Chapter 8

Gustav von Schmoller (1838 - 1917):

Health Issues as Part of the larger Social Question

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8.1 Introduction

Gustav (von, 1908) Schmoller: His Life and Work

In the nineteenth century issues of health and health care have been discussed from an economic perspective, especially by the German Historical School as exemplified by the contributions of Gustav Schmoller (1838 -1917). Schmoller treated health issues as part of the larger Social Question which had arisen when during Germany's industrial revolution farmers and workers had moved from the country to the cities to find employment in the new established and expanding factories. A proletarian class formed and dissatisfaction was high. The Social Question was a main concern to Schmoller. He had the idea to insure the major risks in workers lives. By establishing state institutions of social insurance he wanted to create the basis on which further markets for insurance could develop. Hereby, he considered health a central variable which had an influence in his proposals for economic policy. Schmoller created the scientific basis for the German welfare legislation in the 1880s. To this effect, he organized a professional think tank of his colleagues, the Verein für Socialpolitik. In this chapter, the focus is on health aspects in Schmoller's work.

Gustav Schmoller was born 1838 in Heilbronn and died 1917 in Bad Harzburg.¹ He was introduced to the cameral sciences early on by his father, a business administrator of the royal estates of Württemberg, who thus laid the foundations for his later development and interests.² Schmoller became familiar with large data sets and the application of statistical methods through his grandfather, who cultured plants on a large scale in order to study Mendel's law. In his later work, Schmoller systematically applied the statistical-empirical method to the social sciences. Based on empirical material, he arrived at theoretical conclusions.³

Schmoller studied cameral sciences in Tübingen and wrote his doctoral dissertation in 1861. Charged by the chief statistician of the Kingdom of Württemberg and extraordinary professor at Tübingen, Gustav Rümelin (1815 – 88), Schmoller built from scratch the industry statistics for Württemberg. In 1864, he received a position at the University of Halle. On the basis of his statistical industry studies the usual requirement

of a habilitation thesis was dropped.\(^4\) Schmoller's social-political interest became obvious in his treatments of the *Workers' Question* in 1864 and 1865.\(^5\) In these treatments, he already stated the need of reforms in order to improve the situation of the workers.

Schmoller was a co-founder of the *Verein für Socialpolitik* in 1872 and took leadership for a long time. It was the expressed goal of the *Verein für Socialpolitik* to establish a research program that was not only theoretically oriented, but also applicable to social policy. Schmoller wanted to create an institution where the scientific discussion of social-political issues could take place.\(^6\) By devising policies for encompassing welfare legislation, the *Verein für Socialpolitik* prepared the ground for Bismarck's welfare legislation in the 1880s.\(^7\) The driving force behind this legislation was Schmoller who by creating a teaching and research program influenced others in adopting his method and subjects which is referred to as Schmoller's program.

In 1872, Schmoller accepted the chair at the newly founded University of Straßburg. As the editor of the *Acta Borussica* he was influential in writing the history of Prussia. When he became the editor of the newly founded journal *Jahrbuch für Gesetzgebung, Verwaltungs- und Volkswirtschaft im Deutschen Reich* (Annals of Legislation, Administration and Political Economy) which later became to be known as *Schmoller's Jahrbuch*, his first article was on the idea of justice in the economy.\(^8\) In 1882, he


received a call to Berlin and later was elected Rector Magnificus of the University. Schmoller was honored in many ways. In 1884, he became a member of the Prussian Council of State and in 1887, a member of the Prussian Academy of Sciences. He represented the University at the Upper House. In 1908, he was ennobled in recognition of the merits of his work.

Schmoller wrote many smaller works, before he wrote his magnum opus, the Blueprint, which was published in two volumes in 1900 and 1904 and in a second edition in 1923. The Blueprint is the condensation of roughly four decades of lecturing. It is based on his earlier work such as his monograph on the weaver guild of Strassburg, from which emerged the "pattern of long-term evolution of economic and social institutions." Schmoller's last larger work, a methodological contribution on the economy, economics and the economic method, never got published. In 1911 Schmoller edited and rewrote this work, but the contribution was deleted from the new edition of the Handbook of the State Sciences, which was published in the same year. This was due to principle methodological differences which also explain why a reprint of Schmoller's Blueprint did not appear before 1978. Methodological differences between Schmoller and Menger became to be known as the first Methodenstreit, and between Schmoller and Max Weber as the second Methodenstreit.

Backhaus and Hansen have noted that these discussions threatened to question the scientific value of Schmoller's writings and even that of his lifework, the creation of the basis of the German social welfare legislation in the nineteenth century. A fundamental change in methodology occurred when Max Weber's approach was adopted and not Schmoller's. Schmoller applied the empirical-statistical method to social-political questions. In contrast, Max Weber held that prejudices cannot be solved

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11 Schmoller provided the basic concept for the legislation of the German income taxation in 1874. The first Methodenstreit had practical consequences for the current income tax legislation in Germany. This is the topic of the dissertation by Reginald Hansen. 1996. Die praktischen Konsequenzen des Methodenstreits. Eine Aufarbeitung der Einkommensbesteuerung. (Practical Consequences of the Methodenstreit). Volkswirtschaftliche Schriften, Nr. 457. Berlin: Duncker & Humblot, p. 173.

empirically. Hence, according to Weber, the empirical-statistical method cannot be applied to social political questions. Schmoller's approach also stands in contrast to the current approach of health economics which is explicitly normative in institutional and policy assumptions and in the framing of research questions.

Despite these methodological differences, Schmoller's impact was far-reaching. The most succinct assessment of the impact of Schmoller's approach is given by Laidler who wrote:

Bismarck became a close student of this school and seized upon the program of Wagner, Schmoller and others and attempting at one and the same time to strengthen the state, undermine the social democratic movement and improve working conditions. The social legislation of the 70s and 80s in Germany was the result.

Graf Otto von Bismarck-Schönhausen (1815-98) introduced social welfare legislation and compulsory insurance acts in Germany. Compulsory sickness insurance, of which the worker contributed two thirds and the employer one third of the funds, was passed in 1883; compulsory accident insurance in 1884. Compulsory old-age insurance of which the employee, employer and government shared the payment was adopted in 1889.

The question is pertinent, whether Bismarck's social policy influenced Schmoller. An answer is given by Schmoller himself, who noted that Bismarck's willpower was his most essential trait and that practical experience meant everything to him, but not theories. In looking back, Schmoller evaluated his work on social insurance as

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16 In order to answer the question whether Schmoller was influenced by Bismarck, John O'Brien translated four letters written by Schmoller on Bismarck, which were included in Schmoller's Charakterbilder published in 1913. He did not only look at social welfare legislation, but also at other issues such as the relationship between capitalists and landowners. The detailed discussion leads beyond the
In my three articles on the workers’ question (1864, *Preußische Jahrb*.), I tried to show myself how the newer social institutions can have an effect in raising the standard of living of workers; I focused on the moral and economic, on the general education of the working class and on the education provided by the unions. In all of my later scientific work I tried to show that in our German states of civil servants a leading role in social policy falls to monarchy and civil servants. Practical life followed these paths, in particular through the initiative by Bismarck.17

In the letters on Bismarck, Schmoller was less favorable. He wrote that Bismarck "criticized the workers too much," "was not fair to the growing, legitimate self-confidence of the lower classes," and "always criticized the civil service." (O'Brien, 1987, *op. cit.*, p. 19). He distinguished Bismarck's views on social legislation according to three different time periods.

