Bruno Hildebrand, 'Die Gegenwärtige Aufgabe der Wissenschaft der Nationalökonomie, Zweiter Artikle' (1863b), 140–141.

Hildebrand would have seen based on natural laws. Coleman's theory is based on rational choice theory of economics, which sees individuals as their own interest maximizing rationalists. Here cooperation is an exception to the broad rule of solitary and if it happens, it is in the interest of the actors to do so. Coleman's expectations and obligations, i.e. social capital, "arose as an unintended consequence of their pursuit of self-interest."<sup>208</sup>

If one looks here towards Scottish enlightenment of the eighteenth century as already done with human capital and Adam Smith, there are interesting parallels between Scottish enlightenment and social capital. Lindsay Paterson has claimed that:

*"Concepts such as moral obligation, a common culture, a unifying social ethic, and the active creation of social trust are the core of what recent writers have meant by social capital, and can be found, it has been argued here, in thinkers such as Ferguson, Hume, Smith and Reid. Indeed, a direct line of intellectual evolution could be traced from then to now, through the development of the discipline of sociology — —"*<sup>209</sup>

When formulated as Lindsay does, the characteristics of social capital theory seem to fit as well to Roscher and Hildebrand as they do to Scottish philosophers.

For example, if we take Hildebrand, he saw public moral as mental capital, which ennobled men from their egoistic sphere and therefore led them to fulfill their moral obligations. To create this mental capital economic institutions or administrative measures were not enough, since it was a result of long history full of experience, full of intensive national culture and required stable, free government, i.e., a common culture. Hildebrand saw that the core of the national economy was not egoism but common good, that moral power (his mental capital) unified men to work towards common goals, and that political economy was, in the end, ethical science. Therefore, it is not an overstatement to say that he spoke of unifying social ethic. Finally, Hildebrand wrote

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<sup>208</sup> John Field, *Social Capital*, 2003, 24–25.

<sup>209</sup> Lindsay Paterson, 'Civil Society and Democratic Renewal', 2000, 53. Adam Ferguson (1723–1816), a philosopher and a historian attempted to reconcile all moral systems. Other mentioned: David Hume (1711–1776), Adam Smith, and Thomas Reid (1710–1796).

that a state could create social trust by increasing freedom and allowing self-government and public participation for different spheres of society.

## 8. EDUCATION

### 8.1. SUPPORT OF INDUSTRIES AND MORAL-RELIGIOUS PROWESS

In his *Nationalökonomik des Handels und Gewerbfleizes* (1881) Roscher discussed schooling from elementary schools to universities as an instrument of state support for industries in the conditions of free trade. Although he listed some pedagogues of earlier times who had promoted on industry and trade focusing schooling, he saw the state-run system of industrial education (*gewerblichen Unterrichts*), from elementary schools to universities, as a product of last century. He saw that from the French revolution onwards science and technology had been connected in a way that had no parallels in history, and this had made possible the unprecedented rise in material powers, consumption, and development. Even in England, which had built its industrial hegemony during this time, the current pre-eminence of technical education abroad raised fears. This despite the fact many of the great inventors of British industrialization had been autodidacts. Roscher saw that coincidence and genius were not substitutes for education.<sup>210</sup>

Roscher's viewpoint here was that how state could promote industries through education. Still, although he went through all the levels of education in Germany and described their good sides for the economy and society, in introduction mentioned view of Eric Hobsbawm that what was behind the social investments of the nineteenth century was to instill morality, religion, and obedience to the poor hits partly to its target. Roscher wrote:

*For the highest intellectual education is the way of the classical grammar school [Gymnasium] still the most normal, for every people generally the moral-religious prowess the most important.*<sup>211</sup>

Here Roscher mentioned also his fear that on natural sciences focusing *Realshcule* could, with their naive overestimation of the present times and blind generalizations of

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<sup>210</sup> Wilhelm Roscher, *Nationalökonomik des Handels Und Gewerbfleisses: Ein Hand- Und Lesebuch Für Geschäftsmänner und Studierende*, 1899, 1002–1003, §. 161. See also footnote 4 about English inventors, education, and industrialization.

