

The
HISTORY *of* ECONOMICS
IN ITS RELATION TO SOCIAL
DEVELOPMENT

by

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non ridere non lugere
neque detestari sed intelligere
SPINOZA, *Tractatus Politicus* I, 4

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The
HISTORY OF ECONOMICS

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CONTENTS

	PAGE
PREFACE	vii
THE HISTORY OF ECONOMICS IN ITS RELATION TO SOCIAL DEVELOPMENT	i
APPENDIX I. THE FORMAL PROBLEMS OF THE HISTORY OF ECONOMICS	59
APPENDIX II. THE MAIN LITERATURE ON THE HISTORY OF ECONOMICS	76
INDEX	77

PREFACE

In the last three centuries historiography, as a branch of learning, has passed through three consecutive stages. In the beginning it was entirely pragmatical. The historians investigated the happenings of the past in the conviction that they would be able to infer from them valuable maxims of practical policy, and in their attitude to the actions of men as well as of nations they were frankly critical, dispensing freely praise and blame according to the moral standards to which they adhered. When the rationalistic spirit was ousted by romanticism, a new type of historiography grew up. Knowledge was now sought for its own sake. The aim was no longer to learn lessons, but to establish facts—to find out, as Ranke put it, how things really happened. This purely descriptive treatment of the past has now had its day. The archives of the world have been ransacked for the relevant facts, and future discoveries will almost certainly be confined to mere points of detail. Recently, therefore, historians have been looking out for new tasks. The words interpretation and explanation indicate the direction in which they have tended to move.

This general march of history as a branch of learning has been followed by all the sub-divisions and sub-disciplines which compose this broad field of knowledge. Some have advanced more boldly, others lagged, and are still lagging, behind. The last among the stragglers is the history of economic doctrine. It is still common practice to treat the economists of the past as men who, for unaccountable reasons, have put forward, and persevered in, theories which, in the light of reason, appear erroneous and even ridiculous; and if there are several works which conscientiously try to avoid gross valuations, there is hardly one which consistently endeavours to show why mercantilists, physiocrats, classical economists, and members of the historical school developed and defended opinions which we are no longer willing to share. It is from this fact that the present publication would draw its *raison d'être*. It is not so much meant to impart knowledge—although it is hoped that it will not be without value even in this respect—as to stimulate thought.

The form in which I present this essay to the public is not the one in which I first put it to paper. When I came to this country in August 1939, I began a critical investigation of all the books which have been written on the history of economic thought, in the order of their publication, as they are enumerated in Appendix II. The result was a rather lengthy book in which the reader had to make his way through long disquisitions and discussions until the positive thesis of the author was reached. The work might have been very interesting for one who intended to write on the development of economics, but it would have heavily taxed the patience of those who only want to read about it.

Thus I came to the conclusion that it would be better for the propagation of my idea to put it forward in a positive and direct way, without carrying on a war of words with those who have cultivated the same field before me. If I have succeeded in proving my thesis, I have also succeeded in disproving theirs. I hasten, however, to add that the point of view which I have adopted is not entirely new, a tendency towards it being distinctly noticeable in some of the more recent books on the subject; but I think that it is here for the first time consistently applied.

In the completion of the first version I was, as far as English style was concerned, very kindly assisted by Miss Kathleen Wood-Legh. The manuscript of the present essay was looked through by Miss Helen Oman. Mr. Anthony Hyde and Mr. Robert Stevenson have suggested further valuable linguistic improvements.

The whole of the research connected with this investigation was carried out in the Marshall Library of Economics at Cambridge, and I am grateful to Mr. Donald Missen and Mr. James Claydon for the willing assistance given me then, and ever since.

W. STARK.

CAMBRIDGE,

January 9, 1944.

THE HISTORY OF ECONOMICS IN ITS RELATION TO SOCIAL DEVELOPMENT

There are, in the last analysis, two ways of looking upon the history of economic thought : the one is to regard it as a steady progression from error to truth, or at least from dim and partial vision to clear and comprehensive perception ; the other is to interpret every single theory put forward in the past as a faithful expression and reflection of contemporary conditions, and thus to understand it in its historical causation and meaning.

It is obvious that between these two antagonistic conceptions, no compromise is possible. If the one is right, the other must be wrong. Which, then, is it that affords the true key to the understanding of the development of economics ?

The great majority of modern economists are inclined unhesitatingly to accept the first alternative. They are convinced that their theory of economic life—the theory which arose soon after 1870 and has since been admirably perfected—constitutes a body of timeless truths, directly applicable to every stage of historical evolution, past, present, and to come. In the light of this opinion, all earlier attempts to explain the system of production and distribution must needs appear erroneous, and valuable only in so far as they resemble the fundamental tenets of present-day economic thought.

This clear-cut distinction of past and present as error and truth can only be accepted as correct if it is possible to prove that the discovery of the principle of marginal utility, on which modern economics rests, represents a momentous break-through of reason, a final victory of science over prejudice. Indeed, the disciples of Jevons and Menger, Pareto and Edgeworth, have endeavoured to show that the intellectual work of their masters was in essence a revolutionary abandonment of all traditional ideas, and a new beginning—a new beginning which, for the first time, revealed things as they really were, while before they had always been represented as they were not.

A closer examination, however, dispels the illusion that the discovery of the principle of marginal utility was an isolated

revolutionary event, and tends to demonstrate that it was in truth an evolutionary process, subject to the same laws which dominate all intellectual developments. The transition from the classical to the neo-classical doctrine was gradual, and it corresponded to a much wider movement of thought, which is traceable in all the sciences and arts. It was gradual; for ever since 1830 there is noticeable a steady endeavour to put subjective, i.e. individualistic, interpretations upon the objective, i.e. social, categories of the classical economists. This tendency is clearly visible in Nassau Senior and, still more, in men like Lloyd and Longfield; it became dominant in the 'sixties and 'seventies when classicism reached its ultimate phase. The Italian, Francesco Ferrara, and the Englishman, John Elliot Cairnes, working independently, brought it to logical perfection. Thus the ground was prepared for a more consistent and thoroughgoing application of individualistic principles to economic analysis, though Hermann Gossen and Richard Jennings, writing about 1855, still failed to interest their contemporaries in the subjectivistic theories which they developed. Half a generation later the situation had radically changed: Carl Menger and Stanley Jevons, whose works were published in 1871, easily carried the day. It is curious that all four founded their teachings on the same principle, although there was no interchange of ideas between them. This is in itself a very interesting and important fact, tending to disprove the contention that modern economics is an incarnation of eternal truth. For either we assume that it was due to chance that four independent thinkers chose at the same time the individual psyche as the starting point of economic analysis; or we must believe that there was an all-comprehensive historical trend, which led these thinkers, separated as they were from each other in space, to the same results. The first assumption is at once seen to be unsatisfactory; yet if we prefer the second alternative, modern economics immediately appears as a simple product of historical development, as a mirroring of the socio-economic reality within which it took its origin, not unlike the various theories which have preceded it.

This latter impression is likely to derive strong support from the observation that the transition from the classical to the neo-classical doctrine was not only a gradual process, in which many individuals co-operated, but at the same time corresponded

to a much wider, and, indeed, universal movement of thought. By 1870, there was a general turn from the intellectual type of Mill and Schmoller to that of Menger and Jevons, a tendency away from the social and realistic aspects of life, towards the individualist and idealistic aspects. It was an age of transition, and the striking transformation of economic science only reflected the deep and decisive changes which all spheres of culture were experiencing at the time. Philosophy, religion, and art—all three passed through a violent crisis from which they emerged with a totally changed character.

In the same year as Carl Menger's *Grundsätze der Volkswirtschaftslehre* there appeared a book by Hermann Cohen entitled *Kant's Theorie der Erfahrung* which inaugurated the great renaissance of philosophic idealism that is for ever connected with the name of the Marburg school. As the economists of historicism had exclaimed: "No more theory!", so the philosophers of positivism had demanded: "No more metaphysics!" As economists like Schmoller had maintained that only a descriptive collection of material could advance science and learning, so philosophers like Duehring had taught that the expansion of our knowledge of the external world was the sole end of our endeavour: the parallelism of views is obvious. And Cohen, like Menger, preached: Back to introspection! Back to the intellectual analysis of social phenomena! Back to the use of reason! Back to theory!

A similar development took place in the field of religious experience and religious thought. Even the sacred science had its spell of positivism which was just then coming to a close. Up to the middle of the century, the social and institutional, i.e. the external, elements of Christianity had been the centre of discussion and interest: Montalembert may serve as an example of the spirit which had prevailed. Now a new inspiration, a new urge, permeated Europe which emphasized the personal and spiritual nature of religious experience, and thus laid the stress on the individualistic side of religion rather than on its institutional embodiment, the Church. In 1879, Tolstoi wrote his *Confession*, and the wave of enthusiasm which greeted this moving document of personal faith is a telling proof of the fact that the tide of thought had turned. It is not difficult to see that Tolstoi's philosophy of life, which found so striking

expression in his conversion, came from the same historical source as Cohen's idealism and Menger's individualism.

Yet the great change in the spirit of the age is perhaps most clearly reflected in the history of art. What is called naturalism was just as much an embodiment of the positivist spirit as Schmoller's economics or Montalembert's religious and ecclesiastical doctrine. Zola's *Roman expérimental* contained its theory. To describe or portray the external world as it presents itself to our senses was regarded as the supreme ideal of artistic achievement, and painters like Manet strove hard to represent things "as they really were"—at one in this endeavour with Schmoller and his school. But, almost overnight, impressionism was ousted by expressionism. Rimbaud's poems and Van Gogh's pictures evince a new spirit. They reflect, not the outward environment of the artist, but his inward life, and thus they correspond to Cohen's idealism and Tolstoi's spiritualism, no less than to Mengers attempt to explain the social laws of market economy from the psychic experience of individual man.

Thus a wider consideration of intellectual development clearly shows that the discovery of the principle of marginal utility was in no sense an isolated event but must, on the contrary, be conceived as an integral part of a broad evolutionary process. As such, it cannot but be an historical phenomenon like any other—a phenomenon which bears the marks, and must share the fate, of the period which brought it forth. Nothing could be more natural than that the votaries of the modern doctrine should be firmly convinced of its truth and value. But so were the mercantilists and the physiocrats with regard to theories which are now abandoned and despised. Nothing human endures for ever; economics is a science of society and must change with the changes thereof. All generations have indulged in the illusion that their views and wishes were the perfection of reason, and all have been confounded by time. The historian whose task it is to know the past better than the present and to comprehend all centuries in one glance, should not share this persistent error which is due to the primitive self-love and presumption of man. "Before God", Ranke said, "all generations of humanity appear with equal rights, and this is the way in which the student of history must look upon his subject." It is his mission, not to dispense praise and blame,

but to understand the past in its achievements, and to make it understood. It is in this spirit that the evolution of economics is here approached, and interpreted in its relation to social development.

The literature on the history of economic thought is the stage on which the two antagonistic conceptions above characterized, the critical and the historical, are seen in their unremitting struggle for supremacy. The issue is still undecided, but it may fairly be said that there is a growing understanding of the essential relativity of all social and economic doctrines. Among the historians of political economy who are aware of the necessity to interpret the ideas of the past in the light of contemporary conditions, the view prevails that the connection between reality and thought, economic life and economic theory, must be comprehended as a process of *action and reaction*. It was, above all, John Kells Ingram and Lewis Haney who developed this thesis which, on account of its breadth, proved very attractive.