However little practical happened at that time in *Sozialpolitik*, the fact is clear and confirmed in many ways that Bismarck's views until 1876 moved nearly in the same direction as the founders of the *Verein für Socialpolitik*, who independently of the government and without any closer knowledge of Bismarck's views had written on their banner in 1872 a vigorous, but moderate program of political social reform based completely on the existing social order... From 1876 onwards, a certain modification of Bismarck's views on social policy occurred in connection with the economic crisis and the growth of the Social Democrats' agitation ... In 1880, he himself took over the Ministry of Commerce and it was obvious that he rebuffed some individuals with whom he had previously dealt, excluded others, and ran the ministry most vigorously.18

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Schmoller described the direction of influence as going from the founders of the Verein für Socialpolitik to Bismarck, but he noted that political constraints made him less and less a proponent of labor interests. When Bismarck took over the Ministry of Commerce in 1880, a change took place. Finally, Bismarck "did not become master of the labor movement which he promoted by the general right to vote," but "in times of great reconstruction, such movements and great social struggles cannot at any time be definitely and completely lacking." Schmoller concluded towards the end of his letter that practice and science have to complement and correct each other as they cannot be both perfect.

Schmoller's contributions to health economics are often made in relationship to the Social Question which he wanted to relieve. In the Blueprint, he paid particular attention to health issues in the chapters on work contract and work environment and on new social institutions and welfare legislation. Schmoller's influence reached beyond his own program. He was influential in policy, not only through the Verein für Socialpolitik and his journal, but he was also supported by Althoff, the Prussian administrator of science in the Ministry of Culture (compare chapter nine). By both, Schmoller and Althoff, questions of health are always seen in the larger context of the economy.

8.2 Schmoller's Analysis of Health Related Issues: Basing Solutions on Principles of Insurance

Schmoller emphasized Christian Freiherr von Wolff's (1679-1754) importance for modern economics. Just like Wolff, he saw the individual as a dependent person, and not as an isolated human being. Schmoller's "household" is similar to von Wolff's "house," because both are small economies by themselves. Schmoller defined "a household as a smaller or larger union of people who belong together and who share certain mental, cultural or legal values, who work for one another or partly with others outside the household." The relevance to health economics results from the fact that the members of a household care for one another and that the household is important in the production of health. Individuals can belong to one or more households, but

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20 See Schmoller, Blueprint, II, 1923, op. cit., chapter 7 on work contract and work environment (pp. 294 - 367), and chapter 8 on new social institutions and welfare legislation (pp. 367-481).
22 The original German quote reads as follows: "Wir verstehen unter einer 'Wirtschaft' einen kleineren oder größeren Kreis zusammengehöriger Personen, welche durch irgend welche psychische, sittliche oder rechtliche Bande verbunden, mit und teilweise auch für einander oder andere wirtschaften." Schmoller, Blueprint, I, 1923, op. cit., p. 3.
usually, each individual belongs to at least one family as a basic household.

Schmoller distinguished between economic and noneconomic activities that are performed in order to serve the satisfaction of needs. He defined those activities that are directed towards a higher goal than production as noneconomic activities. Examples include sports, walking, or care for health. There is an economic side to noneconomic activities, if people perform these activities in order to earn a living. (Schmoller, *Blueprint*, I, 1923, *op. cit.*, p. 3). All economic activities, whether they are paid or unpaid, contribute to economic production. With a rise in culture, Schmoller predicted that a higher part of the economic activity would take place in exchange for money.

A political economy comes about when enterprises become separate from family households. Hereby, a leading role is often played by technical development. Schmoller distinguished between static and dynamic aspects of technical development in order to explain social and economic change.\(^{23}\) In a political economy people share similar customs, common legal rules, a central finance system, and a coherent and integrated system of infrastructure. (Schmoller, *Blueprint*, I, 1923, *op. cit.*, p. 5). According to Schmoller's view, a state is part of a highly developed political economy and forms the central household to all other households.

The relationship between the individual and society as a whole has been subject to discussion.\(^{24}\) As a general principle, Schmoller propagated not just an increase in the wealth of a nation, but also an improvement in the nation's culture. He foresaw the possibility, as did Wagner, of not only economic development, but also cultural improvement including ethical refinement. In this context, improving health also implied improving longevity, but also cultural formation and civic virtues.

Already in his early articles of 1864, Schmoller proposed compulsory welfare legislation for workers so that families would not fall into poverty through illness. (1864, *Preußische Jahrbücher, op. cit.*). In the second and revised edition of the *Grundriß* which appeared after Schmoller's death in 1923, he evaluated the experience of roughly twenty years of compulsory welfare legislation in Germany. On the basis of compulsory social welfare legislation, Schmoller intended to stimulate market forces so that a family household could further limit the risk it is facing through health (and other)


problems by buying insurance and by living on credit if needed. He looked at illness as a statistical phenomenon which is calculable so that health insurance markets could develop.\footnote{In looking at the difference in behavior of groups of people who are entitled by certain rights and other groups of people who are insured, Pennings saw the modern importance of Schmoller. Schmoller was in favor of the insurance solution. Compare Frans Pennings. 1997. "Is Schmoller’s View on the Principles of Social Security Still Relevant in Present Debates on the Future of Social Security?" Editor: Jürgen Backhaus. Essays on Social Security and Taxation. Gustav von Schmoller and Adolph Wagner Reconsidered. Marburg: Metropolis, pp. 595-616.}

Schmoller stated that illness causes disruptions and costs to the family household, the more so, the smaller the family income and the more it depends on monetary wage. Coming irregularly and unpredictably, a family is not prepared to cover the costs caused by an illness out of its regular budget. Illness was in Schmoller’s view a main cause of poverty. (Blueprint, II, 1923, op. cit., p. 402). As the principle elements of a system of worker insurance he considered the provision of health insurance (he looked at the legislation in the time span between 1883 and 1911), the provision of money income for a woman in childbed (this was already part of the health insurance), insurance in the case of death (which was even older than health insurance), accident insurance (introduced in 1885), and invalidity insurance (also a part of health insurance). Schmoller wrote that social insurance legislation in Germany also would not be complete without unemployment insurance. (Blueprint, II, 1923, op. cit., p. 449). In historical sequence, unemployment insurance legislation was not passed until 1927.

Subsistence Economy of the Household

Schmoller has observed that it is more urgent to have worker insurance in some regions and at certain points in time, and he has found at the same time that the need for worker insurance is generally less pressing if a subsistence economy is present. The subsistence economy of the family household forms a major source of income and gives stability to the household, for instance if the household is struck by a case of illness. (Schmoller, Blueprint, II, 1923, op. cit., p. 401).