<sup>211</sup> “Zur höchsten Geistesbildung ist der Weg durch ein klassisches Gymnasium noch immer der normalste, für jeden Menschen überhaupt die sittlich-religiöse Tüchtigkeit das Wichtigste.” Ibid., 1010, §.162.

the exact sciences, cause contempt of classical ideality and moral-religious reality of life.<sup>212</sup>

On the other hand, Hobsbawm's view is one-sided if used here, since it actually looks Roscher, Hildebrand, and Knies from the economic framework of the twentieth century, which indeed has been obsessed with economic growth per se. However, for Roscher moral competence of the people and their civilizing is so integral part of the whole concept of development that without it, the whole idea of enduring economic growth seems impossible. Indeed, also Hildebrand saw that the secret of the British industrial hegemony was as much in the moral characteristics of the people as it was in the inventions and in advantageous conditions for trade. For historical political economists discussed here, it seems, the nucleus of the development and the economic growth was to have people who had the *will* and *character*; from them, the rest would follow.

Furthermore, education is still socialization, but it sometimes seems as if economics had just discovered the importance of this process and its quality to economic development. Besides teaching us skills and knowledge needed in modern society, education is still, particularly on its lower levels, about instilling morality, religion, and obedience. Religion just has to be substituted, where it is abolished from schools, with current set of values of the culture at issue. If one claims that the only purpose of the nineteenth century universal schooling was to keep workers pious and humble, one forgets why they had to be pious and humble, that is, to keep working. For example, Roscher was afraid of and aware of the possibility of revolution, which he saw as a process destroying everything already accomplished. Industrializing Germany of the nineteenth century needed workforce socialized to urban living and the rhythm of the factory. Here instilling morality, religion, and obedience was as important and economical as any higher education.

In addition, Roscher wrote that it was an important task of the state to promote industries through education, but this economical orientation was not the only attached to education, nor is it now. Education and conceptions of it have always been loaded

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<sup>212</sup> Ibid.

with values. Even many of the modern economic studies of higher and lower education mention the non-monetary gains of education. One seldom chooses his occupation only money in his eyes.

## 8.2. WAGE DIFFERENTIALS AND ROSCHER'S SOIL ENRICHMENT

### METAPHOR

Where Roscher's views on how education and acquiring of valuable skills brought returns and on how it was therefore profitable to invest in them are clearly seen, is in his soil enrichment analogy. Roscher compared people to land when he wrote about the basis of the different wage levels. Some lands produced more; therefore, their ground rent (*Grundrente*) was higher. Through soil amelioration it was possible to improve yields. Roscher saw that this held true for people and different branches of labor too.<sup>213</sup> Here it is important to note that Roscher did not consider land as such as capital, but it was precisely soil enrichment that was capital.

Rare personal requirements of labor were the main reason for different wage levels on different branches. Low supply of qualified labor improved the wages of certain jobs. Roscher saw that particularly the trust, which worker has obtained through loyalty and his skills, improved his wage level.<sup>214</sup> Qualified work and professions had also acquisition costs, which had to be compensated in wages. To Roscher these acquisition costs were invested capital, on which the higher wages were yielded interest. Here again, Roscher compared improvement of land (or soil enrichment) and increased gains with improvement of people and increased gains. Similarly as the interest of improvement of land had an impact on land rent, the capital invested in training and education of worker had an impact on his wage and productivity.<sup>215</sup>

Considering how much Bruno Hildebrand emphasized the empirical nature (besides ethical) of historical political economy, it is somewhat surprising how little he discussed

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<sup>213</sup> Wilhelm Roscher, *Grundlagen der Nationalökonomie: Ein Hand- und Lesebuch für Geschäftsmänner und Studierende*, 1906, 124, §. 42.

<sup>214</sup> Wilhelm Roscher, *Grundlagen der Nationalökonomie: Ein Hand- und Lesebuch für Geschäftsmänner und Studierende* (Stuttgart: Cotta, 1875), §. 167, p. 371–372; §. 148, pp. 331–335.