It is, however, highly desirable to make this conception somewhat more concrete and precise. Perhaps it would not be unfair to describe and develop its underlying idea as follows : the economic reality of a period forms the views of the contemporary economists ; but these views in their turn transform the economic reality which they interpret, so that, in the end, things and thoughts appear in the same way as determining and determined elements. But the process, as it is generally envisaged, demands time. To borrow Haney's example : " The individualism of the *laissez-faire* economists and statesmen was to a great extent the result of industrial revolution ; but in its turn it became a condition reacting upon industry " (4). In other words : the social and economic situation of Britain, the requirements of commerce and industry as he continually observed them since the end of his Oxford studies in 1746, induced Adam Smith in his book which was published in 1776, to advocate free trade ; and this teaching, in its turn, prompted Pitt in 1800 to introduce free intercourse between England and Ireland, and Peel in 1846 to repeal the corn laws (Haney, 236 sq.). Action and reaction are spread over a whole century.

This conception is certainly correct ; but it explains the

history of economic policy rather than of economic theory. The transformation of economic life is a real and political *process*, its interpretation, however, an ideal and individual *act*. Therefore its analysis and explanation must start from a different basis.

This intellectual basis we possess in the mutual concatenation of all social phenomena in any given moment. The life of a time is a great and comprehensive unity, whose parts correspond to, and are, therefore, only comprehensible with, each other. This is particularly true of economic reality and economic doctrine: economic reality is conditioned by the mind, for it is thinking man who creates and moulds it; economic doctrine is conditioned by facts, for it is objective phenomena which it interprets. This necessary concatenation, however, for the characterization of which one is tempted to borrow from mathematics the idea of functional connection, can only be asserted if we concentrate on a fixed point in time. For everything is in a state of flux, and however short a period may be, the form and essence of life are at its end different from what they were at its beginning. A description and analysis of the progress of economic thought which is to rest on the idea of historical relativity must therefore always try to make a cross-cut through development, and then things and thoughts do not appear connected with, and related to, each other in action and reaction, but as *mutually conditioned*.

This essential dependence, or rather interdependence, can, however, only be acknowledged as mutual in the full sense of the word, if we take economic reality and economic doctrine as comprehensive categories, economic reality for the whole real aspect, economic doctrine for the whole ideal aspect, of social economy. If we are only concerned with the history of political economy, reality appears as the conditioning and science as the conditioned factor—simply because economic science, as such, is not interested in the transformation of economic life, and content if it succeeds in uncovering and exploring the laws of economic intercourse. With this limitation—but only with this limitation—Cournot's comparison is true which represents the relation of the economist to economy as similar to the relation of the grammarian to language: the work of the grammarian is conditioned by the language whose laws he strives to perceive, and any dependence in the opposite direction does not exist:

science is here only an *ancilla vitae*. But this attitude implies no materialism : as the poet transforms the language, so the economic politician transforms the economic system : we must only discern poet and grammarian, economic politician and economic theoretician, even if they occasionally appear in one person, if we would write a history of grammatical, or a history of economic, science. In doing so we are soon led to realize that the development of language and economy continually forces the sciences to change their doctrinal contents, that the mind is conditioned in its utterances by real life.

We say conditioned. May we go one step further and assert : determined? Here we touch the problem of free will, and it is proper to confess : *Ignoramus, Ignorabimus*. But one thing is certain : so long as philosophy and psychology have not established the principle of determinism, we, as historians, must never postulate it. Our personal experience teaches us that, confronted with a difficult problem of the present, we decide only after a long and painful inner struggle on one solution or the other, and even after having decided we are not free from all doubt. There is no reason to assume that the thinkers of the past were in a different position. The problems, however, which offer themselves to scientific economics, originate in economic life, and its solutions must be confirmed by economic life. Therefore freedom cannot be understood as arbitrariness : only between the possibilities of explanation which reality admits are we capable of choosing. Although we may assume that we are free to decide in the moment of our choice, as experience seems to suggest, and the determinists are unable to prove the opposite, yet this freedom of our choice has perished once we have exercised it. Posterity knows nothing of the inner struggle of the thinker : it sees only the thought which has become history. The individual and free element has disappeared, and only the real and pre-determined element is still visible. Thus Petty's or Cantillon's doctrines were in their time conditioned by the circumstances, and appear in our time as determined by them. It is the historical perspective which allows us to advance from the assertion that ideas are conditioned by reality, to the assertion that they are determined by it—provided we do not forget that the formation of ideas has never been subject to absolute necessity in its time.

So much for the historical interpretation of economic theories according to their content. To understand the form in which they have been propounded is the task of the biographer rather than of the historian. Here the element of individuality has its place: the enthusiasm with which Ferrara pronounces the word Freedom becomes comprehensible when we learn that he languished in Bourbon dungeons; the fervour with which Bastiat preaches the gospel of optimism is explained by the fact that a disease raged in his chest which fills its victims with confidence: but the fact that both propagated the ideology of liberalism, and the ideology of liberalism itself, has its ultimate cause in the history of that time when the economic order seemed to be, and was, a great and ingenious system of collaboration according to super-individual laws, the free action of which, under the given circumstances, necessarily invited an optimistic view of the world.

The concept which we have attempted to outline above affords a key to the understanding, and a tool for the analysis, of all economic theories put forward in the past. Exhaustively to prove its fertility, a lifetime of study devoted to the history of economic thought would be necessary. But the subject under discussion is one of those which may alike be treated in fifty or five thousand pages, and thus an attempt has here been undertaken to give, in a concise sketch, a consistent interpretation of the leading doctrines which have formed the links in the modern development of political economy. Special attention has been paid to the physiocratic system and to the system of marginal utility, because these theories have not yet been comprehended and explained in their historical setting: common opinion still regards the one as absolute error, the other as absolute truth. It is here, therefore, that our historical concept can best show what it is capable of achieving.

The quintessence of *mercantilism*, i.e. of the first doctrine which had the system of modern exchange economy, then still in the course of development, for its object, could be summed up on the model of Roscher in the following five principles:

1. The welfare of a nation, and the health of its national economy, depend upon the increase of the population, and likewise

2. upon the increase of the mass of precious metals in the country. "Imperii potentia ex civium numero aestimanda est," says Spinoza¹ (*Tractatus Politicus, Opera*, ed. Paulus, 1803, 2, 354), and Schroeder observed: "A country becomes the richer the more money or gold it receives from the earth or elsewhere, and the poorer, the more gold flows out" (cit. Mombert, 170).

3. Foreign trade must be made as active as possible, for if its balance is favourable it becomes the most important "of the means which make a kingdom without mines abound in gold and silver" (Title of Serra's *Breve Trattato*, 1614).

4. Commerce and industry are more important as branches of national economy than agriculture. "A Seaman is in effect equivalent to three Husbandmen" (Petty, *Political Arithmetick, Economic Writings*, ed. Hull, 1899, 259).

5. The state—this follows from the four foregoing maxims—has the mission to foster national welfare by an appropriate economic and power policy. Hobbes' *Leviathan* (1651) is the best illustration of this doctrine.

These five fundamental ideas may be historically explained in the following way:

1. The population of the territorial states which had come into existence by the beginning of the seventeenth century, was always deficient, and decreased still further during the murderous wars of the first half of that century. But this was not all: the vast majority of the people lived in the open country and were either legally or at least factually tied to the soil. Consequently commerce and industry could only develop on the basis of an expanding population. Thus an increase in the number of the people became a condition of the transition to a higher stage of economic life, and opinions like the following appear in their setting far less grotesque than when they are severed from their time: "If all the . . . People of Ireland and of the Highlands of Scotland, were transported into the rest of Great-Britain; . . . the King and his Subjects would thereby become more Rich and Strong" (Petty, l.c. 285). In that fortunate period every new citizen, and especially every new townsman, helped to build the growing edifice of commerce and industry which began to rise above the agricultural basis.

¹ "The strength of an empire must be estimated according to the number of its subjects."

2. This is the most important point. The *communis doctorum opinio* maintains that this doctrine originated in the confounding of concepts of private and national economy. What Adam Smith said in its critique more than a hundred and fifty years ago, is repeated over and over again: "That wealth consists in money, or in gold and silver, is a popular notion which naturally arises from the double function of money, as the instrument of commerce, and as the measure of value. . . . In consequence of these popular notions, all the different nations of Europe have studied, though to little purpose, every possible means of accumulating gold and silver in their respective countries" (*Wealth*, ed. Cannan, 1904, 396 sq.). Hence the whole thesis is erroneous and must be rejected. "Mercantilism is among the economic aberrations what avarice is among the moral" (Emminghaus in Rentsch's *Handwoerterbuch der Volkswirtschaftslehre*, 1866).

It is, however, impossible so lightly to dismiss the matter. The allegation that the mercantilists were dominated by the "Midas delusion", or, as it is sometimes expressed more mildly, that they, in their primitive way, transferred the notions of the individual, especially the merchant, to the whole of society, would be justified only if they had appreciated gold, and metallic money in general, merely in its function in private economy, as a measure and store of value, not because of its specific function in national economy, as helper in the market and circulating medium. But it is just this second aspect which they emphasize: they never tire of stressing¹ that gold and silver must not be accumulated as a treasure according to the wishes of the individual miser, but must circulate unceasingly—as a *pendulum commercii*—because otherwise they are, from the point of view

¹ Anyone who doubts the assertion of the text may convince himself of its truth by the study of the sources. The following small selection from the international literature of mercantilism will perhaps suffice:

Bacon, Francis, *Sermones fideles*, 1597, XV, XXXIX, *Opera omnia*, ed. Lipsiae, 1694, 1163 and 1206 sq.

Petty, Sir William, *A Treatise of Taxes*, 1662, III, *Economic Writings*, ed. Hull, 1899, 35 sq.

Temple, Sir William, *An Essay upon the advancement of trade in Ireland*, 1673, 8.

Belloni, Gerolamo, *Dissertazione sopra il commercio*, 1750, II, P. 4; Engl. *A Dissertation on Commerce*, 1752, 27 sq.

Verri, Pietro, *Meditazioni sull' Economia Politica*, 1771, V, XIII, XXI; *Scrittori Classici Italiani di Economia Politica*, XV, 1804, 52 sq., 119 sq., 189.

Melou, Jean François, *Essai Politique sur le Commerce*, 1736, 6 sq.

Hornigk, Philipp Wilhelm von, *Oesterreich ueber alles, wann es nur will*, 1684, ed. 1708, 30 ("Cameralalphabet", Point 4).

of society, useless. To quote only one of them: "If . . . [gold] is locked up in chests, it is *not gold but a dead and useless rubbish*; and the more of it lies sterile . . . the more all commerce and traffic is thereby weakened and impeded" (Lau, *Entwurf einer wohleingerichteten Polizey*, 1717, cit. Mombert, 174). Even Schroeder, whom we quoted above, stated with the greatest emphasis that the precious metals must not be hoarded, but incessantly change hands.

Hence it was a conception of national economy proper which governed the mercantilists, and in the needs of national economy lay its roots. The seventeenth century demanded more gold for the same reason for which it demanded more men: because there was a deficiency. A natural economy with little circulation was about to be transformed into an exchange economy with much circulation: thus more means of circulation had to be procured, and these means of circulation had to fulfil their mission, i.e. to circulate. Hence an expansion of the mass of money available was a condition of the transition to a higher stage of economic development.

It could be objected to this argument—and Adam Smith's words (l.c., 412 sq.) seem to point in this direction—that an increase in the mass of money was not necessary to an intensification of exchange, and that the existing mass (even supposing that, on account of traditionalistic hindrances, the velocity of circulation remains constant) could equally well perform an increased and increasing number of exchanges. This is true in the abstract. But an increase of exchanges in commodities would, if the mass of money and the velocity of circulation were unaltered, necessarily cause a fall of prices, and such a development, with its undesirable psychological effects, every growing economy seeks to avoid. The seventeenth century needed rising prices to stimulate production, and therefore money, and more money.

