

# The Role of History in Wicksell's Methodology<sup>1</sup>.

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## **Abstract:**

This paper takes advantage of the episode of the *Methodenstreit* of the late nineteenth century to deal with methodological issues raised by Knut Wicksell. It describes the critical position that Wicksell took against both sides of that famous controversy, the German Historical School, represented by Schmoller, and the Austrian School, represented by Menger. Apart from these criticisms, however, Wicksell refused to discuss methodological issues explicitly, even though he advanced important methodological insights *en passant*. Based on Wicksell's position on the *Methodenstreit*, this paper attempts to give a clear statement on Wicksell's views on the relations between Economics and other disciplines and, in particular, on the role of history in economic theory. The article analyses Wicksell's monetary theory with a special focus set on its core concept, the so-called cumulative process. It explores the extent to which history is, in Wicksell's view, an ingredient in the development of dynamic economic analysis.

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We have to admit that the lifetime of every science has been crossed by famous controversial debates. Even if all those quarrels have marked their time, some may have had more importance than others. These conflicts have forced the discipline to stand back from itself and to think about its path in an introspective way. Among all sciences, Economics does not make an exception to that rule. Between all major conflicts, the methodological debate of the late nineteenth century, known under the German name *Methodenstreit*, stands a specific role in economics notably if we just consider its lasting time. This dispute between the proponents of the Historical School, led by Schmoller, and the members of the Austrian tradition, particularly its founder and chief spokesman Menger, focuses on the question of the methods we have to apply in Economics. As it has been summed up by Bostaph: “the Historical School accused the classical school of economics and then Austrians of producing “unrealistic dogma” and “fantasies” divorced from empirical reality. In return, Carl Menger criticized the historicists for their incapacity to transcend that same empirical reality” (1973, p3). Beyond to the main theme of this struggle, the *Methodenstreit* is a single case because it still keeps on interesting economists and providing articles since a century and even recently (Hodgson, 2001; Nadeau, 2003; Bellet and Zouache, 2003; Shionoya, 2005). While the content and the context of the dispute are well-known<sup>3</sup>, there are topics and dimensions which are left to be done. This is the case concerning the point of view of Knut Wicksell. In fact, this Swedish economist has been influenced by the intellectual German context, and then, by the conflict of methods between Menger and Schmoller. As noticed by Uhr (1962, p 30), the preference of Wicksell for “aprioristic reasoning must then be understood as a reaction both to the antitheoretical nature of German historicism, and to the methods of dialectical materialism employed by socialists theoreticians”. Nevertheless, the Wicksellian methodological position remains unclear or unknown even if there are few works available on that subject (Uhr, 1962; Hughes, 1968; Henriksson, 1991). We may say that Wicksell is partly responsible. In fact, by refusing to cope with such methodological dilemma, he had sometimes been quickly misinterpreted or forgotten in those debate. Is this enough to get rid of this topic ? By way of this article, we will answer by the negative to the latter question. It seems that the Wicksellian methodological framework is worth being studied by answering to actual debate in which the borders of economics are sometimes questioned with the increasing tendency of the formalization. In other respects, the Wicksellian methodology is useful for thinking about the link between Economics and other disciplines such as History, Mathematics or Statistics. It is true that most of Wicksellian works say

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<sup>3</sup> For a general presentation of the *Methodenstreit* : see S. Bostaph (1973).

little things in terms of methods or epistemological issues. However, Wicksell has been pushed, in reaction to the Historical School propositions, to discuss methodological insights explicitly by presenting, in an inaugural lecture at the University of Lund in 1904, his own statement about that subject. This lecture, translated into English under the title *Ends and Means in Economics*, partly argues about the theme of the scientific method in Political Economy. As far as I know there is no other reference available on that topic. For that reason, the 1904 lecture will be a cornerstone and a guideline for this whole paper on the Wicksellian methodology.

The aim of this article is to take advantage of the Methodenstreit to deal with methodological issues raised by Wicksell. Beyond the critical position that he took against both sides of that famous controversy, this paper mainly focuses on the relationships between Economics and other disciplines such as particularly History and, in a less degree, Mathematics. We will show that, according to Wicksell, History has a proper role to play in the scientific method applied in Economics. The originality of this paper is to illustrate its methodology by using its core monetary concept, the so-called *cumulative process*. It explores the extent to which History is an ingredient in the development of dynamic economic analysis.

First and foremost section 1 presents the critical point of view of Wicksell related to both protagonists of the Methodenstreit, respectively Schmoller and Menger. Section 2 offers a presentation of the methodology set up by Wicksell, particularly by clarifying the place and status held by abstraction, guessworking process and verification in such a framework ; and by analysing the specific link of Economics in respect of other disciplines. Next, we shall see, in a last section, how History can be considered as both the backward and forward stages of the Wicksellian methodology. According to that, we will present the well-known cumulative process as a perfect product of an inductive process of the industrial revolution context and as a *mere theoretical hypothesis* which is still to be proved. In the end, we will conclude with a brief evaluation of the Wicksellian methodology and its lessons to the Political Economy.

## I. The Wicksellian point of view on both sides of the Methodenstreit

As we have already noticed, in the introduction, Wicksell pronounced an inaugural lecture on September 1904 at the University of Lund in Sweden where he had been preferred to Cassel for the chair in Economics<sup>4</sup>. In front of the audience, composed by gifted Scientifics from all disciplines, he was worried by one problem in economics: the lack of consensus and of generally approved results<sup>5</sup>. We have to remember briefly that this kind of preoccupation concerning the *scientificity* of the discipline and its epistemological issues is not something new. On the contrary, this theme is typical of the nineteenth century in which Political Economy had been attacked on its scientific degree. Given that, there was a wide basic debate between economists on the main purposes of Economics and its link to the practical scope during this whole period.

Addressing the question of why “it is only in the field of Economics that the state of war seems to persist and remain permanent ?” (Wicksell, 1904, p52), Wicksell suggested in his inaugural lecture that one reason, beyond to the innate difficulty of economic problem and the divergences of opinions about the *ends* of the discipline, could be found in the use of an improper method. It was in that context that Wicksell took up explicitly the German Historical School. However he refused to deal with methodological issues, he had been pushed to react to the purposes raised by historicists<sup>6</sup>. Without rejecting the *valuable research* done by this school, Wicksell criticized their *onesidedness* and its consequences for economics (1.1). With regard to the Austrian School, nothing was said by Wicksell in its inaugural lecture in relation to the Methodenstreit. Moreover, there is no explicit article about that proper subject. The only two articles which are indirectly dealing with the conflict of method are those which concerned exclusively Menger. In both, the Wicksellian position was negative in the extent that the Methodenstreit was seen as a prejudicial loose of time and energy for Menger (1.2).

