Caldwell on Hayek on Historicism, Institutionalism and Evolution

Geoffrey M. Hodgson

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The Business School, University of Hertfordshire, De Havilland Campus, Hatfield, Hertfordshire AL10 9AB, UK
g.m.hodgson@herts.ac.uk
In producing *Hayek’s Challenge*, Bruce Caldwell has performed a major service for the social sciences. It is simply the best and most comprehensive account of Hayek’s thought that I have encountered. It can be strongly recommended to any student as the definitive introduction to Hayek’s ideas. One of the great achievements of this work is to give the measure of Hayek’s courage in standing critically against some dominant intellectual currents of the twentieth century, including positivist philosophy, behaviourist psychology and statist socialism. Much of the discussion of these issues in Caldwell’s volume is authoritative and outstanding. Furthermore, he skilfully negotiates several interpretative controversies surrounding Hayek’s work, and typically comes up with persuasive interpretations of his own.

However, without detracting in any way from the details and thrust of this positive verdict, the work has some significant limitations. Most generally, it fails to establish sufficient critical engagement with it subject. Among intellectual biographies, it is much lest critical than the average. Several flaws, gaps and limitations in Hayek’s thought are exposed, but on the whole this is a defensive text by an infatuated admirer. Caldwell himself admits that writing his assessment chapter near the end was ‘the scariest part of the book’ about which he was ‘less certain’ (p. 13). My regret is that Caldwell did not venture much further into critical territory. Nevertheless, critics of Hayek’s approach now have an essential and major foundation in Caldwell’s work, upon which to build their criticism.

I shall illustrate my concerns about Caldwell’s text by taking up merely two of several possible themes, namely (a) the German historical school and American institutionalism, and (b) evolutionary theory. As Caldwell rightly testifies, these two bodies of ideas played a major role in Hayek’s intellectual development. As I shall show, they both raise questions concerning the nature, scope and boundaries of economics as a discipline. In regard to both these themes I shall argue that Caldwell provides us with a limited and partially distorted account of these sets of ideas, and one that is closer to the limited and distorted versions of Hayek himself. In his attention to source material and interpretative accuracy, Hayek sometimes lapsed, as I have demonstrated elsewhere (Hodgson, 1993). Caldwell is generally more diligent in this regard, so it is with some disappointment that I note that in these two cases he has not improved significantly on Hayek’s versions.

In one interesting passage Caldwell (p. 258) informs us that Hayek once related how he planned to write a chapter on Hegel and Marx in a ‘large work on the abuse and decline of reason’ but he gave it up because he ‘couldn’t stand then once more to diving into that dreadful stuff’. But a sufficiently diligent scholar cannot give up such a vital textual immersion, especially as, for Hayek, his critique of Marxism and socialism was central.
Emotional aversion to important ideas is no excuse for avoiding them. Similarly, I suggest, Hayek generally dismissed ‘historismus’ with disdain. He showed no evidence of anything other than a superficial knowledge of the German historical school and American institutionalism, and averred from further enquiry into such additional ‘dreadful stuff’. Unfortunately, as I shall argue, Caldwell does little to correct these errors of omission.

The German Historical School and American Institutionalism

Caldwell usefully writes much on the intellectual background of Hayek’s thought, including in the developing Austrian reaction to the German historical school. In principle, such extensive scene-setting is highly commendable. Indeed, the birth and full appearance of Hayek does not occur until page 133, almost one-third of the way through Caldwell’s main text. This reminds me of The Life and Opinions of Tristram Shandy – Laurence Sterne’s classic eighteenth-century, nine-volume comic novel, of several hundred pages of proto-pythonesque humour – where we have to wait until well into the third volume to be told that ‘Tristram is born’.

Caldwell’s discussion of the German historical is relatively extensive, at least for a publication in the English language. There is a great deal of valuable colouring and detail. Given the general neglect of the German historical school in the Anglophone literature, scholars may be drawn to Caldwell’s account. My concern is that it will be regarded as balanced and authoritative, for in these characteristics it serves us less well. Caldwell occasionally notes that the German historicists1 were not as stupid as they are often caricatured today, but ultimately he relapses into the standard, dismissive evaluations, and repeats these occasionally in the remainder of the book.