3. But whence should the gold come which was indispensable for the transition to market and exchange economy? Whence could it come, if not from an active foreign trade? Neither France nor England, neither Germany nor Holland, possessed mines of any importance, and thus a favourable balance of trade was for them the only way of obtaining new means of exchange. Hence Hornigk's strange saying that "it would be better, how-

ever extraordinary this may seem to the uninstructed, to pay for an article of merchandize two thalers which remain in the country, than one only which leaves it" (cit. Mombert, 169). Again we see that precedence is given to the interests of the nation and national economy before those of private economy. The individual is expected to make sacrifices that the necessary means of circulation need not be withdrawn from society.

Once we have understood that the mercantilists appreciated foreign trade because, in attracting gold, it provided domestic economy with the technical conditions of the transition to a higher form of economic life, we can also understand and acknowledge the truth of the view which, for two centuries, has been incessantly decried as untenable and foolish: that in international commerce "one can never lose what the other would not gain" (Monchrétien, *Traité de l'économie politique*, ed. Funck-Brentano, 1889, 161). The problem was to divide the scanty stock of money that was available among the different countries, and if four children wish to eat a cake, one can only have more than a quarter if something is taken from the share of the rest.

4. From natural to exchange economy—this is the fundamental fact, and at the same time the fundamental idea, of the mercantilistic period. Therefore the different branches of economic life were assessed according to the state of their development. Commerce, which was relatively free, was most highly valued. Industry, which was just beginning to throw off the fetters of by-laws and guild regulations, stood somewhat lower in general esteem. On the lowest level, however, stood agriculture, still governed as it was by feudalism and traditionalism. This opinion had the deeper roots as it seemed true even from the point of view of private economy: the transition from natural to exchange economy was at the same time a transition from subsistence to profit economy. "There is much more to be gained by Manufacture than Husbandry, and by Merchandise than Manufacture," said Sir William Petty (l.c. 256), and he was right.

5. Viewed geographically and politically, exchange economy presupposes a much larger and more uniform economic territory than natural economy, which may exist even on the most confined space. Hence the importance of the state for the economic life of the seventeenth century: if material welfare was to

flourish, the political disunity of the Middle Ages had to be overcome. This tendency explains the expansionist policy which all great powers followed at the time. Yet not only as an instrument of war, even as an instrument of peace, was the government, as the will-centre of the nation, necessary to the national economy, which it dominated and served. To mention only one point: if an active balance of trade was to be secured to attract the life-spending metal, it was imperative to impede as far as possible the import of expensive manufactured commodities and to support their export, and at the same time to prevent the export of cheap raw materials still to be processed and to favour their import. For this purpose the state was called upon to direct by a competent trade policy the stream of goods as was desired.

All these ideas, however, were only proper to a time of transition and necessarily became senseless as soon as the development of national economy had reached its first stage of equilibrium. Once population had, in its growth, overstepped the optimum, the populationist thesis of mercantilism became obsolete and—as Malthus was soon to show—the opposite correct. The same is true of the increase in the quantity of money: it could only remain the aim of economic policy as long as the markets suffered from a lack in the medium of circulation. As soon as this deficiency was remedied, as soon as people became acquainted with the possibilities of paper circulation (Law), the old theory was out of date. In Boisguillebert (*Détail de la France*, 1697) this change is first clearly and consciously expressed. Money, he says, whose functions may as well be fulfilled by copper and leather, shells and paper, as by gold and silver, is not a value in itself, and its abundance does not add to the welfare in a country, provided that there is enough of it to keep the prices of the essential commodities intact. The new situation destroyed, or at least modified, the old doctrine: Petty, North, and Steuart declare that the quantity of money in a national economy should neither be too small nor too great, and they endeavour to find the factors which determine its optimum amount. Thus developed on the one hand the quantity theory of money (Locke), on the other hand an analysis of the process of inflation (Hume).

The fall of the central thesis of mercantilism necessarily

invalidated all its other postulates : if no more metal was needed, it was no longer necessary to insist on a constant activity of the balance of trade ; and if a constant activity of the balance of trade was no longer essential, it became possible to dispense with the offices of the state which, in the meantime, had formed the home market into a great unit. The valuation of the branches of economic life, however, changed as soon as industry and agriculture, too, became adjusted to, and included in, exchange economy and assumed capitalistic forms. Sombart who, following Bidermann's admirable book (*Ueber das Merkantilsystem*, 1870), has contributed much towards the clarification of the problems under discussion, in calling mercantilism the " political economy of early capitalism " (*Der moderne Kapitalismus*, II, 2) has strikingly summed up the essence of this much-misunderstood and much-abused doctrine.

That the theories which constituted the mercantile system can and must be conceived as the products of a time in which Europe changed from natural to exchange economy, is also proved by a consideration of the only important theoretician of the nineteenth century who worked under similar conditions : the American *Henry Carey*.¹ Held has spoken of " Carey's relapse into the mercantile system " ² and thus described the resemblance of his outlook to that doctrine—a resemblance which is simply explained by the fact that in the time of Carey (who was born in 1793) the American economy stood on the threshold of the modern economic system as the Italian had in the time of Genovesi, to whom he is said to have shown a special similarity. In both cases the same belief in the beneficial effects of a growing population, the same will to increase the monetary circulation and the velocity of that circulation, in both cases the same strict protectionism—in a word, agreement in the principles of economic policy for the unfolding of exchange economy which is, as it were, symbolically expressed in Carey's predilection for Colbert.

In England, mercantilism was immediately followed by classical

¹ Cf. also E. H. Everett, D. Raymond and other American economists of this period.

² Adolf Held, *Carey's Sozialwissenschaft und das Merkantilsystem*, 1866 ; cf. also Eisenhart, 189.

economics : between Steuart's *Inquiry* and Smith's *Wealth of Nations* lie only ten short years. In France, however, a school inserted itself between them which, though it hardly flourished for a single generation, and though its basic thesis was hardly accepted anywhere outside the country of its origin, nevertheless deeply influenced the course of development : the *physiocratic school* of François Quesnay.

"The soil is the only source of wealth" : in this terse sentence Quesnay (*Œuvres*, ed. Oncken, 1888, 351) expressed the fundamental idea of his doctrine, the assertion which has been so incomprehensible to posterity that trade and industry are incapable of producing a net profit beyond their outlay.

The products of agriculture reimburse the costs, pay the manual work of cultivation, procure gains to the labourers and, in addition, produce the revenues of the estates. Those who buy the products of industry pay for the costs, the manual work, and the merchants' gain ; but these commodities do not produce any revenue beyond that (*ibid.*, 233).

Turgot who is usually represented as an independent thinker, held exactly the same doctrine ; he says of the agriculturist : "What his labour causes the land to produce beyond his personal wants is the only fund for the wages which all other members of society receive" (*Œuvres*, ed. Daire, 1844, 9 sq.). And although he rejected the description of the industrialists as *classe stérile*—wisely foreseeing that this nomenclature would occasion an endless chain of misunderstanding—he still shared the judgment expressed in that word, for he himself speaks of the *classe des cultivateurs* as *classe productive*, of the *classe des artisans* as *classe stipendiée*.

The doctrine of distribution laid down by Quesnay in his *Tableau Economique* is nothing but an application of this idea of the exclusive productivity of agriculture and the barrenness of trade and industry. The scheme he develops rests on the assumption that the productive class of a country, that is to say, its whole national economy, produces in one year goods to the amount of 5 milliards of francs, and suggests : 2 milliards are consumed by this class itself, a further 2 milliards go as farm-rents to the landlords called *classe des propriétaires*, and 1 milliard, the last, to the *classe stérile*, the artisans, in exchange for industrial products. Hence all income originates in agriculture. The

landlords divide the 2 milliards which they receive into halves : they return 1 milliard directly to agriculture, buying food for it. The second milliard goes to the artisans for industrial products. Thus every year 2 milliards are accumulated by the *classe stérile*—one which they receive from the peasants and one which they receive from the nobles for their merchandise. But they must hand back this whole amount to the *classe productive* without the provisions and materials of which they could neither live nor work. The circle is closed and may begin anew.

It has often been said that this conception is based on a confusion of value and matter, on the erroneous assumption that primary production, because it alone creates new matter, must be regarded as the sole-creator of all value. But this argument does not explain how the supposed error may have arisen. Adam Smith tried to answer this crucial question, and posterity has faithfully repeated his words. He thinks that physiocracy must be conceived as a reaction against mercantilism, Quesnay as an antagonist of Colbert.

If the rod be bent too much one way, says the proverb, in order to make it straight you must bend it as much the other. The French philosophers who have proposed the system which represents agriculture as the sole source of the revenue and wealth of every country [—does not Smith wrong Quesnay in this point? Quesnay speaks only of a *Royaume Agricole*¹—] seem to have adopted this proverbial maxim ; and as in the plan of Mr. Colbert the industry of the towns was certainly over-valued in comparison with that of the country ; so in their system it seems to be as certainly under-valued (*Wealth*, ed. Cannan, 1904, II, 162).

Even these words of Adam Smith, however, do not exculpate the wrongdoers who have spread false doctrines ; they plead only extenuating circumstances. But we must strive fully to understand their concept. A sentence from Smith's criticism of physiocracy shows us the right way : " It seems . . . altogether improper," he says, " to consider artificers, manufacturers and merchants in the same light as menial servants " (l.c. 173).

¹ He sometimes considered also a *Royaume Commerçant* ; but he regarded its welfare as problematic. " Without the products of agriculture, a nation cannot have any other resources than manufacture and commerce ; but both can only exist by the riches of foreign countries ; such resources are moreover very limited and little secure and can suffice only for small states " (*Œuvres*, ed. Oncken, 1888, 220). Quesnay is obviously thinking of Holland. Cf. also 236 sq., 343, 355.

Only if they were in fact nothing but menial servants would they belong "among the barren and unproductive".

Now, what was false in the English society of 1760 could well be true in contemporary French society. For French society rested on a different social system—on a social system which is truly reflected in the *Tableau Economique*. We need only turn the description a little to perceive this, we need only put the *classe des propriétaires* into the foreground and not the *classe productive*. If we do so the picture presents itself as follows: society is so constituted that all wealth which is created falls to one class, the *classe des propriétaires*, while all other ranks gain only their subsistence.

The two classes of the Cultivators and the Artisans [says Turgot (*Reflections*, ed. Ashley, 1898, 15 sq.; similarly Quesnay, l.c. 233)] . . . have . . . this in common, that they get nothing but the price of their labour and of their advances, and this price is nearly the same in the two classes. The Proprietor bargaining with those who cultivate the land to yield to them as small a part of the produce as possible in the same way as he chaffers with his shoemaker to buy his shoes as cheaply as possible.

However :

although neither the Cultivator nor the Artisan gains more than the recompense of his labour, the Cultivator causes, over and above that recompense, the revenue of the Proprietor to come into existence.

Hence all riches accumulate in the hands of the *classe des propriétaires*, i.e. the nobility. They draw them from their peasants, the *cultivateurs*, and for this reason these are productive. The craftsmen furnish them with all sorts of things which render life agreeable, and to this extent they are indeed useful. But they do not add to the wealth of the privileged class, they do not pay rents but help only in spending them, and for this reason they are unproductive, a *classe stipendiée*, or, as Quesnay somewhat unhappily expressed it, a *classe stérile*.

Have we not here before us the France of the *Ancien Régime* viewed from Versailles and fixed in a tableau? In the service of a small upper class stand the unfree masses of the rural population which produce revenues; in their pay stand the trading inhabitants of the towns who—like grooms and lackeys—serve their luxury. For—and this is decisive—the French industry

of 1760 was in its character a luxury industry for the ruling few, and this important fact explains the singularly dependent position which it occupied in the system of physiocracy. The manufactures of France, said Adam Mueller as late as the beginning of the nineteenth century,

remained in the deplorably limited state in which we find them even now, because the great mass of the nation was far too poor to have artificial demands. French luxury goods—mirrors, porcelain, fine cloths, fine silken materials, gold and silver articles, fancy ware—still far surpass the similar products of all other nations, even the English; there are, however, hardly any products of a moderate kind, which may be the national need of a whole people (*Elemente der Staatskunst*, ed. Hendel-Verlag, 1936, 370).