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<sup>4</sup> For a description of the fascinating life history of Wicksell : see T. Gårdlund (1958).

<sup>5</sup> The exact words are as follow : “No generally recognized results is to be found, as it is also the case with theology and for roughly the same reasons; there is no single doctrine taken to be a scientific truth without the diametrically opposed view being similarly upheld by authors of high repute.” (Wicksell, 1969 (1904), p 51) [...] “I would be quite nonpulsed if I were asked to cite any economic proposition other than of merely significance, which might be adduced as a scientific result recognized by everyone” (Wicksell, 1969 (1904), p53)

<sup>6</sup> See Nadeau (2003, p 10, footnotes 14 ) for the distinction between *historism* and *historicism*.

## 1.1 The one-sidedness of the German Historical School's behaviour.

By questioning the lack of a fully convincing theories in Economics, Wicksell underlines the problem of the scientific method in Economics. The prevailing one, in that period, was the Ricardian methodology, i.e the *hypothetico-deductive method*, which consisted on reasoning from abstract hypotheses in order to explain reality and experience. According to the Historical School, leaded by Schmoller, this way of reasoning is over and worthless<sup>7</sup> in that sense that it is impossible to explain experience and empirical phenomenon from purely abstracts hypothesis. The only results reached by this way of proceeding will only be *an escape from reality*. It will be useless for practical applications as far as economics is to be concerned by practical problems. Instead of that, Schmoller proposes to substitute the classical deductive method by a more *historical*, or empirical, one based on the gathering of “new and wider selection of facts“ (Wicksell, 1969 (1904), p56). By doing so, Schmoller aims to “build up a theoretical system which is richer and more substantial and, through increased experience, more adequate” (Wicksell, 1969 (1904), p56). We must be careful in this short presentation of the Historical School and not reduce it as a purely inductive and *a-theoretical* school as it sometimes is. Theory matters to Schmoller. However, economist has first to collect a huge amount of facts on national economies and its institutions before setting up general propositions. Wicksell escapes to this trap by presenting the Historical School in a non-polemical kind of way. In fact, according to his own terms that school has accomplished “positive good” (Wicksell, 1969 (1904), p56) even if he does not get the point of Schmoller about methodological issues. Thus, it is not a surprise if Wicksell starts dealing with the Historical School by presenting the progress and the advanced brought by Schmoller and his colleagues:

“The positive good accomplished by the school has never been denied by its opponents, on the contrary, it has been readily acknowledged, more so even than present-day historians of the subject seem prepared to admit [...] It is beyond doubt that those members of the school more eminently gifted for historical and statistical investigations -and they are not necessarily its most eminent members- have carried out work of permanent, not to say inestimable, value for science of economics.” (Wicksell, 1969 (1904), p56.)

Wicksell has always been faithful with his point of view<sup>8</sup>, however, this rightful acknowledgment to the Historical School does not prevent him from criticizing it hardly. We have to mention that

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<sup>7</sup> Wicksell (1969 (1904), p 56) sums up the Schmoller's vision on the classical method by the following sentence: “no useful purpose is served by sifting and resifting the thin substratum of abstraction which has already been sifted ten times by Ricardo and his successors”.

<sup>8</sup> It is in this same terms that Wicksell has presented the historical school in its *Lectures* (Preface, 1901, p 11): “It (the Historical School) has enriched political economy by much extremely valuable research, which will always retain its place among the treasures of the science.” It is also the case in the author's preface in the

Wicksell has not waited until 1904 to disapprove the Historical School's methodological propositions. Yet, in 1893, he already reproached it to consider political economy only as a *historical subject* (Wicksell, 1954 (1893), p 30). When Wicksell criticizes the Historical School, he does not put all the members in the same scale. His attack is explicitly targeted to what Schumpeter (1983, p87-88) called *the young Historical School* (so to say Schmoller, Held and Brentano) :

“The one-sidedness which we have mentioned is more the fault of their followers (those after Hildebrand, Roscher and Knies), who, becoming ever more deeply engaged in historical research in special fields, wanted in the end to condemn almost all theory.” (Wicksell, preface 1954 (1893), p 30).

Despite his friendship with Schmoller, Wicksell questions the *conceited* attitude of the school on the abstraction process. He accuses such a behaviour of being *onesided* in the sense that historians, particularly Schmoller, systematically refuse to consider everything which comes from a deductive method. This critics addressed by Wicksell is particularly rough. He made them responsible for *hindering* the development of Economics and keeping on its state of schism<sup>9</sup>. It is clear that beyond this unfavourable behaviour, it is all the works of the classical and the Austrian traditions which are launched and rejected by Historical School, and it is the same thing concerning the walrasian marginalism. As it is already the case between Schmoller and Menger, the antagonism between Schmoller and Wicksell mainly focuses on the degree of abstraction in the economic reasoning. Wicksell rejects the argument of the historians which consist in denying results and theories brought by the three marginalists Walras, Jevons and Menger, and by the classical tradition, only because of their *abstract-deductive method*. According to Schmoller everything which comes from an axiomatic approach has to be rejected because of its lack of proximity from reality. Since hypotheses are defined as abstractions of the experience and reality, the obtained results could not be something else than an abstraction, or an extrapolation, of this concrete reality. That way of reasoning is condemned by Wicksell as a non-scientific one and the averting from reality is a non-sense. He advances that we can not “call one science, or one scientific method, “exact”, and another “empirical” or “speculative and abstract” because “all real sciences

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second edition of the fist volume of his *Lectures* in 1911. He was really eulogistic (Wicksell, 1911, p XXii): “We must be deeply grateful to those persons who, by the discovery and investigation of document relating to economic history-matters treated in a very step-motherly fashion by earlier historians- have succeeded in illuminating the present by the light of the past, and in, showing to us some links on a chain of development of which we ourselves and our environment constitute another link.”

<sup>9</sup> Wicksell, 1969 (1904), p57 : ” Because of its one-sidedness and the purely negative, harshly deprecatory, even conceited and offensive attitude which it always adopts towards contemporary research of the theorising and systematising sort, this school has, in my opinion, hindered and damaged the development of economics, especially in Germany; and, more than anything else, it has helped to create and maintain the state of affairs with regards to the body of known and recognized truth in the structure of scientific theories which I described at the outset.”

and every effective method are empirical in so far it must start from, and end in, reality and experience” (Wicksell, 1969 (1904), p57). Wicksell gives a clear and significant answer to the historians, through Schmoller, in its 1904’s lecture:

“Thus speculation, abstraction, and hypotheses are not an escape from reality, but on the contrary, the only way of reaching that reality which cannot be reached by direct observation. Their ultimate goal is always a comparison with reality, or *verification*” (Wicksell, 1969 (1904), p 58).