Hayek (1952, p. 65) himself dismissed the German historical school for its alleged ‘anti-theoretical bias’. Similarly, we are told repeatedly by Caldwell (p. 92) that ‘the historical school had based its methodological approach on the flawed premise’ of ‘presuppositionless observation’, that they made the ‘far reaching and damaging claim that theoretical analysis itself should be abandoned’ (p. 198), that they ‘failed to see that all observation is theory laden’ (p. 254) and that ‘we today know that the German historical school was on its last legs in the 1920s’ (p. 119). However, none of these statements is valid as an adequate or balanced description of the German historical school as a whole.

The main problem here is that Caldwell makes no adequate distinction between the older and the younger historical school. The older school started with Wilhelm Roscher in the 1840s and lasted until the beginnings of the Methodenstreit in the 1880s. Several of the older historicists adopted a crude empiricism, and did not understand the centrality and priority of theory. In this respect several of the criticisms of Carl Menger (1883) hit their target (Hodgson, 2001a). But such evaluations do not apply so consistently to the younger historical school. Largely in reaction to the Methodenstreit, things began to change within historicism. Even Gustav Schmoller modified his views and emphasized that theory and facts were both indispensable, a position that was adopted and quoted approvingly by Alfred Marshall ([1890] 1949, p. 24) in his Principles and elsewhere. Admittedly, however, Schmoller did not go far enough in his recognition of the role of theory. But the next generation of German historicists, who emerged in the first three decades of the twentieth century, began to rectify this error.

1 Following some others, I use the term ‘historicism’ to denote the ideas of the historical school. This is in contrast to the meaning of that term deployed by Popper (1960).
Among the younger historicists was Max Weber. Caldwell rightly acknowledges his place and importance, and devotes some time to the discussion of his views. Caldwell also notes that Weber was regarded, and saw himself, as a member of the German historical school. So far so good. But in Caldwell’s account Weber stands out alone, and is depicted ultimately as a lone critic of the flagging historical school, which allegedly (and perhaps as a result of this criticism) was on its ‘last legs’ by the 1920s. Weber is thus depicted as a lone exception, who was not really part of the (younger) historical school proper. This separation implied, Weber could then be accorded some influence on Hayek. Hence Caldwell (p. 254) notes that Hayek’s criticism of the historicist failure ‘to see that all observation is theory laden’ is ‘taken from Weber’.

Caldwell’s first error here is one of omission. Among the younger German historical school, Weber was not alone in his view of the centrality of theory. Among his generation, he collaborated closely with another leading member of this school, Werner Sombart. Although they had fierce disputes, Weber himself frankly admitted how much he was indebted to ‘Sombart’s great works with their sharp definitions’.2 Weber, Sombart and several others faced the task of developing a methodology that retained some of the crucial historical school insights, while upholding the priority and enduring centrality of theory. Weber was thus not alone. Leading younger historicists such as Sombart were also responding to the challenge of the Methodenstreit.

There is no mention of Werner Sombart in Caldwell’s book, yet Sombart was one of the three most important members of the entire German historical school (alongside Schmoller and Wilhelm Roscher). Due to the efforts of Sombart and others, this post-Methodenstreit methodological project continued into the 1920s and even the 1930s. Contrary to Caldwell’s summary descriptions of the historical school quoted above, Sombart (1929, p. 3) wrote that ‘theory is the pre-requisite of any scientific writing of history.’

Furthermore, and emphatically, the German historical school was not on its ‘last legs’ in the 1920s. Accordingly, the second error here is one of historical distortion. Just as Hayek largely ignored the developments in the historical school after Weber’s untimely death in 1920, Caldwell ignores them entirely and gives an extremely partial and lop-sided account of historicism.

Other major younger figures are omitted from Caldwell’s account. For example, Edgar Salin of the University of Heidelberg attempted to develop Sombart’s theoretical scheme. Salin (1927, 1929) criticised Schmoller for failing to see the limits of inductive reasoning. Salin was a student of Weber, but he saw a danger in the Weberian approach. For him, Weber’s approach was too subjectivist and instrumentalist. If ideal types were made mere instruments of cognition, then any concern for the question of truth might be abandoned. Salin himself attempted to develop a concept of ‘concrete theory’ that stimulated important debates, involving Sombart and Joseph Schumpeter, among others. Salin was of Jewish descent. He left Germany to take up a professorship in Basle in Switzerland in 1927. This was a foretaste of the catastrophic disruption of fascism and war, which the true cause of the destruction of much of the German historical school, tragically at the point where it was engaging more deeply with the crucial theoretical and methodological issues. Nevertheless, Salin survived the holocaust, and his legacy endures in Kyklos, a journal that he helped to found.