Schmoller defined illness as an unforeseen interruption of the working ability, which could have devastating effects on the production and income of a family household. The effects of illness on the subsistence economy of the household would depend on which member of the household would get sick. (Schmoller, Blueprint, II, 1923, op. cit., p. 402). In case of illness of the mother, the subsistence economy of the family would suffer by a shortfall in household production resulting in neglect. This was the worse, if there were small children and no servants helping in the household. In case of illness of the father, who at that time mostly was the main breadwinner of the family, the economic basis of the family was threatened by the absence of a major source of
income, so that the family could fall into destitution.

Schmoller saw the wife’s responsibility primarily with respect to the family household. He was in favor of female education, as long as it helped her to fulfill her role as a care provider. Since Schmoller argued from the point of view that the household was actually to be seen like a small firm the complexity of the task of its managers should not be underrated. Herkner built on this view, and, in his inaugural lecture, emphasized the importance for women to study economics. Herkner saw essentially three reasons for women to study economics; first, understanding market operations certainly befits the manager of a firm or household; second, economics had just been established as a teaching subject. Having a degree in the discipline meant having recourse to an outside income should the major breadwinner prematurely die or fall terminately ill. Third, Herkner, as did Schmoller, saw economics as an inherently emancipatory scholarly discipline.

Schmoller was concerned that households based on a small subsistence economy would offer resistance to the introduction of compulsory social welfare services, or, if a compulsory health insurance was already in place, then he feared that those households might stop investing or saving and therefore become more vulnerable again. If a household with a small subsistence economy has to pay compulsory health insurance, then it faces in its budget decision the following alternatives: spend the money available, invest the money in the subsistence economy, or put it in a bank savings account. Schmoller thought that it might be likely for such a household to decide against investing in the subsistence economy and against putting the money in a bank savings account. The empirical evidence suggested that the German worker insurance system, an overwhelmingly compulsory system, coexisted next to a strong Savings and Loan Sector. On the ground of empirical facts he concluded that his concern was not justified. Even if a compulsory health insurance was in place, households with a subsistence economy tended to continue to invest or save.

The interdependency of Schmoller’s approach can be illustrated in the example of the subsistence economy. His proposals for income tax legislation and social welfare legislation are not unrelated to each other. The subsistence economy provides a source of income to the household which Schmoller wanted to include in his concept of income. According to Schmoller, people should pay income tax according to their real


27 In Germany, Schmoller was looking at empirical evidence of roughly twenty years. He also included the experience of other countries such as England and France. Schmoller, Blueprint, II, 1923, op. cit., p. 402.
standard of life.\(^{29}\) This means that beyond monetary income it was important to include the components of nonmonetary income. In order to estimate people’s real income one had to look, for instance, at the value of living in a large house and park area, or the value of a garden, as well as extraordinary returns. Schmoller proposed the income tax reform in Saxony that was introduced between 1874 until 1878. (Hansen, 1996, *op. cit.*, p. 57). Hansen described the reform of the income taxation as the centerpiece of the new institutions of social welfare legislation as it was directed towards providing stability to households.

The Labor Contract

Reviewing the development of the economy from a feudal economy to a modern economy based on monetary exchange, Schmoller observed that a deep transformation of the way, work is organized took place. Obviously, the lord of manor did not conclude individual labor contracts that could specify health related auxiliary services and duties. The whole system of the division of labor was rested in a paramount exchange of a duty’s services and fees which were not individualized, but based on immutable conditions such as houses, farms, etc. Industrialization went along with urbanization and the freedom to enter individual labor contracts. Now, all the prior duties (Nebenpflichten) had to be negotiated separately and often could not. Urbanization brought about new health conditions and notably risks which had neither been embedded in the old system, nor could they be immediately cast into new contractual forms. Here, the labor contract showed a gap between what had traditionally been taken care of in a different system and what now had to be dealt with under different circumstances of habitual relations, customs, religion, the role of law, and technology.

As we concentrate on the effects of health, we are mainly interested in Schmoller’s treatment of other aspects of the labor contract, but the wage level. (Schmoller, *Blueprint*, II, 1923, *op. cit.*, p. 307). Here, Schmoller gave two examples where he illustrated possible health effects. First, he pointed out the consequences for health of a law, which no longer allowed employees to be paid in commodities or to receive credit for commodities, and secondly, he described the health consequences of the pieces wage.

Schmoller warned of the unintended consequences, when abolishing the in-kind-wage

and the possibility to receive credit for commodities. In the beginning of the nineteenth century it was still customary in Germany to pay wages or part of the wage in commodities. This was a remnant of the old direct exchange and extended family economy which was on the decline. Credit could also be received in the form of commodities which was particularly important in the agricultural sphere. However, widespread defraud had become common; for instance the practice not to pay workers in money, but in chips redeemable only in factory shops, or to offer expensive and useless goods or goods manufactured by the employer himself instead of paying wage. Complaints about abuse of this wage system led to legislation prohibiting the wage-in-kind and restricted the possibility to receive credit in the form of commodities.

The difficulty when putting this legislation into practice is the following. On the one hand, employers are neither allowed to pay wages in commodities, but only in money, nor are they allowed to provide credit to their workers in the form of commodities. (This concerns either all employers or only those employers, who are in manufacturing.) On the other hand, for practical reasons one has to allow employers to provide the workers with housing, heating, use of land, regular meals, medicine and medical help, as well as tools and fabrics, at reasonable prices.  

This shows how Schmoller critically looked at regulations directed at industry, but also affecting the (barely) developing agriculturally based industrial sector, the development of which he did not want to be suffocated by regulations extraneous to this sector. The analytical result is achieved by looking at typified agents of all the relevant sectors and their concomitant relationships. Not shown in the quote is the empirical base, on which the conclusion rests. Schmoller not only considered the payment relationship, but also availability of credit. The possibility to receive credit is truly important in an unforeseen emergency or illness, especially when there is no other safety net.

The second example where Schmoller noted possible health effects was the introduction of the pieces wage. In this example, Schmoller explicitly excluded the wage level from consideration. His empirical industry studies showed that the pieces wage tended to increase output tremendously, but that at the same time a decline in quality would take place and health problems among workers would increase. He concluded that it would not be desirable to introduce the pieces wage to all industries and specified the conditions under which the disadvantages of the pieces wage could be overcome by retaining its main advantage, an increase in output produced.

Schmoller noted that the pieces wage is the wage form of capitalist production

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characterized by large factories and relative stability of technical and economic development. His goal was to keep the incentives provided by the pieces wage, but to overcome the negative effects with respect to health and lower quality of output produced. He suggested a combination of time and pieces wage, similar to a railway engineer who receives a basic monthly salary and extra money per mile driven, or to a professor who is paid his salary and who in addition receives lecture fees from students. (Schmoller, Blueprint, II, 1923, op. cit., p. 326).