As we can guess through this quotation, and we will see more thoroughly this point in section two, the Wicksellian method is based on abstract processes as it is also the case for the Austrian tradition. The position that Wicksell took against Schmoller’s method has lasted for a long time. In fact, he was already critical against the historians in 1893<sup>10</sup>, it will still be the case until 1911. In fact, in the new edition of his first volume of his *Lectures* Wicksell keeps on addressing to Schmoller a rough message in the preface of the book:

“ I am convinced that a constant and logical argument from simple assumptions conveys more real knowledge than variegated but superficial talk upon everything under the sun: national character, racial differences, will to power, class interests, etc.” (Wicksell, 1911, Preface, p XXii).

Because of his criticism on the Historical School, it will be a crucial error to classify Wicksell among the *a-historical economists* simply because he argued in favour of abstract processes. We will see in the next section how far history matters in his methodology. Nonetheless, the methodological background of Wicksell is very close to the Austrian tradition, notably with Menger.

## 1.2 Menger : the uselessness of the Methodenstreit

Before dealing with the divergence of Wicksell on Menger, we have to recall the general features of the Mengerian thought about economics. By stating that hypothetico-deductive method is the only method which has ever done fully satisfied theoretical results, Menger appears as a full opponent to Schmoller and his school’s members. More than the conflict between Menger and Schmoller, the Methodentreit is a conflict between two economic traditions. In fact, the

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<sup>10</sup> Wicksell, 1954 (1893), *introduction*, p 30: “ In the opinion of this school, political economy can only claim to be regarded as a historical subject. Historical inquiries into matters of detail, special investigation of certain limited periods in the development of our continent, as far as transmitted deeds and documents allow—these are the only things which, according to this view, can procure for us a real understanding of economic facts, though necessarily a very fragmentary one. [...] it would be quite unrealistic (according to the German historical school) to try to formulate laws, valid for all the times and people, on the basis of the knowledge which we believe we possess of the general characteristics of human nature and the physical conditions of our life. In this mode of reasoning there lies, in my opinion, beside a certain amount of truth, a considerable exaggeration.”

antagonism between the two clans of the controversy turns around the *aprioristic* side of Menger, and the Austrian tradition. Conversely, the fundamental mistake that Menger evoked concerning the Historical School is to have confounded two fundamental fields in Economics respectively *economic theory* (i.e exact research) and *economic history* (i.e empirical research):

“The above contrast (the one between individual (concrete) and general (empirical) knowledge) is not infrequently characterized, even if in a some what different sense, by the separation of the sciences into *historical* and *theoretical*. History and the statistics of economy are historical sciences in the above sense; economics is a theoretical science.” (Menger, 1963, book one, p38)<sup>11</sup>

According to Menger, there is no way to consider that economic history can lead to economic theory. By contrast, the Historical School’s method is built on the reverse relationship which explains why the clash has been so rough between the two schools. Concerning the verification problem in Economics, Menger refuses any attempt which subordinate theoretical research by realistic-empirical one. Beside that, he refuses to verify general laws by way of purely empirical data. As it is termed by Nadeau (2003, p 21) this way of proceeding is “a methodological absurdity”<sup>12</sup>.

Every time Wicksell has dealt with the Methodenstreit, Menger’s name was still missing. Whatever the kind of publication we consider, article, author’s preface, public lecture...and so on... Wicksell has never evocated Menger<sup>13</sup>. It is also the case in his 1904’s lecture. We will discuss in the next section how close is the Wicksellian method to Menger’s one. Henriksson (1991) shares this thesis for Wicksell and Menger in terms of method. He qualifies the Wicksellian methodological view as “gravitating towards the Menger position in the great Methodenstreit of the 1880’s” (1991, p 38). However, gravitation does not mean a perfect inclusion.. There are two articles in which Wicksell partly copes with the conflict of method in Menger’s life and work. The first one is published in 1921 for Menger’s death, and the other one for the *Grundsätze*’s reedition in 1924. Those two articles both reveal the tremendous admiration of Wicksell to Menger’s scientific work, notably the *Grundsätze*’s book<sup>14</sup>, and the negative judgment he withdraws concerning the Methodenstreit. First of all, Wicksell takes care to restore the truth by telling that Menger, at first, did not want to create a polemic with the Schmoller’s

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<sup>11</sup> The terms into brackets have been added by myself.

<sup>12</sup> The quotation has been translated by myself. I am the only responsible for the remaining mistakes and misunderstandings. The original quotation was in French.

<sup>13</sup> Wicksell has met Menger in 1888 during his trip around the european universities. He followed Menger’s lectures in Vienna between April to May. However, he missed Böhm-Bawerk (see T. Gårdlund, 1958, p 109-111).

<sup>14</sup> The *Principles* has been dedicated *with respectful esteem* (Menger, 1981, p43) by Menger to Roscher who belonged to the first generation of historical school.

group<sup>15</sup>. The debate started only after the negative report on Menger's methodological 1883 book by Schmoller in his *Jahrbücher* (Zouache, 2003, p4). Secondly, the negative conclusion withdrawn from the methodological conflict by Wicksell in Menger's career is bound to the cost of time for Menger. Despite this episode being a crucial event in his lifetime, the Methodenstreit represents a "wasting years of time and energy" (Wicksell, 1969 (1924), p 193) and pushed him away from his real interest of research, such as the announced continuation of the *Grundsätze*. On that point, Wicksell is in total accordance with Schumpeter for whom the conflict was "an history of wasted energy which we should have been made a better use". The same point of view is also shared by Bostaph (1973) who regrets the *narrow degree* of the debate. In the obituary article, Wicksell (1969 (1921), p 19) concludes : "On the whole I fear that Menger's purely methodological works [...] were a waste of effort which to some extent directed him from work in his proper field. The promised continuation of his first book never actually appeared..."

In the second article related to Menger, Wicksell took the same position. He seems to be disappointed by the enrolment of Menger's career, in the sense that the good start taken by Menger with his 1871's book has been botched up by the Methodenstreit's episode. Because of that, Menger has let an endless work feeling.

"Instead, he allowed the lack of understanding which he encountered from the group of economists whom he had particularly in mind, the Reich Germans -especially the Schmoller group- to beguile him into wasting years of time and energy on literary feuds about the justification of his *method*. It is true that Menger carried on this discussion in a masterly fashion, but it was a more or less fruitless one." (Wicksell 1969 (1924) , p194).

*What is to be remembered of the Methodenstreit ?*

There is no doubt about the fact that Wicksell's position is by no way polemical in the sense that he does not want to enter the conflict. This behavior can be explained by the few lines Wicksell wrote concerning the methodological debate in his 1924's article about Menger's *Grundsätze* :

"The ultimate criterion of the value of a method is provided by the results derived from it ; if one wishes to defend a method, the way to do is to *use* it, not to *talk* or *write about* it, or at any rate, no more than is absolutely necessary." (Wicksell 1969 (1924) , p194).