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2 Quoted in Brocke (1996, p. 50). Brocke alleged that Weber’s General Economic History ‘is in large parts a compendium of Sombart’s thoughts’ (ibid.).
Within Germany, Salin’s work triggered an important response from Arthur Spiethoff at the University of Bonn. Spiethoff had been one of Schmoller’s favourite students. Schumpeter was a colleague of Spiethoff at Bonn from 1925 to 1932. They worked together on business cycle theory and Schumpeter drew much stimulation from Spiethoff’s ideas (Ebner, 2000; Schumpeter, 1954, p. 816).

Even in the Nazi period, other important contributions appeared. For instance, Erich Rothacker taught at the University of Bonn and made a significant philosophical contribution to the historical school approach (Koslowski, 1997). It was not the Methodenstreit but the combined effects of Nazism and war that destroyed much of the heritage of the historical school. Yet embers of German historicism lingered even after the Second World War. Historicist ideas were an important influence on Walter Eucken and Wilhelm Röpke who helped to develop the concept of the ‘social market economy’ that emerged in the economic policies of postwar Germany (Tribe, 1995; Nicholls, 1994; Schefold, 1995). None of this is mentioned by Caldwell. For him the historical school seems to die at a point around 1930, at about the same time as when Hayek left the Continent and turned his back on this surviving German tradition.

Similar, Hayek-inspired omissions emerge in Caldwell’s encounter with the American institutionalists. Caldwell notes that Hayek visited the USA in 1923-24 and attended Wesley Mitchell’s lectures in Columbia. Hayek complained that the institutionalist Mitchell was too close to behaviourism (pp. 153-4). Throughout his volume, Caldwell repeatedly compares the two economists, emphasising that Hayek – unlike Mitchell – explicitly rejected both behaviourism and positivism. Again Caldwell’s error is one of omission. He ignores the development of Mitchell’s own ideas, the development of American institutionalism as a whole, and the variety views within institutionalism as a broad movement.

It is true that Mitchell had moved towards behaviourist psychology by 1923. But earlier Mitchell (1910, 1914) was much closer to the instinct-habit psychology of William James, which had been consistently promoted by Thorstein Veblen, Mitchell’s teacher. Elsewhere I have shown that Veblen rejected both behaviourism and positivism (Hodgson, 2004a). For example, unlike most positivists, Veblen (1919, pp. 15, 34, 149, 162) repeatedly upheld that some ‘metaphysical presuppositions’ were necessary and unavoidable for science. Furthermore, following John Dewey (1896), Veblen (1919, p. 155) acknowledged that a grave limitation of the concept of ‘response to stimulus’ was that the organism ‘decides what will serve as a stimulus, as well as what the manner and direction of the response will be’. Veblen’s prescient argument here went against the propositions of (the later) behaviourist psychology. Accordingly, Caldwell’s one-sided account of American institutionalism ignores the contrasting case of Veblen himself and the immense influence that he had over institutionalism as a whole.

It is true that by the 1920s most leading institutionalists, with the exception of Veblen (who died in 1929) had adopted both behaviourism and positivism. But there were exceptions. Among these was Frank Knight, who repeatedly claimed to be an institutionalist (Hodgson, 2004a) but argued strongly against behaviourism in particular. James Buchanan (1968, p. 426) rightly referred to him as a ‘maverick institutionalist’. Knight was far from the institutionalist mainstream, but his declared and implicit affinities with institutionalism have been neglected.

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3 Caldwell adopts Yiuchi Shionoya’s (1997) instrumentalist interpretation of Schumpeter’s methodology. Shionoya’s controversial interpretation is challenged in Graça Moura (2002).
by institutionalists and Austrians alike. Regrettably, we get a glimpse of none of these nuances in Caldwell’s volume. Existing mistakes and prejudices concerning historicism and institutionalism are reinforced, and both are dismissed.