<sup>215</sup> *Ibid.*, 372–374., §. 167. See especially footnote 7.



some central and practical phenomena of the economy in the works available here. For example, labor and wage he discussed mainly when evaluating then contemporary theories of the socialists. He illustrated with numerous tables and statistics that real wages had in fact risen through industrialization and that the wage level was better in industries of England than among the handicraft proletariat in Germany. The purpose of this was to undermine the critique of socialists towards industrialism and capitalism by showing that the state of the working class in England had in fact got better on many areas.<sup>216</sup> Though Hildebrand emphasized talent as the main factor reshaping hierarchical social structures, he did not discuss the effect of this on wages on very specific level

### **8.3. REIGN OF SCIENCE AND THE PRINCIPLE OF SELF-GOVERNMENT**

Bruno Hildebrand's accounts on education are predominantly rather vague statements about the worth and importance of culture, education, and science. These are intertwined with his concept of moral power. In Hildebrand's texts, education and culture are always described in affirmative light, though the effects are, more often than not, discussed from the viewpoint of humanity or societies rather than that of an individual.<sup>217</sup> However, on the level of individuals, talent was to become the most important hierarchical factor of society, as was stated in earlier chapters.

When discussing what is good and positive in contemporary economic theories of socialists, Hildebrand made a difference between French and German thinkers; the French were materialists whereas the Germans were humanists. Though the latter were often persecuted and expelled, Hildebrand saw that this had brought new momentum to German science. Partly because the only possessions they could bring along, when forced to leave their home country, were their scientific education and mental abilities, their definition of man was based on variety and diversity of human abilities. Therefore, they saw mental abilities and faculties as axioms. This molded their communistic utopias towards antiquity; men had to work only enough to stay over the subsistence

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<sup>216</sup> See, e.g., §. 38, 39, 40, and 42 in Bruno Hildebrand, *Die Nationalökonomie der Gegenwart Und Zukunft Und Andere Gesammelte Schriften*, 1922.

<sup>217</sup> Bruno Hildebrand, 'Die Gegenwärtige Aufgabe der Wissenschaft der Nationalökonomie, Zweiter Artikel' (1863b), 144–145.

level, so that the rest of the time could be devoted to art, science, and public good. That is, free Athenians without slavery.<sup>218</sup>

Hildebrand saw that French socialist theorists wanted dominion of industry whereas Germans wanted liberation from industry. Similarly he saw intelligence (*Intelligenz*) only as of instrumental value to French whereas for Germans it was of intrinsic value. Furthermore, he polarized the difference by comparing French utopias to labor-barracks and German utopias to academies, where science would reign. Therefore, German communists saw universal education for every individual as a necessity, not only in distant utopias but also in present. German communist societies overseas reflected these views, since they were also education societies, in which history, geography, languages, natural history and other scientific domains were daily lectured.<sup>219</sup>

When one considers Hildebrand's views on development and rising stages of culture, one can ask whether it is possible to speak about investment at all. As did many of his contemporaries, Hildebrand wrote about cultural and economic development as irrevocable perfection of humanity. This brings teleological features to some of his views, as observations of society and economy are used as evidence of this development. For contemporary reader results are sometimes absurd. For example, he saw that as the culture of man rises to higher and higher levels, so does the economic life of man. This rise of the culture demanded education (*Erziehung*) of the people not only in religion and other mental areas, but also in national economic areas.<sup>220</sup> Here development seems inevitable and education is only readjustment to this process. Yet again, elsewhere, as mentioned before, Hildebrand emphasized the cyclical nature of material development and mental powers in society. It is possible to see also education and the changing society as fueling each other. If interpreted this way, Hildebrand's view is similar to 'technocratic' approach to human capital, which states that the more technologically advanced the society becomes, the more demand there is for technical,

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<sup>218</sup> Bruno Hildebrand, *Die Nationalökonomie der Gegenwart und Zukunft und Andere Gesammelte Schriften*, 1922, 103, §. 27.

<sup>219</sup> *Ibid.*, 104., §. 27.