The criticism he made concerning the Historical School is more in terms of a logical way of reasoning than in terms of a judgment of value. Relatively to Menger, there is a close agreement between them. For that reason, if we had to classify Wicksell, the Austrian clan would suit him

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15 Wicksell 1969 (1921) : "Menger's attitude to contemporary German economics was by no means strongly polemical at the beginning." The interpretation made by Schumpeter, in the third volume of *Histoire de l'Analyse Economique*, is totally different than the one given by Wicksell. In this book, Schumpeter interprets Menger's behaviour as a voluntary will to put into question the historical school which has to be considered, according to him, as a lower level than the other current of thought

well even if some divergences could be found<sup>16</sup>. The most important thing is the impact of the Methodenstreit to Wicksell. He has withdrawn a negative conclusion concerning the methodological principles. This episode strengthens Wicksell in his will to refuse discussing methodological issues in Economics. The quotation below is perfectly clear on that subject. Given all those elements, we are driven to wonder whether a positive theory on method exists for Wicksell or do we only have to remember his *negative* position on the subject? Among these two paths, the first is the one we will defend in the next section by presenting the Wicksellian methodology.

## II. The Wicksellian methodology: a positive approach

In the last ten years, Wicksell's works seemed to have interested an increasing number of people, particularly in monetary fields<sup>17</sup>. Beyond all the people involved in the study of Wicksell, all the ones who feel concerned by epistemological roots of science should be interested in the Wicksellian methodology.

Rather than using a single reference, we will have a look toward the whole work done by Wicksell during his brilliant scientific career. The conductive line will be given once again by his 1904 inaugural lecture in which we can find a lot of starting points for explain the subject, that it, to expose his method. From the point of view of the classical tradition *à la Ricardo* and of the Austrian tradition, the method set up by Wicksell put the abstract processes to a first rank level. However, he goes forward notably concerning the kind of abstraction and the verification's question. Thus, we shall analyse the place and status hold by abstraction, guessworking and verification in his methodology (2.1). Then, we will see the originality withdrawn from its method by presenting the analysis he made on the relationship between Economics and the *auxiliary sciences*. We will only focus on two of them, History and Mathematics (2.2).

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<sup>16</sup> We can noticed one important divergence, which is not dealt in this article by lack of time, between Wicksell and Menger in terms of method. In fact, to Wicksell the concept, or the notion, of *society* matters which is not the point of view shared by Menger for whom the economist has only to take into account the *individual subject* and his behaviour. According to Menger, nor the people (*Volk*), nor the society (*Gemeinschaft*) and neither the nation (*Nationalökonomie*) are economical subjects. By contrast, Wicksell argue in his 1904's lecture the notion of society because it is an important to define it clearly in order to reach the goal of Economics: "the greatest happiness to all, of whatever class of society, race, sex, language or faith they may be." (Wicksell, 1969 (1904), p66).

<sup>17</sup> As for example : Woodford, 2003; Lavoie et Seccareccia, 2004.

## 2.1 Abstraction, guessworking and verification: the three keys to the Wicksellian methodology

In order to have a full understanding of the Wicksellian proposition, we need to keep in mind his determination to make Political Economy closer to the other *taught sciences* such as Mathematics, Physics, or Natural Sciences. If we succeed in that direction, the *state of war* (Wicksell, 1969 (1904), p52) which is characteristic of Economics will be over. This nearness has to be understood in an epistemological kind of way. Wicksell is willing to bring economics methods at par with the ones raised by the Natural Sciences or Mathematics. It is only thanks to that, that Economics will reach a higher level and will be considered as a real science. Meanwhile, it will also be an answer to the anti-scientific attacks made towards the discipline in the second half nineteenth century. The recurrent methodological connection between Economics and Physics is not surprising when we take a closer look into the personal background of Wicksell. Before seriously studying Economics, at the age of 37, he had been graduated in Mathematics, Astronomy and Physics in the university of Uppsala<sup>18</sup>.

The methods raised by Wicksell can be divided in three steps. Undoubtedly, the first one is the abstraction stage. We can rank Wicksell among the theoretical economist in the sense that abstraction is a basis condition, or, in his own words, *a prime requisite* of the scientific reasoning such as in the Mengerian methodology. At the end of the chapter 8 in his seminal monetary book, *Interest and Prices*, Wicksell defends the abstraction process as follow:

“It is written (concerning the following chapter which is more abstract) for those who, like myself, regard as the prime requisite of a scientific theory that it shall be capable of being set out in a form that is self-contained and free of inconsistency, even if at first the assumptions have to be of a purely imaginary character.” (Wicksell, 1936 (1898) , p 121)

Abstraction refers back for Wicksell to the analogies<sup>19</sup> defined as “the similarity between two phenomena which leads us to suspect a closer connection and tentatively assume that they are similar in other respects” (Wicksell, 1969 (1904), p 58). Analogy can, so to say, be understood as logical observations which explain empirical observations. This way of proceeding by analogy is a fruitful path, or more precisely the good scientific path, to be taken if we look back in the history of sciences<sup>20</sup>. Wicksell is a supporter of the hypothetico-deductive method, like Ricardo for

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<sup>18</sup> For more details in Wicksell's history life and work : see T. Gårdlund (1958).

<sup>19</sup> Wicksell uses explicitly the term analogy in reference to Knies' method, member of the first tradition of the historical school, with the difference that, to Wicksell, analogy is seen as a wider process than the one raised by Knies.

<sup>20</sup> Wicksell (1969 (1904), p 58) make a comparison with Mathematics in which this kind of way has been a successful means to get better results: “The history of science shows conclusively that guesswork has played an

whom he had a deep respect, although he proposed his own specific version of it. The particularity established by Wicksell is the distinction between several levels of abstraction. In fact, he considers the economist has to go further beyond the cause and effect relationships, which constitute a first level of abstraction, to him. It can be done thanks to the works raised by Walras and his *interrelated logical relationships* which represent a second level of abstraction, much more thorough than the first one. Explicitly, Wicksell quote the name of Walras, for whom others similarities can be withdrawn<sup>21</sup>, in his explanation of the progress in the analysis of economic phenomenon.

“The classical economists’ analysis of economic phenomena, even as they saw them, was certainly far from complete, and their synthesis still more so, because they generally considered no other connection between these phenomena than that of cause and effect, while we have now learnt (especially since Walras) to regard them as a whole group of interrelated logical relationships, a system of forces in equilibrium, whether the equilibrium is in static or dynamic (kinetic) sort.” (Wicksell, 1969 (1904), p62-63).