Schmoller noted that the pieces wage came into existence "where the workers were not part of the house of the master." In modern economics such a relationship is typically explained in an Alchian-Demsetz model. In a small group, such as a family or small firm, one group member knows more or less what the other one does. Through this implicit form of monitoring and control, the problem of quality control is not prevalent. In addition, the head of household knew that he or she had to care for the workers and was therefore not interested in pressing them to achieve a maximum of output without consideration of health care costs. The traditional family which included several generations and even the workers and their families who were helping in the household and who provided care to those family members who needed it, resembled a small group as described by Alchian and Demsetz.

Schmoller has observed that in a factory setting, where the pieces wage has been introduced, the employer shows less responsibility for his workers’ fate, not only in times of distress, but in general. Too much work, at too high a speed, sometimes in an unhealthy work environment, is demanded so that workers’ health is being jeopardized. Vice versa, the workers show less commitment to their work and tend to produce goods of lower quality. (Schmoller, Blueprint, II, 1923, op. cit., p. 324). He concluded as follows:

The most important step has been done, when and where the employers become so far-sighted that they recognize how dangerous and damaging a decreasing standard of living is for the workers; when and where the social responsibility of the workers has grown so much, through organization, a growing self-awareness, and a better education that they fight deliberately and energetically against the worsening of their living standard.

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33 The original German quote reads as follows: "Das Wichtigste is gewonnen, wenn und wo die Unternehmer endlich so weitsichtig werden, daß sie die Gefahr und den Schaden sinkender Lebenshaltung einsehen, wenn und wo das soziale Ehrgefühl der Arbeiter durch Organisation, durch wachsendes Selbstbewußtsein, steigende Bildung so geweckt ist, daß sie mit Bewußtsein und Energie gegen die Verschlechterung der Lebenshaltung kämpfen." Schmoller, Blueprint, II, 1923, op. cit., p. 353.
Here lie the historical roots of the German system of Worker Co-Determination. The idea behind is that workers, who have a possibility to express their interests, will be more loyal to the company in the long run. They will make personal investments with a longer time span, and also expect their employment relationship with the company to be stable. In general, they will have an interest in maintaining a high quality of output in order to secure their own position. They will have an interest in a healthy work environment.

Measures of Poor Relief

Schmoller showed that injury and sickness were the two major reasons for poverty. (Schmoller, *Blueprint*, II, 1923, *op. cit.*, p. 380). Therefore, measures of poor relief had to concentrate on the control of injury and sickness among the poor which was either possible by institutionalized care or by care at home.

Schmoller described the English experience of poor relief, where needy people from all kinds of groups, the sick, the elderly, beggars, etc., had been brought together in a single workhouse. This experience he evaluated as very costly as different incentives for the people of each group are required to bring them back into a regular working life.

The data show that quite different types of poor have to be distinguished. Their needs differ and hence, the kind of help to be provided has to be suitable to the needs of each group. Here, the most important difference [to hospitalization, my add., U. B.] is that certain types of poor are supported best by leaving them in their family household and subsistence economy, and supporting them by relieving their work at home through goods and services needed, (for instance those people who are only temporarily in need; or those, who are only slightly sick; or widows with children, who still earn some money). Others (for instance, the seriously ill, the insane, the blind, and the elderly, who have no family) should be hospitalized in special institutions adapted for the purpose at hand.34

Providing relief at home can be the cheaper alternative as compared to institutionalized

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34 The original German quote reads as follows: "Nach diesen Angaben sehen wir schon, daß es sich um sehr verschiedene Arten von Armen handelt, daß das Bedürfnis und die Art der Unterstützung sehr verschieden sein müssen. Und der wichtigste Unterschied, der uns entgegentritt, ist der, daß gewisse Arten von Armen (z.B. die vorübergehend in Not Befindlichen, die Leichtkranken, die Witwen mit ihren Kindern, die noch etwas verdienen) am besten so unterstützt werden, daß man sie in ihrer Familien- und Hauswirtschaft beläßt und diese ihnen nur durch gewisse Gaben erleichtert, daß man aber andere (z.B. die schwer Kranken, die Irren, die Blinden, die ganz alleinstehenden alten Leute) in besondere hierzu eingerichtete Anstalten bringt." Schmoller, *Blueprint*, II, 1923, *op. cit.*, p. 381.
care. Care at home kept the relations to family, employers, church, and other associations intact, and the obligation of those groups to provide for their members. Schmoller thought that the existence of a subsistence economy kept people from easily falling into poverty. Hence, his plea for help with the subsistence economy in case of sickness.

Bringing people into institutions as opposed to supporting them at home requires an administration and appropriate buildings. While it is more expensive than care at home, it breaks up family and other relationships of the institutionalized offering an environment that might be more appropriate for some persons belonging to specific groups. For instance, forced reeducation can only take place in an institutional environment. Schmoller rejected the idea of forced reeducation of the poor, because it hurts individual freedom. He thought that radical socialists, who propagated the idea of forced reeducation, were too optimistic about the success of forced reeducation as a measure of poor relief.\(^{35}\) In his view "the discussion between open and closed care, family and institutional care is ... at the same time a discussion about the large principles of organization of the economy."\(^{36}\) His goal was to provide help which at the same time educated and raised the individual to a higher cultural level while keeping individual freedom intact. (Schmoller, *Blueprint*, II, 1923, *op. cit.*, p. 374).

After listing several arguments against hospitalization, including a bad reputation of institutionalized care due to high costs and abuse, an observation, Schmoller based on the time span between 1500 and 1700, he argued that "only in large institutions it is possible to introduce all kinds of technical advances in treatment of illnesses, but also in heating, lighting, food preparation, as well as in teaching and hygiene..."\(^{37}\) Due to the implementation of such technical inventions properly executed institutional care might be the better alternative, but it is more expensive than open care. Hence, only selected categories of the poor should be admitted to larger, well administered institutions.

Schmoller was aware of the danger of infection and gave childbirth as an example, where hospitalization is not recommended.\(^{38}\) "Hospitalization of all pregnant poor

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38 In the Netherlands, childbirth at home is common. Dutch midwives are responsible for regular check-ups of healthy pregnant women and assist with giving birth at home. For the first week or so, nurses check on mother and baby
women is entirely wrong; it is much better to help them with home nurses in their family
economy; only those women, who face special complications with childbirth, should be
admitted to hospitals.”

Schmoller propagated institutionalization as a measure of poor relief only in specific
cases. He argued that support and care at home are both, less costly and more
efficient; only if that was not possible, or if specific technical procedures were required
hospitalization should take place.

Social Welfare Legislation

In the process of the transition to an industrial society, the wage sometimes fell under
the level of what was needed to live on. This was one reason for the introduction of
basic welfare institutions including compulsory state health insurance.

The newer worker insurance system which first developed in the hands of free
cooperatives, then under compulsory state cooperatives, resulted from the
imperfection of the entire older poor relief system, and from the low wage level;
it presents itself as an improved effort to provide a substitute income for the sick,
invalid, old, or unemployed workers who cannot earn a wage due to an accident
or a natural handicap.