The fact that the landowners in pre-revolutionary France absorbed nearly the whole industrial output so that the industrial entrepreneurs appeared more or less as employees of the nobility, is most clearly reflected in Cantillon's *Essai*. The prototype of an industrialist is to him—a hatter! As hatters work almost exclusively for the upper classes, Cantillon believed, all tradesmen are in the service of the noblesse. "All the individuals are supported not only by the produce of the land which is cultivated for the benefit of the owners but also at the expense of these same owners from whose property they derive all that they have" (ed. Higgs, 1931, 42). These words not only reveal the historical root of physiocracy—they convey also its historical explanation. Towns, Cantillon points out, arise where landlords settle who draw merchants and craftsmen after them: their greatness depends on the nobility residing there. "The size of a city is naturally proportioned to the number of landlords who live there" (16). They govern the market, they give to production and commerce their task and direction: "It is always the inspiration of the proprietors of land which encourages or discourages the different occupations of the people and the different kinds of labour which they invent" (92). Hence his physiocratic concept, which the school has only more clearly formulated, one might almost say, made into a slogan: "I will . . . lay it down as a principle that the proprietors of land alone are naturally independent in a state; that all the other classes are dependent whether undertakers or hired" (56).

François Quesnay was at one with Richard Cantillon; this

is shown not only by the fact that he quotes him with approval (art. "Grains", Oncken, 218, cf. also 189, 236), but also by his own words.

Without the produce of our soil [he says (216, 233 sq.)], without the revenues and expenses of the proprietors and cultivators, whence would the profit of commerce and the wages of labour arise? . . . All the costs of industrial production are drawn solely from ground-rents; for occupations which produce no rents can only exist by the riches of those who pay them. . . . All entrepreneurs gain fortunes only because others make expenses . . . *The landowners . . . pay the work of industry*; and thus their revenues become common to all men.

And in one passage the roots of the view that industry is sterile, lie bare:

The manufacturers of linens and of common materials can much increase the value of hemp, flax, and wool, and procure subsistence to many men who would be occupied in these very advantageous activities. But . . . to-day . . . the production and commerce of the greater part of these goods is almost annihilated in France. For a long time the manufactures of luxury have seduced the nation¹; we have given ourselves to an industry which was foreign to us (193).

As these suggestive sentences prove, Quesnay taught in 1757, at a time when his living doctrine had not yet turned into a dead dogma, that industry can be productive, if, like agriculture, it is a "*production des matières de premier besoin*";² but that it is unproductive if it serves the condemned *luxe de décoration* as in Quesnay's country and time. The tradesmen who, for the pleasure of the fashionable society of Versailles, produced coaches, wigs, knick-knacks, brocades, mirrors, tapestries, powder and snuff-boxes and the like, appeared to the physician of Madame de Pompadour as servants of the luxury of the lucky few like chambermaids and stable-grooms, liveried lackeys and kitchen

¹ For the outstanding importance of luxury in pre-revolutionary France, cf. also Necker's writings: *Sur la législation et le commerce des grains*, 1755, and "*De l'administration des finances de la France*", 1785.

² Limits of space prevent my following the thesis of the text further. Cf., however, the interesting *Questions sur la Population, l'Agriculture et le Commerce*. There Quesnay speaks of the "advantages of the manufactures which process the materials of the [home] soil over those which process foreign materials" (silk, imported wool, cotton, cf. 344) into luxury goods, and in this connection we read: "Are not the proceeds of the commerce of the latter"—hence not of all!—"after the value of the raw materials bought from abroad has been deducted, restricted to the restitution of the costs of labour and to the special gain of the merchants?" (Oncken, 287). Important are also the suggestive questions under VI, l.c. 302 sq.

hands—they were (in his eyes and in reality) menial servants ; they belonged to the sphere of consumption and not to that of production. “ The production of merchandise of handicraft and industry for the use of the nation are only an object of expense and not a source of income ” (343).—“ The sterile class . . . works only for consumption ” (391). As productive he regarded only the husbandman who, with his hard labour, had to pay for all the extravagance ; the husbandman who, as things were, maintained in fact not only himself but also the noblemen with their whole throng of servants in household, commerce and industry.

This explanation of Quesnay's theory of distribution from the reality of his time provides us also with the key to his doctrine of taxation. The traditional formula is this : as the physiocrats regarded only agriculture as productive, they wished to tax only agricultural production. But it is more correct to say : as the physiocrats saw all riches streaming into the pockets of the nobles, they wished to tax only the income of the nobles. For this was their programme (332). Under the existing conditions, *classe productive* and *classe stérile* worked only for the *propriétaires* and were themselves held down to the subsistence-level, and thus it seemed senseless to tap any other source : to burden the *classe stérile* would have made luxury goods more expensive, to burden the *classe productive* would have lowered the revenues—hence, in the end, it would still have been the nobles who would have been forced to restrict their expenditure for the sake of the state, and they were the only ones who could do it.

The fact that Condillac's view on the productivity of commerce and industry differed from that of Quesnay, is no argument against the interpretation of the physiocratic system here suggested. Condillac has been represented as an adversary of the physiocrats—wrongly so, for even he says : “ It is the soil alone which produces all . . . things. It is . . . the only source of all wealth ” (*Le Commerce et le Gouvernement*, 1776, 51). And when he continues : “ But it becomes an abundant source only if it is made fertile by the work of men ”, he is merely expressing an idea which Quesnay shared. (“ Revenues are the products of the soil and men. Without the work of men, the soil has no value,” l.c. 220). He has also been accused of inconsistency because, in spite of this fundamental agreement with Quesnay,

he still in the end reached the conclusion that "industry, too, is, in the last analysis, a source of riches" (65). But this judgment is not less unjust. We must endeavour to understand the difference between the politically-minded social reformers on the one side and the sensationalist philosopher on the other, which led them, although at one in principle, to different results. Quesnay had said: "The one group [the agriculturists] gives rise to riches by cultivation; the other [traders and artificers] prepares them for enjoyment; those who enjoy them pay both" (l.c. 234, cf. further the clear words 381/82; to the same effect, Condillac, 63). Now, while Du Pont and Le Mercier developed the first aspect of this thesis, Condillac followed the second: while the politically-minded social reformers thought in objective and social categories, the individualist philosopher must be interpreted in the light of subjectivism and sensualism: the two doctrines are then seen to be complementary rather than antagonistic. The former think of riches as a stock of property and as a source of income, the latter as a fund of consumption and a source of enjoyment. The former say: in our society only agriculture produces rents, the latter: for consumption, all commodities of the first order are important. We have before us, not contradictory solutions of one problem, but independent solutions of different problems. In a deeper stratum of their thought even Condillac and Le Trosne were at one; this is manifest in such doctrines as their theory of taxation.

It is manifest above all in the dogma which so deeply influenced the further course of the history of economic doctrine: the dogma of the *ordre naturel* as the "order . . . evidently most advantageous to the human race" (Oncken, 375). In the interpretation of these ideas the thesis "physiocracy was a counter-movement against Colbertism" is in part applicable—only in part, however, for a deeper analysis leads to the realization that there existed an outspoken unity of purpose between the mercantile and agricultural systems. It is true, however, that Quesnay based his programme of agrarian reform on the assertion that national welfare flourishes only under free trade, and declines where state intervention obtains.

A great state must not leave the plough to become a carter. It is impossible to forget that a minister of the last century, blinded by the trade of the Dutch and the splendour of the manufactures

of luxury, has thrown his country into such folly, that people spoke only of commerce and money . . . This minister . . . upset the whole economic order of an agricultural nation. The foreign trade in corn was stopped to enable the workman to live cheaply ; the sale of wheat within the kingdom was handed over to an arbitrary police which severed the commerce between the provinces. The protectors of industry . . . by a miscalculation ruined their towns and their provinces through senselessly degrading the cultivation of their soil : all tended towards destruction . . . (l.c. 343).

Where had Colbert led France ? Fénelon, anticipating Quesnay, as early as 1699 had given an impressive answer to this question : " A great city densely populated with artisans occupied in softening manners by the joys of life, if it is surrounded by a poor and badly cultivated kingdom, resembles a monster whose head is of enormous size but whose body, exhausted and deprived of nourishment, has no proportion to the head " (*Télémaque*, ed. Didot, 131). In such circumstances it seemed necessary to the salvation of agriculture to secure a *bon prix* for agricultural products, and the most obvious as well as most suitable way to this end was the abolition of the measures which had been expressly introduced with the object of keeping grain cheap. " It is by no means necessary ", said Boisguillebert fifty years before Quesnay,¹ " to work miracles, but only to stop continually offering violence to nature . . . *Laissez faire la nature et la liberté!*" Natural liberty, will order all for the best, thought Boisguillebert, and Quesnay expected from it on the one hand an increase of harvests by a transformation of production,² on the other an increase of prices by a transformation of the market. Rich harvests and good prices, however, guarantee the welfare of a rural population. Hence Quesnay's enigmatic dictum : " Cheapness with abundance is by no means riches ; dearness with scarcity is misery ; abundance with dearness is opulence " (l.c. 246).

¹ Cf. on this point Oncken, *Geschichte der Nationalökonomie*, 1902, 251 ; Gonnard, 162 sq.

² It is impossible to give here even a short outline of the physiocratic programme which is aptly described by Gonnard, who bases his account on Weulersse's great work (218 sq.). It contained, as a matter of course, the demand that serfdom should be abolished. " The soil cannot become fruitful but by the hands of free men—serfdom is repellent to the law of nature " (234). Above all, however, Quesnay wished to replace the feudal *mtayer* by the capitalistic *fermier*, the *petite culture* with oxen by the *grande culture* with horses. Agriculture should be provided with capital : " It is less men than riches which it is necessary to attract to the country " (*Œuvres*, 333).

This liberalism of the physiocrats appears at first sight as a complete contradiction to the interventionism of the mercantilists. Hence the general interpretation of the younger system as an antithesis of the older doctrine. But in reality Quesnay was only the executor of Colbert's testament. For the goal of the seventeenth century, the unfolding of exchange economy, had been reached in France only partially, only in respect of trade and industry. Agriculture had remained feudal. What the eighteenth century aimed at, what confronts us on almost every page of the physiocratic literature as the dearest desire of the *secte économiste*, is the assimilation of agricultural production to capitalist conditions; hence the fulfilment of the historical mission of mercantilism. Quesnay wished to entrust agriculture to capitalist entrepreneurs: "The advantages of agriculture depend . . . on the amassing of land in great farms, brought to their highest value by rich farmers . . . We do not envisage the farmer as a labourer who works the soil himself; he is an entrepreneur who commands" (l.c. 219). But a capitalist production of this sort has profitable prices for its presupposition, and these could only be brought about by the fall of interventionism. Thus in changed conditions, and with new means, men still strove towards the old end.

Freedom of production and freedom of the market: from these two sober postulates of economic policy arose the sublime pathos of the physiocratic doctrine of the *ordre naturel*. The words of the older Mirabeau that laws which conform to nature are unnecessary, laws which contradict it impracticable, form the transition from the concrete political programme to the abstract philosophical system.¹ The idea of system and the system of ideas of the *ordre naturel*, however, are not Quesnay's exclusive property—they are the common basis of classical economics. They found their purest expression in Adam Smith's *Inquiry into the Nature and Causes of the Wealth of Nations*.