The cause and effect relationship is a legacy of the classical tradition; and the other one, the interdependence relationship, is a novelty introduced by Walras but it is still an inheritance of the classical. This new interpretation of Walras’ works, seen as an upper stage in the abstraction, shows us how far from being over is the classical methodology. Contrary to Schmoller’s point of view, the classical tradition can still bring useful results and all the works done before 1870 can not be considered as out-of-date.

The second step raised by Wicksell is the *guessworking process*. At this stage, the economist has to draw from the analogies more general propositions, also called *hypothesis*, in the explanation of the practical facts in the every day life.

“ Our curiosity and questioning go far beyond the bounds of immediate observation, and there begins that necessary element in almost all scientific activity, which is called speculation, abstraction, hypotheses, or in a plain language: guesswork.” (Wicksell, 1969 (1904), p 57).

This is exactly the fact that this second stage is missing that Wicksell reproaches to the Historical School. Their analyses are stuck to the *immediate observations* and do not try to go deeper. In that sense, the works done by Schmoller and his group is relatively due to the fact that the explanations and propositions are valuable only in specific context, countries or periods. By contrast, Wicksell defends the existence of general laws which “govern and direct human action”

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immense part in all discoveries, including those in pure mathematics, and that usually it has only been after a series of false analogies that the correct one has eventually been found.”

<sup>21</sup> Wicksell (1967 (1901), Introduction, p5 ) proposed a three parts division about Political Economy as it is the case for Walras in his *Elements d’Economie Politique Pure*. For Wicksell, we have the theoretical part; the practical part, and the social part. Within the first of these main parts, we also have certain subdivisions. However, this article will not focus on the similarities or divergences between Wicksell and Walras’s personal definitions on Political Economy.

(Wicksell, 1954 (1893), p30). Of course, economics is not exclusively driven by this kind of laws but, it nevertheless conforms to some regularities which are true whatever the country or the period chosen<sup>22</sup>. The same opinion can be raised for Menger and his aprioristic method. With the help of the guessworking stage, Economics will be seen as a true science and not as a superficial one without clear results anymore. We shall see in the next subsection the importance played by History in that stage.

In order to provide practical tools for people in the explanation of the reality, the economist has to test the theories he proposed. The verification step is the third and the last stage in the Wicksellian methodology. The guesses given by the economist must be granted by way of the facts.

“Their ultimate goal (the goal of the hypotheses, the speculation and abstraction) is always a comparison with reality, or *verification*.”<sup>23</sup>  
(Wicksell, 1969 (1904), p 58)

This stage is as important as the previous one for the scientificity of the discipline. If Economics is able to cut in the hypothesis and theories proposed, as natural sciences do, the discipline will fully be recognised as scientific<sup>24</sup>. This is only by this way that the *state of war* will be over and that Economics will be able to explain the concrete reality such as the fluctuations of the growth or the vagaries of the money prices. Still, the verification issue is particular in Wicksell’s mind. When he advocates the importance of the verification in Economics, what he has in mind is not to test the theories with statistical models. We have to remember the state of the discipline in that period. It is only later on, in the thirties, that Econometrics will appear thanks to the works of another Scandinavian economist, R. Frisch. To Wicksell, verification refers back to the notion of practical economy. Verification has to be understood in a normative kind of way and never in an absolute manner. As noticed below in the footnote 31, Wicksell considers Economics has to provide practical norms for regulating the economy. From that point, we can deduce the modalities of the verification. The latter is viewed by way of practical applications in society. In Wicksell’s words (1936 (1898), p 176), theory has to be considered as *mere hypothesis* when they are not approved by a concrete application in the realm of the experience. On that point, we have to admit that he changes his point of view as books went by. In fact, in *Interest and Prices*, he

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<sup>22</sup> The first volume of his *Lectures on Political Economy* (1967 (1901)) can be seen in Wicksell’s works as witness of the general laws in economics, particularly concerning the marginal productivity law.

<sup>23</sup> The words into brackets have been added by the myself.

<sup>24</sup> Wicksell, as it is also the case for other Swedish economists like E. Lindahl, has a specific vision of Economics. Science is understood in terms of *practical science* for the reason that Economics, and its theories, must have for goals to provide practical measures or tools to the government for managing the economy, notably the level of prices. In that sense, the verification in the realm of the society is an important step in the Wicksellian framework.

advocates that: “the theory must, therefore, be regarded for the moment as a mere *hypothesis*, the complete validity of which can be established only by further resort of facts of experience.” (Wicksell, 1936 (1898), p176). Wicksell speaks of approving the validity of the hypothesis in the following way: “Once they [the theoretical principles] are correctly understood their application can be confidently left to the experience and insight of practical men.” (Wicksell, 1936 (1898), p176)<sup>25</sup>. This is exactly the position he defended in his 1904’s inaugural lecture. Wicksell took the point of view opposed to the other economists who denied the possibility to test the theory as it is done in the natural sciences,;

“Unlike the natural sciences, economics is not in position to carry out experiments, they (the friends and foes of systematic or theoretical economics) say. It seems to me that this contention is to a great extent exaggerated; as a matter of fact, such experiments are constantly being made in the realm of our science and they are of the most incisive character conceivable.” (Wicksell, 1969, (1904), p58)

Notwithstanding, later on, notably in the monetary volume of his *Lectures*, and in the 1907’s article which made him internationally known, Wicksell seems to be more sceptical in the possibility of verifying his own theory and beyond that in theoretical hypothesis in general :

“A solution is perhaps in some respects at present impossible at any rate, if it is expected to be directly verifiable by experience. [...] the only experimental proof which would be satisfactory would be for all the banks of the world after common agreement, in its interests of pure theory to initiate an heavy rise or fall in their interest rates and continue these rates in operation for same years at least, so that the effect on commodity prices will reveal themselves. But we shall have to wait for a long time for such an experiment.” (Wicksell, 1935 (1906), p 190).

How is Wicksell’s position about the verification issue to be understood? Is it consistent ? Is it relevant ? If we want to clarify his position which seems to be incoherent at first sight, we have to consider several layers of hypotheses in Wicksell’s and Menger’s frameworks<sup>26</sup>. As a trained mathematician, Wicksell was used to work with axioms which, by nature, are not testable and which have to be admitted on their own because of their counterfactual side. At this first level, which we can call axiomatic hypothesis, verification is over. Wicksell, and also Menger, took the example of Physics<sup>27</sup> with the units of measures. The latter is just abstract propositions, we can

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<sup>25</sup> The terms into brackets have been added by the myself.

<sup>26</sup> See Nadeau (2003) for the Menger’s position on this question.