Schmoller was in favor of basic social welfare legislation on a case-by-case basis, but
he was not an advocate of an all encompassing welfare state. (Schmoller, Blueprint, II,
1923, pp. 349, 350). In reviewing the discussion of the right of existence, the right of
labor, and the right to the full value product of labor, Schmoller clarified his own

at home and there is also help in the household. Prenatal mortality in the
Netherlands is lower than in Germany and the United States, where
hospitalization is the rule. Thus, childbirth at home is to be preferred.

The original German quote reads as follows: “Wöchnerinnenasyle für alle
gebärenden armen Frauen sind grundfalsch: viel besser ist, ihnen
Hauspflegerinnen für ihre Familienwirtschaft zu stellen; nur diejenigen armen
Frauen, bei deren Geburten besondere Gefahren bestehen, gehören in Asyle.”
Schmoller, Blueprint, II, 1923, op. cit., p. 386.

Only extreme liberals declared any public help to the poor as wrong. Schmoller,
Blueprint, II, 1923, op. cit., p. 344.

The original German quote reads as follows: “Das neuere
Arbeiterversicherungwesen, das zuerst in den Händen freier, dann in denen
staatlicher Zwangsgenossenschaften entstand, war die Folge der
Unvollkommenheiten des ganzen älteren Armenwesens und der Niedrigkeit der
Löhne; es stellt sich dar als ein verbesserter Versuch, den kranken, invaliden,
alten oder arbeitslosen Arbeitern, die infolge von Unglück und natürlicher
Behinderung keinen Lohn haben, ihn zu ersetzen.” Schmoller, Blueprint, II,
1923, op. cit., p. 344.
position. With respect to the right of existence he wrote:

The essence of the matter is that this so-called right of existence as a general vague idea gets only meaning and justification in the limited efforts to shape concrete help for certain cases, in which the modern money wage system fails.\textsuperscript{42}

Schmoller saw social status as a potential objective of social policy. He did not take the social stratification he found in the rapidly industrializing empire as given. Since the process was in motion, it could also be influenced by such forms of social policy (legislation) which by creating new life chances would have wealth effects for the lower income groups without redistribution. Thus he thought to defuse class struggle postulated and intended by Marx and Engels, with the effective agitator in the person of Ferdinand Lassalle.

As a more narrow right than the right of existence Schmoller described the right of labor. Schmoller rejected a right of labor, because it restricts market forces too much. He noted that Bismarck adopted the right of labor from the General Prussian Common Law. (Schmoller, \textit{Blueprint}, II, 1923, op. cit., p. 344). Between 1881 and 1889 Bismarck introduced a social welfare system and compulsory insurance acts in Germany. Unemployment insurance legislation, however, was not passed until 1927. With social welfare legislation, Bismarck intended "... to reconcile the majority of the workers with the existing order of the state. This will lead to harmony between the interests of the workers and those of the employers."\textsuperscript{43} Bismarck considered it as a duty of the state to provide employment possibilities, if able workers could not find work; he wanted to protect people in case of illness and accidents, and to provide for old age.

Give the workingman work as long as he is healthy," he said, "assure him care when he is sick, insure him maintenance when he is old .... Is it not established in our social relationships that the man who comes before his fellow-citizens and says, 'I am healthy, I desire to work, but can find no work,' is entitled to say also, 'Give me work,' and that the state is bound to give him work?" Germany, and particularly Prussia, now embarked extensively upon a policy of governmental

\textsuperscript{42} The complete quote reads as follows: "Das Wesentliche ist, daß dieses sog. Recht auf Existenz als ein allgemeines vages Ideal nur Sinn und Berechtigung gewinnt in den begrenzten Versuchen einer Ausbildung konkreter Hilfen für bestimmte Fälle, in denen das moderne Geldlohnsystem versagt." Schmoller referred to the right of labor as a more narrow right than the right of existence. He noted that Bismarck adopted it from the General Prussian Common Law. Schmoller, \textit{Blueprint}, II, 1923, \textit{op. cit.}, p. 344.

ownership of industrial enterprises, while for the protection of the workingman against accident, sickness, and old age an extensive series of compulsory insurance acts were adopted (1883-89).  

Bismarck did not expect that the Social Question could be solved within a generation or two. (Van Meerhaeghe. Draft 3-6-02, op. cit., p. 2). With the introduction of social welfare legislation he wanted to gain support for the Conservatives, and weaken the position of the Socialists. It is sometimes suggested that Bismarck bought off the working class by offering the social state. If the bribe was convincing, and the support forthcoming, one should not take issue with distracters who describe the policies as a bribe. The facts speak for themselves with high immigration of workers, high fertility in working class families and dramatically rising income and health levels.

More interesting is the question of who influenced Bismarck to introduce these complex policies. Social historians have not succeeded in showing a direct link between Schmoller's activities, the research work of the German Economic Association (Verein für Socialpolitik), the legislative proposals and the legislation ultimately adopted. But as in the case of the German Civil Code, once a piece of legislation is in place, the implementation is controlled by the commentary literature as von Gierke to this very

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45 The discussion, whether Bismarck's social welfare legislation can be derived from his remarks to stop the socialist movement goes beyond the topic of this chapter. Compare Rolf Rieß, op. cit., p. 149.


47 Social historians have shown indirect links such as Rolf Rieß (1997, op. cit.), who documented the influence of Schmoller and other members of the Historical School on politics by analyzing archival material of a meeting in the Prussian Ministry of Commerce on state security. Another example is the contribution by Eckart Reidegeld, who reported that Schmoller himself stated that reforms towards compulsory social insurance were well underway, before Bismarck put them in practice. "Schöpfermythen des Wilhelminismus: Kaiser und Kanzler an der "Wiege des deutschen Sozialstaates." (Myths of Creation of the German Welfare State). In: Lothar Machtan. 1994. Bismarck's Sozialstaat. Beiträge zur Geschichte der Sozialpolitik und zur sozialpolitischen Geschichtsschreibung. (Bismarck's Social State). Frankfurt, New York: Campus, pp. 261-279, in particular p. 270.

day determines the way the German Civil Code is being applied. It was Schmoller who set out a theoretically coherent framework which could be taught and allowed to understand the complex interdependencies between the different new social institutions.

Schmoller himself thought that the Verein für Sozialpolitik had found the right bridge between socialism and liberalism and through its publications contributed to the solution of the social question. Their historical research showed that the cultural and economic rise of the lower classes was higher under strong monarchies than under weak and oppressing governments. A monarchy with an enlightened civil service should be given the leading role in order to lay the political ground works for building up the necessary social institutions. Schmoller noted that the scientific work of the Verein für Socialpolitik on social and economic matters influenced German policy, in particular Bismarck's proposals, and that it shaped the character of the German state sciences between 1860 and 1914. (Schmoller, Blueprint, II, 1923, op. cit., p. 349).

Insurance and Credit

In the eighth chapter of the Blueprint, Schmoller analyzed the major social institutions, in particular with respect to a reduction of poverty and improvement of the health status of the lower classes. He showed that in the lower classes, illness leading to unemployment is a main reason of poverty. A system of insurance and credit is desired that allows for social upward mobility of workers and that protects them from falling into poverty in the case of illness.