**Evolutionism and Darwinism**

Caldwell and I have had a dispute concerning Hayek’s adoption of evolutionary ideas (Caldwell, 2001, in press; Hodgson, 1993, 2004b). I do not intend to go through the details of this dispute here, other than to reiterate the point that Hayek did not do enough to recognize the distinctive contribution of Charles Darwin to evolutionary theory, and instead gave relatively excessive emphasis to a supposed continuity of ‘evolutionary’ thinkers going back to Mandeville and the Scottish School in the eighteenth century. Accordingly, for Hayek, Darwin was merely a step along this road, rather than the first systematic presenter of a fully-fledged evolutionary theory, of wide applicability including in the social domain.

Here again, Caldwell replicates Hayek’s error. Furthermore, Caldwell’s discussion of evolutionary theory – including in the very Hayekian context of group selection – is rather limited. This flaw is serious, because Hayek’s development of evolutionary ideas from 1960 on was a crucial phase in his thinking. As Caldwell (p. 306) himself puts it, Hayek’s adoption of ‘the evolutionary conception’ was ‘a crucial breakthrough’. It does indeed mark a major stage in the development of Hayek’s thought.

But even in the last quote from Caldwell there is a clue to his misunderstanding. In fact there is no such thing as ‘the evolutionary conception’ (emphasis added). Instead, there are many contrasting evolutionary conceptions, from Ibn Khaldun, through Bernard Mandeville, Giambattista Vico, David Hume, Adam Smith, Jean-Baptiste de Lamarck to Herbert Spencer and many others in the nineteenth and twentieth centuries. These ‘evolutionary’ ideas differ from each other in fundamental respects. Evolution is a very broad word, denoting change. Albrecht von Haller first applied it systematically to natural phenomena in 1744. It is a word of wide and loose meaning that long pre-dates the work of Darwin (Bowler, 1975).

Hayek underestimated the differences between earlier evolutionists – such as Smith – and Darwin. When he touches on the issue, Caldwell (p. 296) fails to acknowledge that Hayek was wrong in assuming that early evolutionary ideas, such as those of the Scottish School, amounted to a Darwinism ‘prior to Darwin’ or ‘Darwinians before Darwin’ (Hayek, 1973, p. 23; 1978, p. 265). But in regard to the alleged forerunners of Darwin’s theory, Ernst Mayr (1985, p. 769) argues that ‘virtually all of these so-called prior cases of natural selection turn out to be a rather different phenomenon, which is only superficially similar to selection.’ Part of Darwin’s distinct contribution was to recognize the centrality of the principle of selection in the evolution of complex phenomena.

Hence evolution is a much broader term than Darwinism, and the two cannot be conflated. To do so is to underestimate the distinctive contribution of Darwin. When Caldwell (p. 306) writes that Hayek adopted ‘the more scientific language of the evolution of various types of complex spontaneous orders’ he does not seem aware that the word ‘evolution’ does not amount to anything sufficiently precise in scientific terms.

This relatively superficial treatment of evolutionary theory is reflected in a number of subsidiary issues. First Caldwell (p. 354) writes that ‘cultural evolution evidently differs in certain key respects from Darwinian evolution.’ Caldwell is clearly right on this point; of course there are differences in detail between biological and social evolution. But he seems unaware of the longstanding recognition that the core Darwinian principles of variation,
inheritance and selection might apply to a broad range of complex evolving systems, including human society. Darwin himself hinted at this idea. Important contributors to this tradition include Walter Bagehot, William James, Thorstein Veblen, and Donald Campbell (Hodgson, 2004a). Accordingly, and contrary to Caldwell, the distinctive features of cultural evolution do not in any way exclude Darwinism.

Did Hayek himself uphold that Darwinism was of such broad applicability? To qualify, acceptance of at least two crucial propositions is involved. First is the recognition of general principles that are applicable to both biological and cultural evolution. Second is the recognition that these general principles were first fully elaborated by Darwin.

With regard to the first point, Hayek seems to recognize some such general principles, but neither elaborates them fully nor clearly associates them principally with Darwin. In one passage, for example, Hayek (1973, p. 23) discusses both ‘the selection of individuals’ and the selection ‘of institutions and practices’ thus implicitly invoking the Darwinian principle of selection in both the biological and the social domain. But he always seems reluctant to describe selection as specifically Darwinian. Hayek considers both biological and cultural evolution, rightly acknowledges the ‘important differences’ between them, and writes vaguely that ‘the basic conception of evolution is still the same in both fields.’ Accordingly, he recognizes some such general evolutionary principles, but neither elaborates them fully nor associates them uniquely with Darwinism. Instead he uses broader, more opaque and inadequate phrases such as ‘the basic conception of evolution’, without making it sufficiently clear what it means. Accordingly, with regard to the second point, Hayek is also found wanting.