<sup>27</sup> Wicksell (1907, p 213) quote the example of the theory of attraction brought by Newton in his 1907’s article presented before the Economic section of the British Association in 1906. In that paper, he wrote as follow: “This proposition (in reference to his monetary thesis) cannot be proved directly by experience, because the facts required in its hypothesis never happens [...] My thesis is, therefore, only an abstract statement, and somebody, perhaps, will ask: What is the use of it then ? But I venture to assert that it may be of very great use all the same. Everybody knows the statement of Newton that, if the attraction of the sun were suddenly to cease, then the planets would leave their orbits in the tangential direction; this, too, of course, is only an abstract proposition, because the solar attraction never ceases, but it is most useful nevertheless, indeed, it is the very corner-stone of celestial mechanics.” The terms into brackets have been added by the myself.

not certify that one meter equals one meter. Doing such a thing would not be sensible, besides nobody contest the unit of measure and everybody trust in their usefulness. Moreover, these axioms are useful to derive conclusion which can be turned into testable hypothesis. The second layer concerned the empirical hypotheses which are more accessible for experimental testing. At this point, we can take up the monetary rule proposed by Wicksell. The changes made by the banks in the level of their monetary rate of interest are easily applicable to the reality, and by doing so, easily testable in the light of the empirical facts. For all of that, Economics has to use the help given by other disciplines such as History and Mathematics.

## 2.2 The Political Economy towards the auxiliary sciences: the case for History and Mathematics.

In his methodological framework, Wicksell drop a clear boundary between Economics and the other disciplines, particularly between Mathematics and History. In fact, in answer to the Historical School's propositions, he has been pushed to clarify the relationships between Economics and what he called the *auxiliary sciences* such as History, Statistics and Mathematics. Wicksell advocates a real *division of labour*<sup>28</sup> between the disciplines in which each one is bound to its own field of competence. This is for that reason, he uses the term *auxiliary* in his writings because of the fact the fact that Economics while keeping its own independence is an help for other disciplines and vice versa<sup>29</sup>. This position is totally opposed to the one defended by Schmoller for whom Economics is more understood as an interdisciplinary science rather than as a single science which cooperates with others. For the historians the economical discipline mixes several dimensions such as Economy, Sociology, Politics, and History. Wicksell has denounced publicly the risk of this interdisciplinary by qualifying as *dilettantism* this way of proceeding<sup>30</sup>. When Wicksell takes up the relationship supported by Economics in relation with other disciplines, he is particularly explicit concerning those with History and Mathematics. History has an important role in his framework as it is present in both the background and the foreground at the scientific process. As a mix of facts from past and present events linked with human being,

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<sup>28</sup> Wicksell, 1967 (1901), Preface, p XXii.

<sup>29</sup> Wicksell, 1969 (1904), p 61: "If statistics and history are indispensable aids to systematic economics, it is equally true that the latter is an aid, an auxiliary science, to the former. It may not be possible to study economic history without a proper knowledge of the fundamental concepts and principles of economics."

<sup>30</sup> Wicksell, 1969 (1904), p 61: "Foremost it must be questioned whether here, as with all other auxiliary sciences, the actual work of research should not be left to those who devote their whole time to science. We economists are essentially only dilettanti in the field of historical research with the usual faults of all dilettantism: over hasty conclusions, insufficient criticism of sources, tendentious colouring of facts, and even, on occasion, unconscious fabrication of them."

History is a necessity for Economics, and more than that, a necessity for social sciences. History is a basis of knowledge which makes you understand the present state of affairs and the present economic situation even when the rational seems to be irrational. It is a means to call back and justify some rules and institutions. According to Wicksell, History is a sort of laboratory from which the analogies and general laws come from:

“However valuable, indeed even indispensable, historical investigation may be for every social science, and consequently for political economy, it has value only in so far as it succeeds in revealing and throwing light on the general laws which govern and direct human action. Without the existence of such laws, history itself would be inconceivable and what it teaches us of no avail to our generation and wholly inapplicable to the conditions of our own time.” (Wicksell, 1954 (1893), p 30-31)

We will see in the next section how the industrial revolution context is at the genesis of the wicksellian core model, the so-called cumulative process. Added to that, History is, also, a standing laboratory for testing hypotheses. The *auxiliary* terms is, here, fully relevant to describe the help brought by History. As we have seen in the few lines above, hypotheses should be applied in the concrete reality in order to check their validity. To Wicksell, this task is achieved by the legislator in the following way:

“These experiments are frequently even direct and quite deliberate; the measures introduced by the legislation are based upon the supposition that some abstract economic proposition or other is valid, and the result is either confirmation or refutation of the proposition in question.” (Wicksell, 1969 (1904), p58-59)

Beyond the analysis made about History, Wicksell has also dealt with Mathematics. Few things are said concerning the relationships between Economics and Mathematics. In his review article about Bowley’s book<sup>31</sup> Wicksell tell us how Mathematics has to be used. He warns economists not from widespreading it as a commonly understood tool<sup>32</sup>. In his own words, the economist should not left the formulae *speak for themselves* (Wicksell, 1969 (1925), p208). Mathematics is not forbidden in Economics as long as it is used in an analytical kind of way. In fact, as noticed by Marshall few years ago, Mathematics should only be a tool for the economist in their reasoning rather than a prevailing weapon in the demonstration of the economical principles as it is often done by most of the profession.

“One must endorse Marshall’s warning to mathematical economists to give the smallest possible space to mathematics in their *writings*, particularly with regard to algebraic symbols, and to keep them mainly for their own use, as Newton did at first with the differential calculus. This seems to be good practical advice.” (Wicksell, 1969 (1925), p 207)<sup>33</sup>.

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<sup>31</sup> A.L. Bowley, *The Mathematical Groundwork of Economics, An Introductory Treatise*, Oxford: Clarendon Press, 1924.

<sup>32</sup> The original Swedish title is : *Matematisk nationalekonomi*.

One more time, Wicksell advocates the independence of each discipline even if he allows the useful collaboration of one another. Mathematics has to be a reasoning tool in the economist's mind. Otherwise the "elegant lack of words which may be quite appropriate in purely mathematical papers, is quite out of place" when it is used for economic purpose (Wicksell, 1969, 1925, p208). Wicksell pleads in favour of the independence although he maintains converse connection in terms of relationship between Economics and the other disciplines. The boundaries of each discipline are perfectly set and respected in the Wicksellian framework. By contrast with the 19<sup>th</sup> century in which Economics, Moral and Philosophy were a common ground of knowledge, Wicksell now advocates a legitimate status for Economics with its own field of competences. Nonetheless, all those things do not prevent cooperation between the disciplines. History or Mathematics have to be considered as *auxiliary* owing to the help they bring in both the understanding and the reasoning of the economical phenomenon. When disciplinary collaboration complicates, instead of clarifying, the understanding for the lecturers, it means that the economist-mathematician, or the historical-economist, has failed in his duty of explaining the concrete reality. However, that reproach can not be used to qualify the Wicksell's harsh and straightforward task.