The basic thesis of Smith's work, the bible of an optimistic century, is the belief that economic life is dominated by a secret but sovereign law, according to which men, although they only wish to serve their own interests, at the same time automatically

¹ "Quesnay regards this liberty . . . above all as a device for facilitating the sale of goods, increasing the net product of the soil, and bettering the position of the cultivator. But with Mercier de la Rivière it is certainly a strict principle," Rambaud, 164.

promote the common weal, nay, that the common weal cannot be better fostered than by free men playing for their own hands alone. "The uniform, constant, and uninterrupted effort of every man to better his condition" is to Smith "the principle from which public and national, as well as private opulence is originally derived" (*Wealth*, ed. Cannan, 1904, I, 325).

Every individual [he says in another place (419)] is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage, indeed, and not that of the society, which he has in view. But the study of his own advantage naturally, or rather necessarily leads him to prefer that employment which is most advantageous to the society.

And,

the natural effort of every individual to better his own condition, when suffered to exert itself with freedom and security, is so powerful a principle, that it is alone, and without any assistance, . . . capable of carrying on the society to wealth and prosperity . . . (II, 43).

Le Mercier de la Rivière had written, ten years before, in the same vein: "The desire to enjoy and the liberty to do so, incessantly provoking the multiplication of production and the enlargement of industry, impose on the whole society a movement which becomes a perpetual tendency towards its best possible state" (*L'ordre naturel et essentiel des sociétés politiques*, ed. Daire, 617). And Ricardo said thirty-five years later: "Where there is free competition, the interests of the individual and that of the community are never at variance" (*The High Price of Bullion, Works*, ed. McCulloch, 1846, 265).

Nineteenth-century socialism, conceived as it was under conditions entirely different from those which had given birth to eighteenth-century liberalism, relegated this thesis to the realm of errors. But as Smith, by his criticism of Quesnay, so Lassalle, by his criticism of Smith, has given posterity a hint as to how the relative truth of the idea decried as absolute error might be found: "The ethical idea of the bourgeois," he says in his *Arbeiterprogramm* (ed. 1874, 31 sq.), "is this, that absolutely nothing but the unhampered use of his forces should be granted to everybody. If we were all equally strong, equally clever,

equally educated, and equally rich, this idea could be regarded as sufficient and moral" (cf. also Sismondi, *Nouveaux principes*, 1819, I, 379). In an egalitarian social order the free operation of self-interest would in fact be to the common advantage.

In these words Lassalle touches upon two problems: the question of the natural, and the question of the socio-economic, equality of men. With regard to the former, the question whether men are equally strong and equally clever, the answer depends much more on the philosophical convictions of the individual than on science. Smith, in any case, answered it in the affirmative. "The difference of natural talents in different men", he says (17), "is, in reality, much less than we are aware of. . . . The difference between . . . a philosopher and a common street porter . . . seems to arise not so much from nature, as from habit, custom, and education. When they came into the world . . . they were, perhaps, very much alike." What is however the salient point in any social consideration, is the question whether men can be regarded as equally educated and equally rich, i.e. whether society is so constituted that all are equally well armed for the struggle for existence, so that only he has subjective success who deserves it because of his objective achievements—and on this point a man of 1760 and a man of 1860 could not agree.

The socialists of 1860 saw society torn by class struggles. It was the private property in the means of production which stood between capitalists and proletarians and made them irreconcilable opponents. The liberals of 1760 knew nothing of this concept and necessarily so—the labourer and the means of labour had not yet been separated. In Adam Smith's time the estates of feudalism were already dissolved, the classes of capitalism not yet formed—never was society nearer to the ideal of perfect equality.¹ It was the happy epoch in which it could rightly be said that "the property which every man has in his own labour . . . is the original foundation of all other property" (123).

For how does Adam Smith describe the relation of entrepreneur and worker? "In all arts and manufactures," he says (67),

¹ In religious life this state of social equilibrium found its expression in puritanism. Its basic idea was the equality of believers (universal priesthood) and the equality of church functionaries (presbyterianism). The connection between religious and social history is here manifest: "The typical puritan was the small master, who owned his land or his tools" (John Buchan, *Oliner Cromwell*, 1934, 28).

“the greater part of the workmen stand in need of a master to advance them the materials of their work, and their wages and maintenance till it be completed.” On this passage Edwin Cannan observes (Note 5): “The provision of tools to work with and buildings to work in is forgotten.” A classical example of how the past must not be handled! It was not Smith who forgot something, but Cannan: namely, that the author whom he criticizes published his book in 1776 and not in 1904. In 1776, the means of production were not yet in the possession of the entrepreneur, but still in the hands of the worker: the factory system had not yet ousted domestic industry. Crompton’s spinning mule and Cartwright’s power-loom still belonged to the future. Of the branch of production which Smith himself described as leading, H. T. Wood who has subjected this period to close study says: “Even in those places where weaving was carried on as an industry, it was still a domestic industry. The weaver worked at home, using yarn which had been collected from the farmhouse and cottages, where it was spun in single threads by the women” (*Industrial England in the Eighteenth Century*, 1910, 42). The labourer and the means of labour were not yet separated.

But, quite apart from the property in the means of production, the worker of 1760 cannot be compared with his unhappy descendant of 1860: he had in the labour force itself a valuable capital. Smith emphasized this important point (265): “The improved dexterity of a workman may be considered in the same light as a machine . . . which, though it costs a certain expence, repays that expence with a profit.” The workman of Smith’s time could not yet be replaced by women and children as after the industrial revolution—“skill, dexterity and judgment” were still of decisive importance, and “the dexterity of hand . . . even in common trades, cannot be acquired without much practice and experience” (5, 125). How great the contrast between the eighteenth and the nineteenth century in this respect really was, was impressively illustrated by Andrew Ure in his *Philosophy of Manufactures* (ed. 1861, 19 sq.):

When Adam Smith wrote his immortal elements of economics, automatic machinery being hardly known, he was properly led to regard the division of labour as the grand principle of manufacturing improvement . . . But what was in Dr. Smith’s time a topic of

useful illustration, cannot now be used . . . as to the right principle of manufacturing industry. In fact, the division, or rather adaptation of labour to the different talents of men, is little thought of in factory employment. On the contrary, wherever a process requires peculiar dexterity and steadiness of hand, it is withdrawn as soon as possible from the cunning workman who is prone to irregularities of many kinds [—who is prone to demand better wages and shorter hours—] and it is placed in charge of a peculiar mechanism, so self-regulating, that a child may superintend it. . . . The principle of the factory-system then is, to substitute mechanical science for hand skill, and the partition of a process into its essential constituents, for the division or graduation of labour among artisans. On the handicraft plan, labour more or less skilled was usually the most expensive element of production—*Materiam superabat opus*; but on the automatic plan, skilled labour gets progressively superseded, and will, eventually, be replaced by mere overlookers of machines. . . . Mr. Anthony Strutt, who conducts the mechanical department of the great cotton factories of Belper and Milford, has so thoroughly departed from the old routine . . . that he will employ no man who has learnt his craft by regular apprenticeship; but in contempt, as it were, of the division of labour principle, he sets a ploughboy to turn a shaft of perhaps several tons weight, and never has reason to repent his preference . . .

The workman of the eighteenth century was the free master of his own tools, the worker of the nineteenth century the unfree servant of another man's factory.

But what was perhaps the most important fact: the rise from workman to master was not yet impossible in Adam Smith's time. This is manifest not only in numerous individual examples; it was quite generally true. "In years of plenty", says Smith (85), we should say, in spells of prosperity, "servants frequently leave their masters, and trust their subsistence to what they can make by their own industry", an advancement of which the proletarian in Lassalle's environment, at once without property and without skill, could not even dream.

Hence, if the optimistic doctrine of Adam Smith is, according to Lassalle's words, applicable to a society whose members are equally strong and equally clever, equally educated and equally rich, it was true in 1760 and false in 1860. The industrial revolution which separated the worker from the means of production and degraded him to a servant of the machine, so that he was robbed of all hopes of rising, put the doctrine of class struggle in the place of the belief in the harmony of interests—

and both creeds were no more than expressions of the contrasting conditions under which they arose.

Adam Smith lived before the industrial revolution. This fact explains his social philosophy. It must also be capable of explaining his theory of value which later served as the foundation to Ricardo's work, the doctrine that it is labour, and labour alone, which in the end determines the exchangeable value of all goods.

As is generally known, Adam Smith attained perfect clarity neither in his theory of value nor in his theory of price. He propounded two different explanations: the one has the "early and rude state of society" as its object, the other "improved and civilized society"; in the former, labour alone decides value-in-exchange, in the latter (after the formation of capital and the appropriation of land) wages, profits, and rent enter into the price. What had Smith in mind when he developed these ideas?

The much-quoted first sentence of his work has hitherto impeded or prevented the right interpretation of the Smithian doctrine because it seems—especially in comparison with, and in contrast to, the physiocratic thesis—to assign to labour an exceptional position. "The annual labour of every nation is the fund which originally supplies it with all the necessaries and conveniences of life which it annually consumes." But this passage can only be rightly comprehended if it is viewed in the light of the third chapter in the second book, that which discusses the co-operation of the factors of production. Here the yearly national income is consistently described as the "annual produce of the land and labour" (e.g. 315)—and the famous passage of the introduction, too, rests without doubt on this assumption of *two* factors of production, for all work presupposes something to work at, the raw material offered by the earth. If the soil is not expressly mentioned in this connection, this is so only because its co-operation is simply a matter of course.

He, however, who has clearly understood that "the real wealth and revenue of the country" consists for Smith "in the value of the annual produce of its *land and labour*" (323) has also found the right approach to his doctrine of value. This is nothing but a slip from the root of the fundamental concept expressed by Sir William Petty in the following words: "Labour

is the Father and active principle of Wealth as Lands are the Mother" (*Economic Writings*, ed. Hull, 1899, 68, 377). Men must wrest all goods from the earth; the more difficult it is to obtain them, the greater the labour which their gain occasions, the higher their value.¹ "At all times and places that is dear which it is difficult to come at or which it costs much labour to acquire; and that cheap which is to be had easily, or with very little labour. Labour, therefore . . . is alone the ultimate and real standard by which the value of all commodities can at all times and places be estimated and compared" (35). Objective cost and subjective disutility of labour are harmoniously combined in this conception. "Equal quantities of labour, at all times and places, may be said to be of equal value to the labourer. In his ordinary state of health, strength and spirits, in the ordinary degree of his skill and dexterity, he must always lay down the same portion of his ease, his liberty, and his happiness" (ibid.). Hence it is but "natural that what is usually the produce of two days or two hours of labour, should be worth double of what is usually the produce of one day's or one hour's labour" (49).

This inference, however, is not applicable to the present. While "in that early and rude state of society which precedes both the accumulation of stock and the appropriation of land, the proportion between the quantities of labour necessary for the acquiring different objects seems to be the only circumstance which can afford any rule for exchanging them for one another", a different law obtains in societies which rest on the principle of private property. "In every improved society, all the three [i.e. the wages of labour, the profits of stock, and the rent of land] enter more or less, as component parts, into the price" (49, 52). Thus Smith develops two antagonistic theories of price formation.²

From these ideal elements which, in Adam Smith, are not yet perfectly co-ordinated, David Ricardo later built his classical

¹ The right application of this doctrine, not, as is usually maintained, its development, is to be found with Carey, who asserts that men "measure the value of the articles that they desire in exchange, by the difficulty that exists in the way of their obtaining them" (*Principles of Political Economy*, 1837, I, 11).

² It must, however, be emphasized that he holds fast to his basic principle in so far as he describes the shares of capital and land as "deductions" from the produce of labour.

theory of value. He started from all three factors of production, but arrived in the end at a pure labour doctrine of value by successfully neutralizing capital and land. In order to understand how he achieved this result, it is now necessary to regard the works of master and disciple as well as their historical background. Above all it is imperative to understand what position was occupied by capital and land in the economic system of the time.