A look at the historical development of welfare legislation shows how Schmoller arrived at his theoretical position. He described that in stages of primitive culture, children born unwanted and old people were killed and the dying sick left behind on the trails. When family-like groups and patriarchal family structures developed, he noted that "help in sickness and need was provided only within the families and small family-like groups and mostly the price was submission to the patriarchal structures." The communities became larger due to an increase in mobility and growth of population, and the smaller units dissolved. With the introduction of money wage, the security provided in an


51 The original German quote reads as follows: "Dabei ist nicht zu vergessen, daß es nur innerhalb der Familien und kleinen Verbände eine Unterstützung in Krankheit und Not gab, und zwar meist um den Preis gänzlicher Unter- oder Einordnung der einzelnen in sie." Schmoller, Blueprint, II, 1923, op. cit., p. 374.
exchange economy cease to exist. The larger political units developing, the states did not have the means to take care of their members, and the phenomenon of poverty of the masses arose. Schmoller saw the explanation for mass poverty in the technical and organizational development of institutions which was lagging behind the other movements.

There have been exceptions of states and larger political units trying to provide help at least to some groups of needy people. Schmoller described several such efforts, among them the welfare scheme of the so-called full citizens of Athens who received benefits; or the early welfare system by the Jews, who engaged in charities. (Schmoller, *Blueprint*, II, 1923, op. cit., p. 375). The Christians took over the Jewish system. Schmoller described the early examples as responsible approaches to poor relief taking place on a case by case basis, but after the Christian religion became the religion of the states, he criticized that "... the way they gave care to the poor was already in the Roman Empire such, that it almost more promoted than alleviated poverty." 52 Bishops and clerics did not require individual proofs of need, but uncritically entered names to clerical lists of the poor. In the process, large foundations, hospitals, and other social institutions were founded to serve their needs. This came to an end during the thirteenth and fourteenth century, when the number of beggars and wandering unemployed increased drastically. When the church refrained from poor relief, public welfare took its place. In the beginning, their efforts were often not better than those of the church, but Schmoller noted that there were some exceptions; for instance the well documented poor relief measures taken by the city of Augsburg between 1459 and 1512. In concluding the historical overview and on the basis of what he saw as an efficient solution, Schmoller formulated his own theoretical position.

Not without mentioning that eventually the market will provide a better solution through development of the insurance system, Schmoller proposed to put welfare legislation in the hands of the local communities, where well-able and prominent civil servants should take care of the poor according to clear principles of administration. 53 Only those public or small public units (communities) should be responsible for social legislation which have also the right to raise taxes as they have the information required to make just decisions. "Only their poor relief distributes the burden evenly and fair among all citizens; especially among those with higher incomes; only this kind of

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53 Schmoller notion of bureaucratic behavior was different from the one we have today. When Schmoller referred to the civil service, he did not think of a bureaucratic organization. An example of the Spanish health care system, which suffers from failure of bureaucracy, is given in the contribution by Benito Arruñada. 1997. "Designing Markets versus Bureaucracy in the Reform of the Spanish National Health System." *Essays on Social Security and Taxation. Gustav von Schmoller and Adolph Wagner Reconsidered*. Backhaus, Jürgen. Editor. Marburg: Metropolis, pp. 429-444.
care reaches all the poor."\textsuperscript{54}

Poor relief should be entrusted to local community governments, because they can better control the poor than state governments. They have the informational basis to judge if help is no longer required and accordingly can cease to provide public support. Schmoller warned that this kind of direct control would get lost if public poor relief would be administered at the national level.

Public poor relief \textit{[at the national level, my add., U. B.]} would be much more of a communist rule than local community poor relief. Every one of the poor would try to get as much as possible from the common pot without giving something in return and the sense of responsibility that the local community organs possess, would get lost.\textsuperscript{55}

Not only national public administration leads to a lack of control and invites exploitation of the poor relief system, but also if there are many different, uncoordinated sources of help. Schmoller referred to the experience of the Netherlands and showed how the system of many different charities kept people into poverty.\textsuperscript{56} Instead of trying to earn a living by working, the poor exploit the different sources of support.

There are complaints from the Netherlands that in every town there are four to six different organizations, foundations, associations, etc. that provide help entirely independent from each other. The larger the means of private persons, associations, foundations are, the worse will be the effects of such splintering.\textsuperscript{57}

Schmoller concluded that only excellent personnel with clear instructions and

\textsuperscript{54} The original German quote reads as follows: "Nur ihre Armenpflege (die bürgerliche Gemeinde) verteilt die Last gleichmäßig und gerecht auf alle Bürger, hauptsächlich auf die mit größerem Einkommen; nur sie erreicht alle Armen." Schmoller, \textit{Blueprint}, II, 1923, \textit{op. cit.}, p. 382. For Schmoller's notion of social justice in relation to the income tax, see Hansen, 1997, \textit{op. cit.}


\textsuperscript{56} The original German quote reads as follows: "Aus den Niederlanden wird geklagt, daß in jeder Stadt 4 - 6 verschiedene Organe, Stiftungen, Vereine usw. bestehen, die ganz unabhängig voneinander vorgehen. Je größer die Mittel der Privaten, Vereine, Stiftungen sind, desto schlimmer wirkt solche Zersplitterung." Schmoller, \textit{Blueprint}, II, 1923, \textit{op. cit.}, p. 388.
hierarchical control will be able to find the appropriate amount of poor relief. On the one hand, not too much help should be provided, because this would be an incentive for begging and it could lead to the formation of a proletarian class. On the other hand, not an insufficient amount should be given, so that people will be able to overcome their problem of poverty.

Ultimately, the poverty administration of the communities should be abolished as it is only a transitory solution. Schmoller favored and expected that (in line with his active political involvement) a market solution would evolve.

The last goal must be to advance the less fortunate classes of society through savings banks, cooperatives, associations for mutual support, and an insurance system that they no longer will need help from the poor relief administration.58

A system of insurance and savings accounts can relieve poverty, and in particular sudden poverty due to illness. “Similar to the poor relief administration we deal with social institutions, but they are better tied to individual and social interests...” than the former.59 Between 1840 and 1900 “the existing mutual support systems of the lower and middle classes providing support in case of illness and death ... developed into a great worker insurance.”60 In contrast, if the insurance was in the hands of large business companies, Schmoller noted that

... only to a modest degree the companies succeeded with the insurance of life annuities; they have been unsuccessful with orphans-, widows- and the sick insurance, although they made many efforts. To find mathematically secure bases and to organize a business which is commercially safe seems to be too difficult in these cases.61

58 The original German quote reads as follows: “Das letzte Ziel muß sein, durch Sparkassen-, Genossenschafts-, Hilfskassen-, Versicherungswesen die gesamten weniger bemittelten Schichten der Gesellschaft so weit zu bringen, daß sie der Armenunterstützung nicht mehr bedürfen.” Schmoller, Blueprint, II, 1923, op. cit., p. 389.

59 The original German quote reads as follows: “Es handelt sich wie beim Armenwesen um soziale Gemeinschaftseinrichtungen, aber mit besserer Verknüpfung der Individual- und Gesamtinteressen,...” Schmoller, Blueprint, II, 1923, op. cit., p. 390.