In sum, Hayek (1973, p. 23) makes a great deal of ‘the twin conceptions of evolution and the spontaneous formation of an order’ but is unclear what conception of ‘evolution’ is involved here and compounds the error by suggesting that Darwin had ‘largely learned’ his ideas from the social sciences. Hayek (ibid.) wrote: ‘A nineteenth-century social theorist who needed Darwin to teach him the idea of evolution was not worth his salt.’ Accordingly, for Hayek, the contribution of Darwin was diminished by the suggestion that his main ideas were prefigured before.

As Caldwell notes, Hayek argued that cultural evolution ‘simulates Lamarckism’. The Lamarckian-style inheritance of acquired characters in the social domain has long been recognized by commentators as a real possibility, although technically it is more problematic than it appears at first sight (Hull, 1982). In any case, if the inheritance of acquired characters does occur (in any context), then it does not mean that Darwinism is invalid. On the contrary, Lamarckism and Darwinism are not rivals; the former (if valid in a specific context) requires the latter (Hodgson, 2001b; Knudsen, 2001). As Richard Dawkins (1986, p. 300) explains: ‘Lamarckian theory can explain adaptive improvement in evolution only by, as it were, riding on the back of the Darwinian theory.’ Once again, both Hayek and Caldwell are vague and inadequate on this point.

A similar lacuna emerges in Caldwell’s discussion of group selection and Hayek’s incorporation of it in his theory of cultural evolution. Caldwell seems unaware that the possibility of group selection, under specific conditions, is now well established, even in biology (Sober and Wilson, 1998). The case for group selection in cultural evolution (again under specific conditions) is even stronger (Boyd and Richerson, 1985; Bergstrom, 2002; Henrich, 2004). Ironically, on this point Hayek is vindicated even more strongly than Caldwell and several other Austrian school followers yet admit (Hodgson, 1991).
Concluding Remarks

In my review I have concentrated on two areas where Caldwell’s account is one-sided, but I do not wish to detract from the positive achievements of the work as a whole. Caldwell’s scholarship is generally of a very high standard, but there are limitations, as suggested above.4

The problems I have raised in Caldwell’s account impact on some of the central themes of Austrian theorizing. For instance, Hayek and Caldwell raise objections to the aim of Marxists and some German historicists to discover laws of economic development. But what is less well discussed by them both is the widespread historicist objection to the idea of fixed laws of human behaviour. For instance, the German historicist Karl Knies (1853) argued that the existence of ‘free will’ ruled out the possibility of such fixed laws. I find it strange that Austrian school theorists, from Menger to Caldwell, are keen to deny system-wide laws of economic development, but tenaciously uphold the ‘law of demand’ or ‘demand curves slope downward’ as a universal and indispensable proposition of ‘basic economic reasoning’ (p. 382). Yet individuals are themselves complex systems, and the assumption of individual demand curves faces issues of complexity comparable to those associated with socio-economic systems as a whole. The subjectivist defence of the individualist over the systemic starting point itself comes up against the problem – advanced by Hayek himself – that the human mind cannot fully know or describe itself.5

Furthermore, the themes of historicism, institutionalism and evolutionism that I have raised in this review are all related to the following theoretical question. That is whether individual purposes and preferences should be taken as given for the purposes of economic analysis. While believing that preferences were in fact socially formed, Hayek (1948, p. 67) excluded any such investigation of their formation from social science, writing: ‘If conscious action can be “explained,” this is a task for psychology but not for economics ... or any other social science.’ In contrast, other leading economists, from Marx to Marshall, have differed on this point. They upheld that the consideration of preference changes was a legitimate part of economics as a discipline. Indeed, discussion of preference formation within the domain of economics was an ubiquitous theme within German historicism and American institutionalism. Part of their reason for this emphasis and inclusion was to develop a fully-fledged theory of economic evolution, where not only economic institutions and technologies evolved, but also human preferences and purposes.