### **III. The Cumulative Process as an illustration of the Wicksellian method**

The best way to illustrate the method used by an economist is to analyse his own model or theory in the light of his epistemological and methodological principles. This is the path we will follow concerning Wicksell and his well-known core model: the cumulative process.

In spite of being already mentioned in 1898 in Wicksell's landmark contribution to monetary theory, entitled in German *Geldzins und Güterpreise*<sup>34</sup>, the cumulative process has only been known about ten years after its first publication<sup>35</sup>. In fact, the Wicksellian monetary thesis about the fluctuation of the value of the money has been internationally known when Wicksell, in 1906, pronounced a lecture before the British Association<sup>36</sup>.

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<sup>34</sup> The book will not be translated into English before 1936 under the title *Interest and Prices*.

<sup>35</sup> The boundary represented by the German language can be seen as a major argument of this ignorance.

<sup>36</sup> This famous lecture has been published in 1907 in the *Economic Journal* (N° XVII) under the title *The Influence of the Rate of Interest on Prices*.

In accordance with Wicksell's methodology, "all the science must start from, and end in reality and experience" (Wicksell, 1969 (1904), p57). This is our task in this subsection to demonstrate how the industrial revolution context is at the genesis of the cumulative process (3.1). This same context has been applied to the Wicksellian thesis in order to approve his theory. Nonetheless, the practical application of his monetary rule, the last step towards its verification, is still to be made (3.2).

### 3.1 The cumulative process as an inductive result of the 19<sup>th</sup> century context

The nineteenth century is probably one of the most disorderly century, notably in terms of fluctuations in the level of monetary prices. Economy, in the second half of the century, has been stricken by opposite movements of both inflation (1851-1871) and deflation (from 1873-1895). This was one of the reasons why Wicksell had written his monetary books in 1898. He aimed to explain the extensive and opposite fluctuations in the level of prices during all the second half 19<sup>th</sup> century long, particularly the deflationary process of the end of the century. As noticed by Trautwein and Boianovsky (2001), the cumulative process was probably born before 1898, or around 1889; however there is no doubt about the fact that this model is anchored in the industrial revolution context of the 19<sup>th</sup> century.

The striking points of this significant event are both the changes brought in the way of producing, particularly in the mechanisation process, and the widespread movements of the average level of prices. In the eleven chapter of *Interest and Prices*, Wicksell deals with the peculiar case of England in the early 19<sup>th</sup> century. The British industrial revolution, by way of *the development of manufactures*, is seen as a cause of the *direction* of the level of the prices but not as the origin. The roots of the fluctuations in prices is viewed on the capital side. Wicksell has drawn an analogy between the movements of accumulation of capital in England, notably the *liquid or real* capital, and the fluctuations of the general level of prices. With the Böhm-Bawerk capital theory, he found a precious theoretical help and support to his thesis. First and foremost, he considers that capital is never *lent* but always *sold* or *bought*<sup>37</sup>. Therefore, there is no direct link between the interest rate of the banks and the amount of accumulated capital. In Wicksell's own words (1907, p 213) "interest on money and profit on capital are not the same thing, nor are they immediately connected with each other". The useful connexion worth to be made concerned the capital with

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<sup>37</sup> We also find a similar idea in the author's preface (1936 (1898), pXXVI): "Liquid real capital are never lent; it is *money* which is lent, and the commodity capital is then *sold* in exchange for this money. "

what Wicksell calls the *natural* or *normal rate of interest*<sup>38</sup>. This rate is not a steady one, however, *essentially variable* (Wicksell 1935 (1906), p193). Among the big changes induced by the industrial revolution, the proper role of the banks also prevailed. Because of their interventions in favour of the increasing needs of money to finance the economic development, banks have disturbed the level of prices because of the level of their rate of interest on credit. In fact, this specific point is the main idea, or more exactly, the basis argument brought by the Wicksellian monetary thesis. He involuntarily made the banks responsible of the fluctuation of the money prices by their own policy in terms of rate of interest. By fixing a rate of interest which is not at par with the natural one, they promote profitable investments by introducing a gap between the cost of the investment spending and its return. Given that, they bring about a fluctuation on the prices<sup>39</sup>. In fact, all the discrepancies between the normal and monetary rates create specific conditions which encourage, or discourage, the investment which in its turn act on the level of demand and as a consequence on the level of prices. Here is born the Wicksellian cumulative process. All the changes in the prices are seen as a *cumulative process* to the extent that economy has no mechanism that pushes the prices back to their innate level. On the contrary, economy is able to keep on maintaining endlessly this unbalanced situation with the increasing development of credit tools. We have to bear in mind that in the 19<sup>th</sup> century, banking notes and bills of exchange were increasingly used as means of payments. To Wicksell, the widespread position of the credit is a basic characteristic of this new *born capitalism* and it is undoubtedly bound to the large fluctuations of the prices. The influence of the credit on economy is seen through its action on the velocity of money, and then on prices. Credit is indeed interpreted as *a powerful pulley* for accelerating the circulation of money (Wicksell, 1936 (1898), p 59). For that reason, prices represent a dynamic phenomenon acting like a “spiral spring which serves to transmit the power between the natural and the money rates of interest” (Wicksell, 1936 (1898), p 136).

There is no way of thinking that those two rates will equal one with each other, on the contrary, all the forces are here to separate them. Each one is led by its own factor : the natural rate is, by nature, a fluctuating rate in spite of the monetary rate behaves steadily and in sticky way because of the routinely bankers’ behaviour. This principle concerning the discrepancy between the normal and the monetary rate goes beyond a simple theory, Wicksell raises this law as the same level as a natural law. To him, this model established a general law on the purchasing power of

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<sup>38</sup> We can find as many definition of the natural rate of interest as Wicksell’s books. This *normal* or *natural* or *real* rate of interest can be defined as follow: “the rate of interest at which *the demand for loan capital and the supply of saving* exactly agree and which more or less corresponds to the expected yield on the newly created capital.” (Wicksell, 1935 (1906), p 193). Roughly speaking this normal rate is the marginal productivity of capital.

<sup>39</sup> (Wicksell, 1936 (1898), p 87): “The real cause of the rise in prices is to be looked for, not in the expansion of a note issue as such, but in the provision by the banks of easier credit, which is itself the cause of the expansion.”

money and explained the vagaries of the monetary prices all the history long. In that sense, discrepancy is the norm which legitimates the intervention of monetary authorities, such as the central bank, to correct this market failure.