60 The original German quote reads as follows: “...die bestehenden Kranken- und Sterbegeldkassen der unteren und mittleren Klassen (wuchsen) sich ... zu einer großartigen Arbeiterversicherung aus...” Schmoller, Blueprint, II, 1923, op. cit., p. 392.

Schmoller explained why small local cooperatives providing mutual support perform much better than joint stock companies.

Smaller, more local insurance associations have the advantage that they can work with the most simple and inexpensive organization; they can rely on physicians' knowledge of persons and cases; they are based on the sympathetic feelings of neighbors, friends, professional peers, just like the old guilds. Up to now, the health insurance system has not prospered in any other way; it was always a failure in the hands of joint stock companies organized according to business principles.  

Schmoller observed that traditionally employers also had to play their role in providing social security to their workers. Employers had to share in the health care costs of employees. This developed from a company-based worker insurance, where health insurance costs were part of the production costs. In this respect Schmoller saw Bismarck's legislation more an evolution than a revolution.

... according to an old social principle the employer, landowner, ship-owner, or mine-owner had to share in supporting their people when they were old and sick or in need. Today, in a time of large industries and under current insurance laws, this obligation has turned into contributions of employers to employee insurance funds required by public law, or even in the obligation of employers to carry the costs of particular damages (accidents), which are part of the production costs.

Companies' payments for health insurance mean investment in human capital. Schmoller observed: "...soon grew the insight [on the side of the employers, my add.] that foundation and support of these funds is a means of power, even a good capital
Not only are the employees more healthy, but employers, who make contributions to employees unemployment insurance, can expect more loyalty from their employees.

In paragraph 221 on how the German unemployment insurance originated, Schmoller stated that "millions are insured, who would not be covered without compulsion and if the compulsory funds would not exist." Insurance laws and state control prevent wide-scale fraud and abuse. A widespread form of a different type of abuse is according to Schmoller "... the tendency to get as much out of the funds as possible."

Larger funds can work more efficiently: they are technically better administrated, can afford to pay better qualified board members, are better experts in control of the ill, and their overhead costs are relatively lower: "The smaller the funds, the larger the expenses." While Schmoller observed a trend towards larger health insurance funds, he noted their specific disadvantages, "... the other side is here the more pronounced, that is the difficulty to let the members have not only an interest in the benefits of the insurance fund, but also in the fund itself, its administration and prosperity."

### 8.3 The Translation of Schmoller's Approach into a Research Program

Schmoller, who has so far been discussed as a social scientist, was also an organizer of research in his activity as founder and publisher of what came to be known as his journal (*Schmoller's Jahrbuch*), various book series, and, most importantly, by organizing the *Verein für Socialpolitik*. This was a most unusual experiment in itself,

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64 The original German quote reads as follows: "...bald wuchs auch die Einsicht (bei den Arbeitgebern, my add.), daß die Errichtung und Unterstützung dieser Kassen ein Machtmittel, ja eine gute Kapitalanlage sei." Schmoller, *Blueprint*, II, 1923, op. cit., p. 407.

65 The original German quote reads as follows: "Milli onen sind versichert, die es ohne den Zwang und die Zwangskassen nicht wären." Schmoller, *Blueprint*, II, 1923, op. cit., p. 419.

66 In German, Schmoller referred to this type of abuse as "kleinen Mißbrauch ... die Neigung, möglichst viel aus den Kassen zu ziehen." Schmoller, *Blueprint*, II, 1923, op. cit., p. 419.

67 In the original German, this reads: "Je kleiner die Kassen, desto größer die Ausgaben." Schmoller, *Blueprint*, II, 1923, op. cit., p. 419.

68 In the original German quote this reads: "...die Kehrseite des ganzen Systems tritt bei ihnen noch stärker hervor, nämlich die Schwierigkeit, den Mitgliedern außer dem Interesse an den Benifizien ein Interesse an der Kasse, ihrer Verwaltung, ihrem Gedeihen beizubringen." Schmoller, *Blueprint*, II, 1923, op. cit., p. 419.

69 "On July 13, 1872, a number of leading German academic economists of the day - Adolph Wagner, Wilhelm Roscher, Johannes Conrad, Ernst Engel, Georg Fr. Knapp, Lujo Brentano, and Julius von Eckhardt - met in Schmoller's house in
starting in his own house. Organizing the diverse, stubborn, and often lonely professors of economics into coherent research efforts, in each case devoted to applied questions and moreover in each case to politically acute and practically relevant applied questions was a feat we cannot document in any other Western country at the time. More astonishingly, Schmoller pulled this off for almost fifty years and his successor, Heinrich Herkner, for another decade.

One of the focuses of this research effort into social policy was health economics. Of the 285 volumes published by the Verein für Socialpolitik, the following are devoted to health economics. The list is a selection of the research program of the Verein für Socialpolitik on the basis of the Hohmann catalog. Please note how broad the conception of the subdiscipline is.

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70 In fact, the number is not correct. The first volume is the number zero, some volumes never appeared, and other volumes appeared in more than half a dozen parts. A reliable compilation has been presented by Wilhelm Hohmann to the 15th Heilbronn Symposion on the Social Sciences, The Social Question. June 20 - 23, 2001. Wilhelm Hohmann, Nr. 58, 10/11 2001.

Halle to set up the Kongress für soziale Reform. [fn.] Professor Bruno Hildebrand was elected chairman, but discussions were conducted by Gustav Schmoller. [fn.] The new group decided to meet regularly to discuss the pressing social and economic problems of the day and to propose draft legislation for their amelioration. [fn.] Balabkins, 1988, op. cit., p. 30.
104.2 Shipping (hygiene and nursing of seafaring men) (Markl)
109 Labor market crisis (and its impact on sickness funds)
128 Municipal plants (meat, dairy products, homes for the single, voluntary and (municipal) state institutions of welfare provision
129,6 Gas, water, electricity, tram service and housing (Bucerius)
129,8 *idem*
129,9 Königsberg: "Betriebe zur Pflege der öffentlichen Gesundheit." (Municipal works to provide for public health).
130.2 Works to combat contagious diseases (Michels - Lindner)
133 Worker careers in high industry - the psycho-physics of textile work (Marie Bernays).
135.0 Young working girls in Munich - extensions to leather, stone and wool production.
3, 4 Price formation for cattle and meat on the market in Berlin.
139.1 Increase in the price of necessities (discussing extensive vs. intensive methods of agricultural production).
139.3 Wheat price fluctuations and their causes (Louis Perlman).
139.5 Meat supply of Munich
140.1 Dairy supply of Karlsruhe
140.2 Price formation in dairy products
140.3 Theory: production, retail and price formation in dairy products (Jahn, Hubner, Geiger, Teichvit).
140.4 *idem*
141.1 Argentina (meat production)

Here follows an in-depth analysis of price formation of agrarian products in different industries, countries and continents. There are quite a few theoretical contributions.
Urban price levels for German Cities.