Gradually, as he adopted evolutionary ideas, Hayek less in accord with his earlier statement that the investigation of preferences or purposes was beyond social science. But even in his most developed ‘evolutionary’ writings of the 1970s and 1980s, he failed neither to give it

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4 A personal exception is where Caldwell (p. 418) says that I have ‘written that Hayek endorsed the neoclassical version of methodological individualism’. He cites no source, and in fact I never wrote such a thing. I have long accepted, like Caldwell, that Hayek was not a methodological individualist in a narrow sense of that term. Caldwell (in press) acknowledges my stance on this point, but not in the book under review. But nowhere have I referred to or described a ‘neoclassical version of methodological individualism’. My latest views on methodological individualism, and Hayek’s relation to it, are in Hodgson (2004a).

5 Personally, I have relatively little confidence in the possibility of universal laws in both systemic and individual cases, save for a few guiding meta-theoretic principles (Hodgson, 2001a). Furthermore, social reality can be reduced exclusively to neither individualist nor system-wide terms (Hodgson, 2004a).
sufficient emphasis, nor to acknowledge that he had undermined his 1940s statements on the outer boundaries of the social sciences.6

Like Hayek circa 1948, Caldwell conceives of economics more narrowly, in the Austrian tradition from Menger on. After all, it is even more difficult to derive a downward sloping demand curve – so central to Caldwell’s ‘basic economic reasoning’ – in a model with changing preference functions. Whilst some process of abstraction and simplification is always necessary, the issue of dispute here is the legitimacy of any investigation into the causes of preferences or purposes within economic science. Caldwell (pp. 282-3) dismisses the idea of investigating the causes of preference formation and change with the aid of an anecdote about a seminar in which a paper presenting such possible causes was found by the audience to be tedious and uninteresting. This anecdote hardly clinches the issue. The derivation of system regularities from an aggregate of dissimilar individuals remains an unresolved problem in economic theory (Gallegati and Kirman, 1999; Kirman and Gérard-Varet, 1999). I have suggested elsewhere that American institutionalists such as Mitchell prefigured a promising approach to this problem by emphasising formative interactions between individuals as well as between individuals and institutions (Hodgson, 2004a, chs. 14, 19). Accordingly, in complex systems, at least in some cases, the assumption of endogenous preference formation may things easier rather than more complicated (Hodgson and Knudsen, 2004).

There are other disappointing aspects of Caldwell’s book, on which I do not have space to elaborate here. For instance, Hayek made a convincing case against systems of socialism with comprehensive central planning (including the pseudo-market socialism of Oskar Lange and others) but he did relatively little to explore the viability of the ‘middle ground’ of a mixed economy. The fact that all successful capitalist economies – including the United States – involve significant elements of welfare and state economic intervention has not been given enough credit by economists of the Austrian School. Furthermore, although he made an enormous contribution in his recognition of the role of knowledge in the economy, Hayek (1948, p. 18) did not realise that with ‘ownership’ of knowledge and information it is often less easy ‘to distinguish between mine and thine’ than it is with physical property. This opens up the need for economic mechanisms that can increase the generation, preservation and diffusion of knowledge without exclusive reliance on individual property rights or even standard models of the employment contract (Zuboff, 1988; Nonaka and Takeuchi, 1995; Hodgson, 1999). In his evaluative section on Hayek, Caldwell had the opportunity of exploring these equally central and vital issues. But it was yet another road not taken.

Despite all these reservations, this is an important and valuable book, on one of the most innovative and significant economists of the twentieth century. Caldwell should be credited for his achievement. I hope and expect that the book will be widely read.

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6 In his dispute with me on this point, Caldwell (in press) overlooks the fact that what is essentially at stake here is the boundaries of economics or even (for Hayek, 1948) the social sciences as a whole. I fully admit that Hayek, from the beginning, embraced the possibility of dynamic, endogenous changes in preferences or purposes. My criticism is that he failed to fully acknowledge that any investigation in the causes of preference change was a legitimate task for economists. At the end of the book Caldwell makes a worthy plea for the restoration of the history of economic ideas in the curriculum. He should know, therefore, that much of this history concerns disputes over the boundaries of the subject itself, with the post-1945 victory of those (seemingly like Caldwell) who wished to narrow its scope.
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