In his theory of value which might be called the more primitive, the theory which rested entirely on Petty's dictum, Adam Smith, as we have seen, wholly excluded capital and assumed only two factors of production, an active and a passive one. This is not due to any ill-founded conviction on his part that production was ever carried on without produced means of production, conceivably in a purely occuputory way. He says expressly :

In that rude state of society . . . in which every man provides every thing for himself, it is not necessary that any stock should be accumulated. . . . Every man endeavours to supply by his own industry his own occasional wants as they occur. When he is hungry, he goes to the forest to hunt ; when his coat is worn out, he clothes himself with the skin of the first large animal he kills : and when his hut begins to go to ruin, he repairs it, as well as he can, with the trees and the turf that are nearest it (258).

Now, one can only hunt with bow or spear ; prepare a coat only with thread and needles ; build a house with hammer and nails. Hence produced means of production there must be. But these things are to Smith—just as the spinning-wheel and the weaving-loom of the domestic worker—not capital, but merely an accessory to man's labour force. Capital is to him essentially a fund for the payment of labourers and the purchase of materials, *not* machinery. It is necessary to grasp this truth and comprehend it from the setting of its time, in order to understand the labour theory of value and all connected with it.

Let us hear how Smith describes the function of what he calls stock. Stock is used by the employers "in setting to work industrious people, whom they will supply with materials and subsistence" (50), "to advance the wages and furnish the materials of labour" (51), "to purchase materials and to maintain the manufacturer till he can carry his work to market" (55),

“to put into motion . . . useful labour” (249). Everywhere the produced means of production are not included, those produced means of production which theory to-day simply identifies with capital—for they belonged at that time to the labourer, and, what is still more important in this connection, were not an independent factor but subject to man’s labour force, and not beside or above it.

It is the division of labour, i.e., the perfection of man’s labour force, not the perfection of the labour tools, to which Adam Smith related the welfare of society, increased as it was in comparison with times passed. He described its operation (9) as follows: “This great increase of the quantity of work, which, in consequence of the division of labour, the same number of people are capable of performing, is owing to three different circumstances” : 1. improved dexterity, 2. saving of time, and 3. application of machinery. For this third point the *Wealth of Nations* furnishes no illustration. But in the *Lectures* (ed. Cannan, 1896, 167), which on this point expound exactly the same view, two examples are brought forward : plough and mill, the ancient helpers of the rural folk.¹ And even the new inventions which Smith had occasion to see introduced in the flourishing manufactures of his environment were only helpers of the worker, and at that of the individual worker. “Whoever has been much accustomed to visit . . . manufactures, must frequently have been shewn very pretty machines, which were the inventions of . . . workmen, in order to facilitate and quicken *their own particular part of work*” (11). We see : an independent productivity of the produced means of production could not become perceptible

¹ We must not assume that Smith consciously chose the most primitive examples ; all his examples would, in retrospect, appear equally primitive. As “complicated machines” he describes “the ship of the sailor, the mill of the fuller, the loom of the weaver” (13)—none of them much more recent inventions than the plough. Most instructive is the passage where he speaks at some length on the progress of machinery in the woollen industry (245), because there a leading branch of production is under consideration (136). “The three capital improvements are : 1. The exchange of the rock and spindle for the spinning wheel”—but only “spinning wheels of immemorial fashion” were at that time in use (H. T. Wood, *Industrial England in the 18th Century*, 1910, 42). “2. The use of several very ingenious machines which facilitate and abridge . . . the winding of the worsted and woollen yarn, or the proper arrangement of the warp and woof before they are put into the loom.” This example is not quite clear but in any case only improvements of the hand-loom can be meant. “3. The employment of the fulling mill for thickening the cloth, instead of treading it in water.” But this machinery “had been in operation from time immemorial in the subsidiary operations of the woollen trade” (Cunningham, *The Growth of English Industry, Laissez faire*, 1917, 620).

—the labourers and the means of labour were at that period still closely connected, not only legally, but also technically and functionally: they were an aggregate not further dissoluble.

And as the capital represented by the produced means of production, so the capital representing money devoted to gain (money as stock in the sense of Adam Smith) could not then claim to be acknowledged as an ultimate element of production and price formation, in the same way as nature and man, i.e., soil and labour. The fund of raw materials and wages never became operative and visible as a unit, but always only through the share in the hand of the individual worker, who drew the wage and processed the material. That capital, as Smith conceived it, stood in a steady relation to the labour force, and could move through industry only together with the labour force, is the best proof of the fact that it occupied at that time an essentially subservient position. "The number of useful and productive labourers", says Smith (2), "is everywhere in proportion to the quantity of capital stock, which is employed in setting them to work." And, "whatever obstructs the free circulation of labour from one employment to another, obstructs that of stock likewise; the quantity of stock which can be employed in any branch of business depending very much upon that of the labour which can be employed in it" (137).

The industrial revolution utterly transformed the relation of capital and labour. In the same year in which Smith's *Wealth of Nations* appeared, 1776, James Watt succeeded in setting his first steam-engine in motion, and at the end of the century already a considerable proportion of English industry worked by mechanical means. Capital—now mainly fixed capital—was no longer the serving accessory of the independent worker, but rather the dependent worker the serving accessory of capital. Lauderdale's *Inquiry into the Nature and Origin of Public Wealth* (1804) clearly reflects the great change: it is the fundamental idea of this book that capital must be acknowledged as an independent factor of production. It not only increases the productivity of the hands employed, Lauderdale contended, but is itself productive.

It is a strange confusion of ideas [he observes (l.c., 185)] that has led Dr. Smith to describe the operation of capital as increasing

the productive powers of labour. The same process of reasoning would lead a man to describe the effect of shortening a circuitous road between any two given places, from ten miles to five miles, as doubling the velocity of the walker.

Not by supporting the labourer, but by replacing him, capital becomes a source of value :

In every instance where capital is so employed as to produce a profit, it uniformly arises, either—from supplanting a portion of labour, which would otherwise be performed by the hand of man ; or—from its performing a portion of labour, which is beyond the reach of the personal exertion of man to accomplish (161).

On the basis of this new fact of life and of this new perception, Say then expressed the conviction that the creation of value could not be reduced to labour alone. Adam Smith, he held, was mistaken in this respect. A more correct analysis, he contended, shows that value springs from the co-operation of labour with capital (and nature). “His ignorance of this principle”, he says of his master (cit. Ricardo, *Works*, ed. McCulloch, 1846, 172), “prevented him from establishing the true theory of the influence of machinery in the production of riches.”

As things were, it was impossible to deny that “the principle that the quantity of labour bestowed on the production of commodities regulates their relative value” had to be regarded as “considerably modified by the employment of machinery and other fixed and durable capital” (Ricardo, *l.c.* 20). But did the appearance of machinery, as Say suggested, necessitate the entire abandonment of the labour theory of value, or was it not sufficient to adjust it? *Ricardo* was prone to prove the latter.

In contradiction to the opinion of Adam Smith, M. Say . . . speaks of the value which is given to commodities by natural agents, such as the sun, the air, the pressure of the atmosphere, &c., which are sometimes substituted for the labour of man, and sometimes concur with him in producing. But these natural agents [—which, as we have to insert in explanation, represent the technique in industrial production, for “the powers of wind and water, which move our machinery, the pressure of the atmosphere and the elasticity of steam, which enable us to work the most stupendous engines : are they not the gift of nature?” (40)—] these natural agents, though they add greatly to value in use, never add exchangeable value of which M. Say is speaking,

to a commodity : as soon as by the aid of machinery . . . you oblige natural agents to do the work which was before done by man, the exchangeable value of such work falls accordingly. If ten men turned a corn mill and it be discovered that by the assistance of wind, or of water, the labour of these ten men may be spared, the flour which is the produce partly of the work performed by the mill, would immediately fall in value, in proportion to the quantity of labour saved . . . (172).

It is obvious what Ricardo tried to effect : a reconciliation of the old perception of the technical and functional concatenation of labour and the means of labour, with the new perception of their mutual replacement. This view, too, is a reflection of its time : for it was an everyday experience that machines made the commodities cheaper in freeing, in one act, part of the workmen and at the same time increasing the productivity of the rest. Ricardo stood in the transition from manufacture to the factory system : machines were to him, as to Lauderdale, above all "a means of abridging labour" (17, cf. also 42).

Machines save labour (i.e. costs) and thus lower the exchange value (i.e. price) of products : this is Ricardo's argument against Say, who had the increase of their use value in mind. But does the exchangeable value sink for the whole amount of the released labour? Obviously not. For into the place of the dismissed workmen steps the newly introduced machinery as a new, if more modest, element of costs. How can the increase of value caused by capital be built into the theory without making it a dualist explanation? Ricardo solved this problem from his basic conception of the character of capital, and that means now, of machinery. Into the place of the freed enters to a certain part stored-up labour, and the net decrease of value ultimately resulting is the difference between the two. Thus Ricardo preserved the concept of an indissoluble aggregate of labour and the means of labour ; this is most manifest in his theory of distribution, where a uniform income is assumed for capitalists and wage earners which only after its formation is further divided between them so that high wages mean low profits and vice versa—and he believed that he had saved the doctrine that all commodities are exchanged according to the labour necessary to their production, or rather according to the aggregate of stored-up and actual labour necessary. "Not only the labour applied imme-

diately to commodities affects their value, but the labour also which is bestowed on the implements, tools, and buildings, with which such labour is assisted" (16)—the old doctrine and the new facts seem reconciled.

One contradiction between dogma and life, however, remained. Ricardo had made Smith's thesis, that labour regulates value-in-exchange, more exact by emphasizing that it is the amount, and not the reward, of labour to which this effect must be ascribed. The rate of wages is under competitive conditions equal in all branches of industry—hence it cannot influence the relations of exchange. The amount of labour to be spent in the production of the exchangeable commodities, however, is different, and therefore it determines the exchange-relations. If a yard of cloth is exchanged in the market for two yards of linen, this is so because twice as much labour is necessary for producing a given quantity of cloth as for producing the same quantity of linen. But just this improvement of the doctrine brought its problematic character to light. If the workers could produce cloth and linen without capital, or if, like their wages, the quantities of capital co-operating in production were everywhere equal per head of the worker, nothing could upset the dogma that cloth and linen are exchanged according to the mass of labour applied. But where stored-up and actual labour take part in production in different combinations, it is otherwise: as soon as machinery makes its appearance, differing in extent in different industries, a change of wages no longer influences the exchangeable values or prices equally, for it is only the actual labour which is still to be paid that it makes more expensive, not the stored-up labour which was paid in the past—it then influences productions with much actual and little stored-up labour more than such with little actual and much stored-up labour, and thus exchange-relations are altered. It became obvious that it was not sufficient to combine capital and labour, as stored-up and actual labour, to an aggregate, to save the doctrine that the commodities on the market are exchanged according to the labour-time necessary to their production, but that the assumption had to be added that capital and labour are combined in all branches of production in the same proportion—not only an aggregate, but an aggregate everywhere homogeneous.