<sup>220</sup> Bruno Hildebrand, 'Naturalwirtschaft, Geldwirtschaft und Creditwirtschaft' (1864), 24.

managerial, and professional workers. Seen this way, the high skills economy is a product of evolutionary process of technological progression.<sup>221</sup>

When discussing innovation, Hildebrand's stress on mental conditions and institutions comes forward; he tried to show that science and education were substitutable, up to a point, with right institutions, mainly with the principle of self-government. Or it is perhaps more descriptive to say that without proper institutions and moral character, science and education could not alone create innovative environment. Here he again used England as an example: albeit they were lagging behind in science, he saw that nationalism, freedom, and self-government could up to a point compensate the difference.<sup>222</sup> It is possible to see Hildebrand's mental capital as complementary with human capital, i.e., science and education, similarly as James Coleman saw social and human capital as generally complementary, though Hildebrand thought on the level of nations.<sup>223</sup>

If one knows how some contemporaries, e.g. Friedrich Engels, described and saw the condition of the working class in England, some of the Hildebrand's compliments seem a bit strange. He saw that similarly as in the area of government, where every man took part, the factory work was organized on the principle of self-government. Every man was an administrator of his own branch of work, and therefore could contribute to the work process. In deed: "*Every British factory reflects the British State.*"<sup>224</sup> Furthermore, according to Hildebrand, administration from above was hardly observable and none of the workers needed any exogenous impetus to work. Although Hildebrand presented several statistics to prove that the wage the level had increased in both England and Germany along with industrialization and that the condition of the working class was somewhat better in England than in the rapidly industrializing areas in Germany, he still seems to see England through idealizing lenses. Especially this is because later studies indicate that it was in Germany where factory work required less

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<sup>221</sup> Phillip Brown and Hugh Lauder, 'Human Capital, Social Capital, and Collective Intelligence', in *Social Capital: Critical Perspectives*, ed. by Stephen Baron, John Field and Tom Schuller (Oxford: Oxford University Press, 2000), 226–227.

<sup>222</sup> Bruno Hildebrand, *Die Nationalökonomie der Gegenwart und Zukunft und Andere Gesammelte Schriften*, 1922, 75–77, §. 20.

<sup>223</sup> John Field, *Social Capital*, 2003, 9.

<sup>224</sup> Bruno Hildebrand, *Die Nationalökonomie der Gegenwart und Zukunft und Andere Gesammelte Schriften*, 1922, 77, §. 20.

supervision and coercion thanks to illiteracy eliminated already in the middle of the century. Common literacy enabled strong craft and vocational training traditions, which made also organizational and technical innovations easier.<sup>225</sup> Hildebrand's view on England, however, reveals the factors he saw important for innovation in industries.

Hildebrand saw that what was behind the England's success in industries and manufacturing was not science or technology but moral-political and administrative characteristics and talents. The public government and administration together with political freedom had created a national feeling and patriotism in every individual that made possible the building of strong community, which like an eternal fire collected all hands together and animated the whole English industry – and kept the private interests, party politics, and strikes in control. Diligence, endurance, entrepreneurship, concentration of powers, conscientiousness, and mutual trust were the “moral levers” of English industry, created by the idea community (*Gemeinwesen*) and state nurtured in the hearts of the people.<sup>226</sup>

In addition came the above-mentioned principle of self-government, which had, according to Hildebrand, “enormous effects” on economy. Innovation, or here in fact inventions and improvements (*Erfindungen und Verbesserungen*) sprang up from the possibility of individual workers to contribute to the work-process.<sup>227</sup>

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<sup>225</sup> Erik Grimmer-Solem, *The Rise of Historical Economics and Social Reform in Germany*, 2003, 120.

<sup>226</sup> Bruno Hildebrand, *Die Nationalökonomie der Gegenwart Und Zukunft Und Andere Gesammelte Schriften*, 1922, 75–77.

<sup>227</sup> *Ibid.*, 77.

## 9. CONCLUSION

Clearly Roscher, Knies, and Hildebrand had differing views concerning capital, especially when extending the concept to the areas of human capabilities and even spirit. Roscher's concept of immaterial capital includes most of the ideas now spoken as human and social capital. He saw human abilities and skills as capital of their possessor and as it was possible to improve land so that it produced more, similarly it was possible to raise productivity and wages through education and training. The costs of acquiring of special skills and costs of education were compensated in higher wages.