### 3.2 The cumulative process: a *mere hypothesis* still to be proved

In agreement with what we have said previously, Wicksell considers the evaluation of his theory by way of both logical consistency and empirical relevancy. The first term refers back to the confrontation of the theory to the historical facts whereas the second one takes up the practical experiment of the theory in the realm of society. The logical consistency has already been done by Wicksell in *Interest and Prices*, chapter eleven entitled *Actual price movements in the light of the preceding theory*<sup>40</sup>. In the whole chapter, Wicksell tests his theory in the light of the 19<sup>th</sup> century facts. To do that, he used the statistical tools brought by Tooke and Sauerbeck<sup>41</sup>. He succeeds to bring an explanation of the 19<sup>th</sup> movements of prices, particularly the second half of the 19<sup>th</sup> century, by using his basic hypothesis for the purchasing power of money. So far, every attempt made by the Quantitative Theory or by the economists, notably Fisher, Giffen and Jevons, failed. Their reasoning for explaining the parallels between the variations of prices and the changes in the rate of interest were wrong. Since the inflation process has been seen as the *effect* of the changes in the normal interest rate not as the *cause*, the empirical facts become consistent<sup>42</sup>:

“All these difficulties and complications at once disappear when it is changes [...] in the natural rate of interest on capital that are regarded as the essential cause of such movements.” (Wicksell, 1936 (1898), p 167)

Due to the lack of data<sup>43</sup>, Wicksell takes the hypothesis that the monetary and the natural rates of interest are equal to one another, and then, when prices are fluctuating he demonstrates the responsibility of the interest rates gap<sup>44</sup>. Roughly speaking, the periods of inflation in England between 1790-1815 and between 1815-1850 can be explained as follow:

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<sup>40</sup> Wicksell (1936 (1898), p 168-169) presents the chapter eleven of *Interest and Prices* as follow: “We shall try now, nevertheless, to give in the light of our theory a short review of the history of prices of the nineteenth century, and particularly of its second half, so far as material is available.”

<sup>41</sup> Tooke, 1838-1857, *History of Prices*, 6 vol. The Sauerbeck’s tables on prices can be found in 1896 Fisher’s *Appreciation and Interest*.

<sup>42</sup> On that point, Wicksell (1936 (1898), p 166) answers to Fisher who considered that “when prices rising the entrepreneurs are in position to pay higher rate of interest.”

<sup>43</sup> As the natural rate is an abstract concept, there is no available data.

<sup>44</sup> In order to make the understanding easier, we can remember that according to Wicksell, the natural rate of interest increases “in consequence of some technical discovery which opens up hitherto unknown profitable employment for capital at which at the same time usually requires more capital for its realization” (Wicksell, 1935, p 206). Unlikely, the natural rate decreases when “capital increases by continual saving, for it becomes more and more difficult to find profitable investments for the new capital, competition with existing capital lowers the rate of interest whilst wages and rent rise in consequence.” (Wicksell, 1935, p 205).

“A rise in industrial productivity raises in first instance the natural rate of interest, so that the prices rise if the money rate is for the moment kept unaltered. It is only later, when the banks are driven by the contradiction in their reserves to push up the money rate, that price recede.” (Wicksell, 1936 (1898), p171).

Concerning the opposite period, i.e the deflation period between 1851-1873, Wicksell makes the analogous reasoning. “The development of industry continued increasingly (and then) gave rise at the same time to a tremendous accumulation of capital”. As a logical consequence, the prices fell down because of the “rapid fall in the natural rate of interest” and the routinely bankers’ behaviour who followed the tendency of the natural rate “only slowly and with hesitation” (Wicksell, 1936 (1898), p172). Thanks to the index tables of prices and to his personal historical knowledge, Wicksell (1936 (1898), p 176) reveals a “very broad agreement between our theory and the facts”. So to say, the Wicksellian thesis on the purchasing power of money was proved to be logically consistent with the available historical data. We will now study if it is also the case concerning its empirical side.

In the same line as Walras, in his *Eléments d’économie politique pure*, Wicksell (1967 (1901), p5) divides Political Economy in three components, respectively a *theoretical*, a *practical* and a *social* part. This is precisely in the second component which includes “the application of the pure and general theory in the concrete economic *life of society*” (Wicksell 1967 (1901), p5) that general laws have to be tested. Based on his personal definition of Economics as a *practical science* and deriving from his theoretical thesis, Wicksell formulates a practical norm for the managing of the money. Contrary to hypothesis, a *monetary rule*, as it is called in modern terms, could be experimented in the realm of society and applied notably by the banks. Wicksell sums his rule as follow:

“So long as prices remain unaltered the banks’ rate of interest is to remain unaltered. If prices rises, the rate of interest is to be raised; if prices fall the rate of interest is to be lowered; and the rate of interest is henceforth to be maintained at its new level until a further movements of prices calls for a further change in one direction or another.” (Wicksell, 1936 (1898), p189).

Unfortunately, the wicksellian monetary norm has never been applied by the banks, and then, the cumulative process is still to be proved. Because of that the Wicksellian core model is still a *mere hypothesis* even if it could be potentially “a corner-stones of the mechanics of prices” (Wicksell, 1907, p213) of which “the practical consequences are of enormous importance “ (Wicksell, 1936 (1898), p176). Yet, in spite of that, Wicksell has never stopped thinking that “the main cause of the instability of prices resides in the inability or failure of the banks to follow this rule.” (Wicksell, 1936 (1898), p 189).

#### IV. CONCLUSION

The depth of the Methodenstreit, rather than its polemical side, has forced Wicksell to deal with methodological insights in order to give a clear statement on the *Ends and Means in Economics*. The Wicksellian methodology can be seen as a *guessworking* process supplemented with a verification stage. Because of the impossibility to isolate the phenomenon, guesses are necessary. Economists have first to elaborate abstract propositions which will, then, explain the reality observed.

Concerning the main theme of this article, the methodology and the proper place of History, we can say without hesitation that history matters in Wicksell's framework. Of course he is not the first who has advocated the usefulness of this field of knowledge, however, he is certainly the one who put history both in the upward and backward stage in the methodology. History is an help for inducing and verifying general laws in Economics.

Wicksell defends a conception of Political Economy in which independency prevails. He claims for a real *division of labour* for Political Economy, and this is exactly the path which will be taken in the evolution of the discipline.

Regarding the conflict of method, there is no doubt that Wicksell is closer to Menger than to Schmoller. By underlying the basic importance of hypothesis in the methodological framework, Wicksell is at par with Menger. It is on this very point that Wicksell joined the Austrian clan. However, the verification question is a breaking point between them. Contrary to the point of view defended by Uhr (1962, p30) the term of *apriorism* is not relevant for Wicksell to the extent that the Menger's epistemological and philosophical backgrounds differ from Wicksell's. Beyond the methodological insights, apriorism refers back to a real vision of Economics as a discipline. This view does not suit the normative and practical Swedish vision defended by Wicksell and his followers known under the name of the *Stockholm School*.

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