Ricardo's keen intellect grasped this quite clearly :

It appears . . . that the division of capital into different proportions of fixed and circulating capital, employed in different trades, introduces a considerable modification to the rule . . . that commodities never vary in value, unless a greater or less quantity of labour be bestowed on their production. . . . If men employed no machinery in production but labour only . . . the exchangeable value of their goods would be precisely in proportion to the quantity of labour employed. If they employed fixed capital of the same value and of the same durability, then, too, the value of the commodities produced would be the same, and they would vary with the greater or less quantity of labour employed on their production. But although commodities produced under similar circumstances, would not vary with respect to each other from any cause but an addition or diminution of the quantity of labour necessary to produce one or other of them, yet, compared with others not produced with the same proportionate quantity of fixed capital, they would vary . . . from a rise in the value of labour, although neither more or less labour were employed in the production of either of them. . . . The degree of alteration in the relative value of goods, on account of a rise or fall of labour, would depend on the proportion which the fixed capital bore to the whole capital employed. All commodities which are produced by very valuable machinery . . . would fall in relative value, while all those which were chiefly produced by labour . . . would rise in relative value. . . . However . . . this cause of the variation of commodities is comparatively slight in its effects. . . . In estimating then, the causes of variations in the value of commodities, although it would be wrong wholly to omit the consideration of the effect produced by a rise or fall of labour, it would be equally incorrect to attach much importance to it ; and consequently . . . I shall consider all the great variations which take place in the relative value of commodities to be produced by the greater or less quantity of labour which may be required from time to time to produce them (21 sq.).

Hence Ricardo consciously presupposes for his investigation that capital, as produced means of production, and labour are everywhere combined in the same relation, in other words : that the capital equipment of each individual labourer is equal in all branches of industry. By this assumption the inner logic and truth of the labour theory of value is saved. But what is to be said of this attempt? Did it not secure the inner consistency of the theorem at the expense of its realism? If we speak of Ricardo's time, we must not answer this important

question by an unqualified yes. Before the industrial revolution, his basic assumption was on the whole right, for the produced means of production were only tools which belonged to the individual workmen, and were thus uniformly distributed—after the industrial revolution, it was on the whole wrong, for the produced means of production had become machines which mechanized one section more than the other. This transformation, however, took place roughly between 1780 and 1850, and Ricardo lived in its midst. To him such an assumption, although no longer quite correct, naturally appeared not yet quite wrong. His definition of capital (in the chapter devoted to the theory of wages!) is characteristic: "Capital is that part of the wealth of a country which is employed in production and consists of food, clothing, tools, raw materials, machinery &c., necessary to give effect to labour" (51). Fixed capital had not yet relegated circulating capital to the second rank, and this is the historical explanation of the form which the labour theory of value assumed in his work.

The further, however, mechanization progressed, the more untenable became Ricardo's assumption, drawn as it was from the conditions of the past, and the stronger became Ricardo's conviction that he was wrong in postulating it. In his famous letter to McCulloch of May 2nd, 1820 (*Publications of the American Economic Association*, 1895, 65), he finally expressed himself in favour of the idea "that there are *two* causes which occasion variations in the relative value of commodities: (1) the relative quantity of labour required to produce them; (2) the relative times that must elapse before the result of such labour can be brought to market. All the questions of fixed capital come under the second rule." Thus, yielding to the victorious march of mechanization, the transition from the labour theory of value to a theory of the costs of production is achieved and the basis laid for the doctrines of Nassau Senior and John Stuart Mill.¹

¹ F. B. W. Hermann, too, deserves to be mentioned in this connection. "A commodity, if it be at all suited to serve as the measure of value, must contain both elementary factors, labour and capital usings, in order that it may vary directly with either in the price. . . . Even if a machine itself contains labour, this is entirely different from the labour . . . passing into the product; on the whole the labour and usings combined in it leave the sphere of action, are merely the basis of a [new] using which becomes an element of the work [product]. . . . If we neglect . . . this second element of the products and take the capital usings in two products for equal, it will indeed be the labour which determines their exchange-value: but

What Ricardo's treatment of the co-operation of labour and capital in the formation of value and price is able to prove, is this : that times of transition cannot create theories of lasting value. The relation of capital and labour changed in that period from day to day. It was different with the third factor of production, land, which had, like capital, to be neutralized for the theory of value if the labour theory was to become logically unassailable. Here Ricardo had a more stable tendency before him ; here he was able to develop a more stable doctrine. And here, too, he built on Adam Smith.

In opposition to capital, Smith had of course to acknowledge the soil as an original and independent factor of production. But to the decisive question as to whether rent must be regarded as a determining factor of the price, or whether it is itself determined by the price, Smith gave two contradictory answers. In one passage he says : "High or low wages and profit, are the causes of high or low price ; high or low rent is the effect of it" (147)—here rent is conceived as differential rent which does not enter into the price. In another place, however, we read : "In estates above ground . . . the value . . . of their rent is in proportion to their absolute, and not to their relative fertility"—hence here rent is regarded as absolute rent and one of the determining factors of the price. Either or ! Smith came to no decision.

It was not these passages, however, by which Ricardo was influenced ; he built on other utterances of Smith which are generally overlooked :

As the price both of the precious metals and of the precious stones is regulated all over the world by their price at the most fertile mine in it,¹ the rent which a mine of either can afford to its proprietor is in proportion, not to its absolute, but to what may be called its relative fertility, or to its superiority over other mines of the same kind (173).

In these words the differential principle adopted by Ricardo is most clearly expressed.

What induced Smith to describe the mining-rent in silver-

what is gained thereby if in reality these usings are hardly equal in any two products?" (*Staatwirthschaftliche Untersuchungen*, 1832, 129 sq.).

¹ This mine Smith in fact regarded as the marginal mine. Such a view is problematic, but this does not matter in the argument of the text. Cf. on this point Ricardo, *Works*, ed. McCulloch, 1846, XXIV, 197 sq.

production as a differential rent is the fact that silver possessed a uniform market and a uniform price. Grain market and grain price, however, were in Smith's time only in the making. Where Smith conceives the ground-rent as absolute, he has in mind a state of the natural consumption of agricultural products : "The land which produces a certain quantity of food, cloaths and lodging, can always feed, cloath and lodge a certain number of people ; and whatever may be the proportion of the landlord, it will always give him a proportionable command of the labour of those people, and of the commodities with which that labour can supply him" (174). In the context, however, where the ground-rent is regarded as a differential rent, it is "considered as the price paid for the use of land" (145), hence in connection with a commercial utilization of the grain ; it then depends upon the market situation :

Such parts only of the produce of land can commonly be brought to market of which the ordinary price is sufficient to replace the stock which must be employed in bringing them thither, together with its ordinary profit. If the ordinary price is more than this, the surplus part of it will go to the rent of the land . . . Whether the price is, or is not more, depends upon the demand (146).

In the first case, which corresponds to the conditions of a feudal world, the differential idea is of course inapplicable ; in the second case, however, in the case of capitalistic market production, where precisely the same circumstances pertain as in silver production, the differential idea is true and very useful for the exclusion of the land-factor of production from the explanation of the process of price formation.

It is clear that Smith still wavered between the two pictures of life and thought, but for Ricardo wavering was no longer possible. To him the grain market offered the same view as the silver market to Smith, and thus he reached an internally and externally uniform theory of rent, the theory of differential rent (cf. 198). But it was not so much the state as the development of the grain market between 1750 and 1850 which taught English economists that the land-rent in their country was to be regarded as a differential rent.

Since the middle of the eighteenth century, Great Britain's population had increased rapidly. It numbered, if we can trust

the sources (cf. Clapham, *An Economic History of Modern Britain*, 1926, I, 53 sq.),

in 1751	roughly	7,250,000,
in 1781	„	9,250,000,
in 1811	„	12,597,000, and
in 1821	„	14,392,000 souls.

There was a parallel increase in the price of wheat. The yearly average was for

1770-79,	45s. the quarter,
1780-89,	45s. 9d.,
1790-99,	55s. 11d.,
1800-09,	82s. 2d., and for
1810-13,	116s. 2d.

(cf. Cannan, *Theories of Production and Distribution*, 1903, 149). This seemed, however, only the normal state of things : increasing demand—increasing prices. But what differed from the rule was the fact that even an increase of the supply did not apparently make for a cheapening. From year to year cultivation was improved and enlarged. Vast areas of common ground and heath land came under the plough²—and the price remained high and climbed higher. What was the reason of this phenomenon ? A landowner from Wiltshire, questioned by a committee of the House of Lords during the corn-law debates, expressed it on the basis of his experience in simple words : “The expenses are greater on inferior soils.” Thus the basic idea of the law of diminishing returns offered itself to science in reality. Malthus had behind him the knowledge of practice when he wrote in the second edition of his *Essay* (1803, 7) : “It must be evident to those who have the slightest acquaintance with agricultural subjects that in proportion as cultivation is extended, the additions that could yearly be made to the former average produce must be gradually and regularly diminishing.”

This important perception—“were the law different”, said Mill in 1848 (*Principles*, ed. Ashley, 1909, 177), “nearly all the phenomena of the production and distribution of wealth would be other than they are”—was achieved in two stages. First the increase of production took the form of a more extensive tillage (expansion of the area under cultivation) : poorer and poorer soils came under the plough, the working of which, as things

were, was just profitable, and it was distinctly realized that the owners of richer lands could pocket a rent because they produced with less cost. This was apparently first noted by James Anderson who, in his *Observations on the National Industry of Scotland* (1779, II, 208 sq.), described the ground-rent as a premium for the cultivation of more fertile acres. His *Inquiry into the Nature of the Corn Laws* of 1777 is the cradle of Ricardo's theory of rent.

By the end of the century and especially since the outbreak of the war against Napoleon, the extensive increase of grain-production was, however, no longer sufficient, and in order to meet the high demand it became necessary to resort to an intensification of tillage (expansion of the capital of cultivation) : more and more labour and capital were applied to the old soils, and it was soon realized that the returns did not increase in proportion to the outlay, but that after a certain point, their accretions fell off progressively. Malthus and West, Ricardo and Torrens almost at the same time made theoretical use of this observation. As the land last taken into cultivation, they taught, only replaces the cost, so does the capital last applied. Rent arises from the difference between the higher productivity of better classes of soil or earlier investments, and marginal production.

On the basis of this observation, Ricardo came to the conclusion that rent does not co-operate in the creation of value. The price is formed on the marginal soil free from rent. The ground-rent is its effect, not its cause. It is no element of cost, but the difference between cost and market-price. The price is determined by the aggregate of capital and labour, and by it alone. The co-operation of land in production does not annul the truth of the labour theory of value.

Rent invariably proceeds from the employment of an additional quantity of labour with a proportionally less return . . . That corn which is produced by the greatest quantity of labour is the regulator of the price of corn ; and rent does not and cannot enter in the least degree as a component part of its price (37, 40).

Thus by the proof that nature does not take part in the formation of prices, and by the assumption that there is a fixed parallelism between the application of capital and labour, the labour theory of value was formed by Ricardo and the Ricardians into a logically unassailable dogma. The same considerations,

however, afforded the basis for their theory of distribution. The income of the landlords is simply identical with the ground-rent. Capitalists and workmen have to divide between them the return of the goods produced by them in collaboration.

Neither the farmer, who cultivates that quantity of land, which regulates price, nor the manufacturer, who manufactures goods, sacrifice any portion of the produce for rent. The whole value of their commodities is divided into two portions . . . ; one constitutes the profits of stock, the other the wages of labour (60).

If it is possible theoretically to explain the formation of wages, the profit results *pari passu* : it is simply the residuum, the difference between price and wages.

It is traditional to distinguish in the classical world of ideas two wage-theories : on the one hand, the theory of the wages-fund, on the other, the "iron law of wages". But in reality there was only one doctrine. "Population", says Ricardo (41), meaning the working class,¹ "regulates itself by the funds which are to employ it, and therefore always increases or diminishes with the increase or diminution of capital." In the first half of this sentence, we have the basic idea of the wages-fund theory, in the second, the fundamental idea of the iron law of wages. The one doctrine has in view the demand for labour, the other its supply, and only their combination gives us the true conception of the classical economists.