However, B. F. Kiker's grouping of Roscher with economists who included the acquired abilities of human beings to their concept of capital and saw investment in people as a way to increase their productivity seems plausible (discussed in chapter 3.1.). Likewise he was correct when stating that Roscher did not count people as such as capital. Therefore, Roscher did not present fresh ideas in the area of human capital. His views were, if not common, at least shared by many economists during his days.

For Roscher, useful relations between people or between the actors of economy were capital. These relations could be seen as private goods, bringing advantage to individual, or as public good, benefiting the whole society. Furthermore, Roscher considered trust and goodwill as a form of capital. Therefore, in this area Roscher went beyond Adam Smith and these are the themes, together with his notion of public spirit, where it is possible see parallels them and social capital thought of today.

Karl Knies disliked the forms and the definitions of capital, which disentangled it from its relation to money and material goods, made it dependent of point of view, made it possible to call almost everything capital and, in the end, made it possible to see people as capital and assets. The entanglement of political economy to inner characteristics or inner goods of human beings led it to areas such as mental or physical characteristics of an individual, which, according to Knies, could not be explained and understood with or included in the term capital. Nor did he see capital in nationalism, which, if seen as devotion to national community, could have some common footing with the concept of social capital. He considered Roscher's inclusion of the state in the

concept as harmful and confusing for political economy. In these respects, it is Karl Knies who stepped farthest from the canon of classical economics and from current views by demarcating the concept of capital so that all aspects that we would today include to human capital were left out. Individual skills and abilities and social aspects were discussed in his works, but not as capital.

In his article *Natural-, Geld- und Kreditwirtschaft*, Hildebrand stated that economy based on money started a process in which mental characteristics such as industriousness and intelligence became more and more productive; and therefore, talent started to shape the hierarchies of society. Hildebrand's third and the last stage of economy was credit economy, where he saw that trust based on moral characteristics could be changed to financial capital through credit, and therefore saw trust as a form of capital, or to be precise, he saw that trust gains the *power* of capital. Loans, based on a guarantee of moral characteristics of a borrower, could, when distributed through credit institutions, efficiently allocate capital where it is needed. Furthermore, this would narrow the gulf between social classes.

Where Hildebrand finally used the term capital directly to something beyond material sphere, he connected it with trust, obligations, self-government, associational life, and man's rise above his narrow sphere of self-interest. Intelligence, which advanced the methods of production and innovations, and moral power, which took care of the cooperation and seeing the big picture, were Hildebrand's mental capital of the peoples.

Since Adam Smith's days, though he had his notion of *sympathy*, studies of economy have usually presupposed a self-interested man seeking his own profit. Because the greatest achievements of humanity seem to be results of collective action, different authors have devised differing theories on why man chooses to cooperate instead of immediate gain. Social capital, in the form reciprocity; trust; and civic action, has in many respects been an attempt to solve this problem. Also Roscher's public spirit (*Gemeinsinn*) and Bruno Hildebrand's mental capital (*geistig Kapital*) were ways to answer to what makes man to see further than his immediate gain. Whereas James Coleman abolished the problem by seeing social capital rising as an unintentional cause of people seeking their interests amidst other people, Roscher tended to see the aptitude

towards collaboration as an inherent characteristic of man. Hildebrand's view was a bit more complex, since his mental (or moral) capital was a result of history full of experience, of common culture, and of stable government. His view was not wholly deterministic, since he saw that through trust and the principle of self-government, it was possible to increase the ability of the people to see beyond their own interests.

Nor Roscher, Hildebrand, or Knies used the precise term 'social capital,' albeit Roscher and Hildebrand described phenomena now included to this concept. Here is more important their brand of political economy as a whole that saw people as more than profit maximizing atomistic individuals. Self-interest was not the sole driving force of the economy: man as a social being, as a part of his community, was central, and precisely this belonging to group, whether in economic cooperation, in voluntary associations or on the level of state, gave people meaning to work, and lifted them from the narrow spheres of self-interest. Especially Roscher and Hildebrand connected the increase in social networks and relations with economic growth and cultural development. For Roscher those areas of society, which are now continuously connected with social capital, for example state, church, religion, judiciary, etc. were capital, and so were trust and social connections in business.