Household budget analysis for workers’ and middle class households. (Nutrition in terms of calories and nutritional indication).

deals with the notion of settling Germans in the tropics (the colonies) with a heavy emphasis on health and health related issues (5 volumes).

Health conditions of German colonists in Brazil (Wagemann)

Inflation and stabilization: impact on social development (from customs to the arts, health effects conspicuously missing!)

Housing issues

It is revealing how the integrated approach to social policy affords health issues a central place which gets lost once the differentiation into economics, business economics, public administration, and the other social sciences gets underway. The table given above lists these health related publications of the German Economic Association (Verein für Socialpolitik) over the period from 1872 until 1935. Health related topics cease to be discussed approximately with Schmoller’s death (1917). It would take more than fifty years before the topic would reemerge in economic publications as a major issue.

8.4 Summary and Conclusions

In this chapter, we focused on Schmoller’s thought relevant to health economics. Schmoller saw illness as the main factor leading to poverty. Coming irregularly and unpredictably, illness would disrupt the family household just like a war would disrupt the household of the state. (Schmoller, Blueprint, II, 1923, op. cit., p. 402). Schmoller saw health issues in the context of the Social Question, which he wanted to relieve. In this chapter, a more narrow view was taken by looking at his economic analysis of issues affecting directly and indirectly the health states of people. From this perspective, Schmoller’s discussion of the evolution of institutions mitigating economic insecurity and poor relief are among the relevant themes. This is the background for his own theoretical position. Schmoller wanted to insure the major risks in workers lives. By establishing state institutions of compulsory social insurance he wanted to create the basis on which further markets for insurance could develop. The purpose of this and other insurance schemes proposed is to prevent unforeseen interruptions of the household economy in order to enhance rational economic calculation.

Schmoller was the editor of the leading economics journal in Germany at the time. As
the name of the Journal indicates, Annals of Legislation, Administration and Political Economy in Germany (Jahrbücher für Gesetzgebung, Verwaltung und Volkswirtschaft im deutschen Reich), it was about social policy reforms in their broader sense. Health issues have also been discussed in the research work of the German Economic Association (Schriften des Vereins für Socialpolitik), which has been set up and coordinated by Schmoller, and finally in the Acta Borussica. Schmoller’s manifold activities and projects are sometimes referred to as Schmoller’s program. By specifically training students for publication of their work and by suggesting topics for research, he inspired others to perform research along the same line. The notion of social justice is what Schmoller shared with the people participating in his program. “At the core of Schmoller’s program stood his sense of social justice. This was the motivation to contribute scientifically, with the help of the "historic-ethical" method, to the solution of the Social Question.”\(^71\) Hansen has shown the influence of this notion of social justice on the reform of the income tax legislation as suggested by Schmoller. In understanding the interdependency of Schmoller’s approach, Hansen interpreted the reform of the income tax legislation as an integral part of social welfare legislation. Both types of legislation are directed towards reaching a higher cultural formation and civic virtues.

Risk limitation of the household is central to Schmoller, who focused on the household as the basic unit in the economy.\(^72\) He observed that the household was threatened in its functioning by major risks. By establishing state institutions of social insurance he wanted to create the basis on which further markets for insurance could develop so that individual households could further decide on risk limitation, for instance by buying additional insurance coverage or by taking out credit. Schmoller only wanted to provide the most basic social welfare institutions, as he was in favor of market-based solutions. His goal was that risk limitation would occur through various forms of insurance and credit possibilities to be offered by the market.

In the context of poor relief, he repeatedly discussed health aspects. In finding the right measures for poor relief, he found it necessary to distinguish between different groups of the poor. Schmoller has observed that any kind of subsistence economy makes it very unlikely that people would fall into poverty through an unforeseen event such as illness. (Schmoller, Blueprint, II, 1923, op. cit., p. 378). Hence, as a measure of relief he proposed a combination of an open and a closed system of state poverty care. Care at home leaves the individual relationships to family and employers, churches, associations, and guilds intact, as well as the obligation to take care of their members. Only the most basic public poor relief was to be provided. If care at a hospital was inevitable, for instance because better medical treatment was required, then one

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71 In the German quote this reads: "Kernpunkt von Schmoller’s Programm war sein Gerechtigkeitssinn, der ihn anspornete, wissenschaftlich, mit Hilfe seiner "historisch-ethischen" Methode zur Lösung der sozialen Frage beizutragen." Horst Betz, 2001, op. cit., p. 39.

72 See Schmoller, Blueprint, II, 1923, op. cit., in particular chapter 7 on work contract and work environment (pp. 294 - 367), and chapter 8 on new social institutions and welfare legislation (pp. 367-481).
should be aware of a patient's individual freedom.

In an historical overview, Schmoller showed that private initiatives of the church, religious orders, and wealthy citizens, individually or participatory in charities, have been one of the ways through which poor relief has been provided. He showed that poor relief can only be provided efficiently if there is a proof of need and if it is given on a case-by-case basis. If there are too many sources of help and private initiative remains uncoordinated, then this gives rise to abuse, even leading to an increase in the number of the poor. Therefore, there must be incentives to leave the poor relief system again. In Schmoller's time, the help provided by private charities, churches, and other initiatives was not sufficient. Therefore, he was in favor of basic social welfare legislation provided by the state. He followed the tradition of Wolff when he advised "... for Germany ... the initiative to social reform should better lie in the hands of a far-sighted monarchy with a healthy, first rate civil service ..." Only first rate bureaucrats could perform a case-by-case proof and set incentives for recipients to leave the social welfare system, if help was no longer needed.

Schmoller has noted that the possibility to receive credit is important in an unforeseen emergency or illness, especially when there is no other safety net. Some modern proposals for a market-oriented health care reform center on the possibility to receive inexpensive credits.

He discussed how such social and economic mechanisms for risk limitation had evolved in the past. Among the evolving institutions were associations for mutual support which offered their members support in exchange for their contributions, but in a time of increasing industrialization, these associations were no longer sufficient. Schmoller was in favor of national compulsory social insurance, but he advised against large joint-stock corporations as providers of health insurance. He rather wanted smaller entities, for instance at the work level, to provide basic health insurance.

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73 In the original German quote this reads: "Daher wird man jedenfalls für Deutschland behaupten können: die Initiative zur sozialen Reform liege besser in den Händen einer weitblickenden Monarchie mit einem gesunden, hochstehenden Beamtenamt." Schmoller, Blueprint, II, 1923, op. cit., p. 367.


75 Individuals are willing to take higher risks, if they are insured for the consequences. This phenomenon, which today is referred to as moral hazard, can be restricted by control of the insured individuals. One way of control is to choose a small-scale insurance in an organization, where the person is known. Schmoller obviously had this in mind when he recommended small-scale insurance organizations. Another way to restrict moral hazard is by setting the appropriate incentives. Insurances experiment with insurance schemes containing own contributions and rewards for leading a healthy life as incentives to contain moral hazard. Willard G. Manning et. al. 1987. "Health Insurance and the Demand for Medical Care: Evidence From a Randomized Experiment."
References