As modern journalism laments the decline of community, and as this process is a basic element of the social capital literature, Roscher and Hildebrand believed in multiplication of social relationships and communities. Though it may be that theirs was a time of building something, whose decay we no grief, there is some irony in the fact, that in a time and place, where man has developed technology that enables real time communication almost everywhere and differing concepts of network are implemented almost on all spheres of life, we are concerned with decrease in social relations and communal life.

This paper does not trace influences, but it picks some points in time, which have shown similar interest and emphasizing towards human, social, and civil potential; community; and even communitarianism, a modern ideology bolstering social capital and the institutions of society. The fact that there has been elements of human and social capital theories in the nineteenth century views and before does not diminish the value of today's interest on human or social capital: it merely shows that ideas are old.

To study empirically how people experience trust, what is the meaning of trust for firms and bureaucracies, how and why the norm of reciprocity is born, or how and why people form and use their networks are important and intriguing tasks. But to claim that trust or relationships as capital or as economically productive is an invention of the twentieth century is certainly false.

In the end, it is perhaps trifling to accuse different areas of social science and economics of lack of historical knowledge of their own fields. This relates interestingly to here-discussed historical brand of economics, since its core idea was to emphasize not only the historical evolution of societies but also the historical nature of the sciences, which aspired to describe and understand the world, here economy, so that it could be interpreted and, to steer clear of exaggeration, should we say forecasted. Economics, or historical political economics, as all sciences of the society, reflect both the society and their own historical development.

There seems to be a sustained pendulum motion, also noted in social capital literature, between the importance and salience of individual and society. Enlightenment, and in the case of economics Adam Smith, brought a way of thinking that stressed the atomistic individual, whereas German romantic reaction to enlightenment; tradition of philosophy; and perhaps longing for solidarity in a fragmented national environment brought collectivity, society, and common good to centre. After the World War II followed a burst of individualism in life and in science. As Eric Hobsbawm has put it in *The Age of Extremes*:

*“The old moral vocabulary of rights and duties, mutual obligations, sin and virtue, sacrifice, conscience, rewards and penalties, could no longer be translated in to the new language of desired gratification. One such practices and institutions were no longer accepted as part of a way of ordering society that linked people to each other and ensured social cooperation and reproduction, most of their capacity to structure human social life vanished. They were reduced*



*simply to expressions of individuals' preferences, and claims that the law should recognize the supremacy of these preferences.*<sup>228</sup>

As a reaction, from the eighties on, social science has again been interested in communities, solidarity, and the institutions of society. Decreasing social capital and social cohesion of the western societies has worried social scientists and decision makers, and besides, new research has emphasized the advantages of the social capital to national economies. Whether it is plausible to call this process cyclical, is as beauty is in the eye of the beholder. Both of the ideas, human and social capital, are old. Their definitions and the terms depicting them have changed in time, but so are they changing now from study to study. For those like Karl Knies, this kind of conceptual vagueness is a curse, whereas others see it as a sign of a dynamic and developing enterprise. Writer of this opts for the latter. Nineteenth century saw tome after tome discussing what in fact is capital. Articles and books published about human and social capital during the twentieth century do not lag behind in numbers.

Since all three of here discussed authors developed a stage theory, – Roscher had his cyclical stage theory of historical evolution, Hildebrand had a linear stage theory of economic history and Knies spoke of moral progress – the above presented analogy would offer an interesting vantage point to study the relationship between different forms of human capital and progress depicted in their theories. However, for Knies words *human* and *capital* are hardly reconciled into same expression. Furthermore, it would be interesting to study: How did the latter generations of German historical economics see inner characteristics of man and the utility of social networks, trust, and reciprocity?

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<sup>228</sup> Eric Hobsbawm, *Age of Extremes : The Short Twentieth Century, 1914-1991* (London: Abacus, [1994]2003), 338–339.

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