The wages-fund theory is characteristic of the stage of development in which circulating capital still far outweighed fixed capital. At a time when the worker possessed the spinning-wheel and weaving-loom, the capital of the employer was in fact a fund for the purchase of materials and the payment of wages. The individual wage then resulted from the division of that part of the stock which remained after the material to be processed had been secured, by the number of hands to be set to work. It is obvious that under such primitive conditions the demand for labourers depended upon the amount of the "wages-fund". When the factory system spread, the employer's capital had to be split into three parts : into fixed capital, capital for the purchase of materials, and lastly capital destined for the

¹ The use of the words population or *peuple* in this narrow sense was frequent at that time. Cf. for example Louis Blanc, *Histoire de la Révolution française*, 1847 sq., *passim*.

payment of wages, but it was no wonder that the conception remained that there was a wages-fund which determined the demand for workmen.

The wages-fund theory explained how many labourers could find employment. The iron law of wages—the term is unfortunate—endeavoured to show how many workers there were to seek employment. It rested on the simple fact that the idea and above all the technique of birth control was foreign to that age so that the population rapidly increased, especially as at the same time the mortality of children greatly diminished. Families with more than ten members were then no rarity, and it is clear what this meant for the nation as a whole: “The number of births everywhere increased by leaps and bounds” (Webb, *English Local Government*, 1922, IV, 405). But the possibilities of employment could not become correspondingly numerous. The result was that the workers—men, women and children—being without property, by their competition reduced themselves to the very level of subsistence. Sometimes indeed wages fell even below this limit: but then the weakest died out, until an equilibrium of offer and demand established itself at the margin between life and death. In Ricardo’s time the means of bettering the standard of the masses—limitation of the supply of hands by birth control and trade unions—still belonged to the future.

The natural price of labour is that price which is necessary to enable the labourers, one with another, to subsist and to perpetuate their race. . . . By the encouragement which high wages give to the increase of population, the number of labourers is increased, wages . . . fall to their natural price, and indeed from a reaction, sometimes fall below it. . . . It is only after their privations have reduced their number, or the demand for labour has increased, that the market price of labour will rise to its natural price, and that the labourer will have the moderate comforts which the natural rate of wages will afford (50 sq.).

This is less a theory of wages than a description of life. Everywhere reality presented the same picture: “The amount of wages”, says Quesnay (*Œuvres*, ed. Oncken, 706; in the same sense Turgot, ed. Daire, I, 10), “and consequently the enjoyment which the wage earners can procure themselves are fixed and reduced to their lowest by the extreme competition which exists

between them." "In reality", we read in Thuenen (*Der isolierte Staat*, ed. Schumacher, 1863, II, 2), "the wages of labour are regulated by the competition of the labourers, for . . . as experience teaches, the propagation of the workers is in the end checked only by the deficiency of the means of subsistence."

The tendency of population to increase because of the fall of mortality, and the tendency of agricultural production to fall because of the increase of costs,¹ together gave rise also to the *Malthusian* theory of population. In the last edition of the *Essay* which the author himself published, he formulated his thesis in the following words :

The rate according to which the production of the earth may be supposed to increase, it will not be . . . easy to determine. Of this, however, we may be perfectly certain, that the ratio of their increase in a limited territory must be of a totally different nature from the ratio of the increase of population. A thousand millions are just as easily doubled every twenty-five years by the power of population as a thousand. But the food to support the increase of the greater number will by no means be obtained with the same facility. Man is necessarily confined in room. When acre has been added to acre till all the fertile land is occupied, the yearly increase of food must depend upon the melioration of the land already in possession. This is a fund, which, from the nature of all soils, instead of increasing, must be gradually diminishing. But population, could it be supplied with food, would go on with unexhausted vigour ; and the increase of one period would furnish the power of a greater increase the next, and this without any limit (ed. Bettany, 1890, 4 sq.).

After all that has been said on the classical theories of rent and wages it is perhaps unnecessary to repeat the facts which have evoked those doctrines as well as Malthus's "inquiry into the nature and causes of the *poverty of nations*" (James Bonar).

¹ Carey denied both tendencies. He maintained against Ricardo that cultivation progresses from inferior to superior soils. Now, he was certainly right in saying that, in a country still to be made arable, the poorer land is occupied first, because it is more easily cleared of its original growth ; but England was by 1800 in a position different from that observed by Carey in America. In England only soil previously disdained was still free, meagre heath land, not rich valleys, as in the golden West. Against Malthus, Carey set the thesis that the power of generation decreases with increasing culture. Again it is true that highly cultured men rarely produce large families—Shakespeare, Bacon, Milton, Newton, Wesley, Locke, Bentham, and John Stuart Mill had between them only six children—but Malthus did not think of the summit of the nation, but of its depth, and there people were nearer to animals than to super-men. The discussion of the doctrines of Ricardo and Malthus by Carey, and of the doctrines of Carey by Mill, proves how fruitless it is to form from local and temporary tendencies absolute dogmas, and how senseless to praise or reject them as "absolutely right" or "absolutely wrong".

Our analysis of classical economics would, however, be incomplete if we did not throw a brief glance at its most important disciple: *Karl Marx*. Marx derived his theory of value from Ricardo, as Ricardo had derived it from Smith. The only progress consisted in the fact that Smith saw the determining cause of exchange-value in the reward and quantity of labour, Ricardo only in the quantity of labour, and Marx, being more exact still, in the socially necessary quantity of labour. Even the Marxian theory of profits, the "theory of surplus value", is only a conclusion from Ricardian premises: like all other commodities, Marx argued, labour power has its value, and like all other values this has its measure and cause in the quantity of labour necessary to its production.

But the past labour that is embodied in the labour power, and the living labour that it can call into action; the daily cost of maintaining it, and its daily expenditure in work, are two totally different things. . . . The fact that half a day's labour is necessary to keep the labourer alive during twenty-four hours does not in any way prevent him from working a whole day. . . . This difference of the two values was what the capitalist had in view when he was purchasing the labour power.

In the process of production, then, "the labourer during one portion of the labour process produces only the value of his labour power, i.e., the value of his means of subsistence". But when he has done so, he must continue to work, for he has sold the use-value of his power, and not only its exchange-value. "During the second period of the labour process, that in which his labour is no longer necessary labour, the workman, it is true, labours, expends labour power; but he creates no value for himself. He creates surplus-value", the visible token of exploitation, profits (*Das Kapital*, I, 1867, 159, 183 sq.).

How closely this doctrine is connected with the kernel of the classical doctrine, may be proved by a quotation from John Stuart Mill's *Principles*.

"The cause of profit," [he says (ed. Ashley, 1909, 416 sq.)], "is, that labour produces more than is required for its support. . . . The reason why capital yields a profit, is because food, clothing, materials, and tools, last longer than the time which was required to produce them; so that if a capitalist supplies a party of labourers with these things, on condition of receiving all they produce, they

will, in addition to reproducing their own *necessaries and instruments*, have a portion of their time remaining to work for the capitalist. . . . If the labourers of the country collectively produce twenty per cent more than their wages, profits will be twenty per cent. . . .

Marx's connection with the classical school, however, is most clearly manifest in the fact that his theory necessarily encounters the same difficulties as that of Ricardo. If all capital were wage capital, variable capital as Marx calls it, or if at least the combination of constant and variable capital were equal in all branches of industry, the "organic composition of capital" uniform, his deduction of profits could be regarded as in harmony with reality. But if we start from the undeniable fact that there are industries which use much machinery and little labour, and industries which use little machinery and much labour, the theory of surplus value leads to an illogical consequence: since only the labour expended is acknowledged as the source of surplus-value, it follows from its fundamental tenet that the greater profit is made by the factory which applies little mechanical and much human power, in other words: the factory which is backward in development. Can this be maintained? Is the law true which Marx formulated: "The masses of value and surplus-value produced by different capitals . . . vary directly as the amount of the variable constituents of these capitals, i.e. as their constituents transformed into living labour power"? This cannot be maintained and was not maintained by Marx. He says with unsurpassable frankness: "This law clearly contradicts all experience based on appearance. Every one knows that a cotton spinner who, reckoning the percentage on the whole of his applied capital, employs much constant and little variable capital, does not, on account of this, pocket less profit or surplus-value than a baker who relatively sets in motion much variable and little constant capital" (I, 285).

How can this contradiction be resolved? Ricardo, in a similar situation, had resorted to the assumption that the proportion of fixed and circulating capital, i.e. of machinery and wages capital, was everywhere the same. But what was still possible in 1817, was no longer possible in 1867. Reality showed unmistakably that the organic composition of capital was totally different in different branches of industry.

In view of this fact Marx attempted a different solution. He conceived the idea that the whole surplus-value produced in a national economy, gathering from its various sources, flows into a great pool from which it is uniformly divided out to the individual capitalists so that in the end an equal average rate of profit arises.

Since the capitals invested in the various lines of production are of a different organic composition [he says in the third volume of *Das Kapital* (ed. Engels, 1894, 136)], the rates of profit prevailing in the various lines of production are originally very different. These different rates of profit are equalized by means of competition into a general rate of profit which is the average of all these special rates of profit.

Hence it follows that what is ultimately decisive for the formation of exchange relations is, not value and surplus-value, but costs and average profit—in other words, that some commodities exchange over, and some under, their value as determined by the labour time expended in their production, or—to state the same matter still more plainly—that value and price do not coincide.

The prices which arise by drawing the average of the various rates of profit in the different spheres of production and adding this average to the cost-prices of the different spheres of production, are the prices of production . . . The price of production of a commodity, then, is equal to its cost-price plus a percentage of profit apportioned according to the average rate of profit, or, in other words, equal to its cost-price plus the average profit (135 sq.).

Value shrinks in this way to an altogether meaningless category. The labour theory of value is in fact abandoned and replaced by a cost-of-production theory.

That this argument does not save the theory of exploitation (because the equalization of profits according to Marx's description does not occur within the capitalist class but takes place in the market so that all consumers participate in it) was shown by Heimann in his ingenious book, *Mehrwert und Gemeinwirtschaft* (1922). Here we are interested not in the logical, but in the historical aspect of the doctrine: the contradiction between the first volume of *Das Kapital* with its labour theory of value and the third volume, which builds on a theory of the costs of

production, impressively shows how facts assert themselves against antiquated theories. The Marxian doctrine of surplus-value was a strictly logical development of the Smithian doctrine of value. But although the logical connection between the two dogmas is unassailable, Smith was right and Marx—as far as the contents of the first volume of his great work are concerned—wrong. In Smith's time capital was still in fixed proportion to the labour power applied, while in Marx's time this was no longer the case—and thus the basis was destroyed on which the labour theory of value had arisen. The new economic reality, governed as it was by constant capital, whose productivity became every day more obvious, forced Marx, in spite of himself, to change from the old labour theory of value to a theory of costs of production, to acknowledge as the determining cause of price, instead of the quantity of labour, costs and average profits.

It is not, however, as a disciple of classical economics, but as a master of *historism*, that Marx must find his place in the history of political economy. In his work it is most clearly manifest that by the middle of the century, the classical doctrine belonged to the past and the doctrine of *historism* to the future, although the two are nowhere more intimately connected than here.

The distinctive character of *historism*, which could more aptly be termed the sociological and descriptive school of economics,¹ can best be recognized if it is viewed against the background of late classicism in opposition to which it arose. To Nassau Senior political economy had been a purely deductive science. "The general facts on which the science of Political Economy rests", he said in his *Outline* (ed. Library of Economics, 1938, 26), "are comprised in a few general propositions", and as the first and foremost of them he regarded the axiom "that every man desires to obtain additional wealth with as little sacrifice as possible." This assumption, he declared, "is in Political Economy what gravitation is in Physics: the ultimate

¹ The epoch-making element in the thought of Sismondi and List, Comte and Marx is indeed the discovery of evolution, but the positive teaching of this school centred round society and sociology rather than history; it aimed at an inductive comprehension of the present rather than at the investigation of the past. The Schmoller who studied the guilds of Strassburg is of little interest to the historian of political economy; but the Schmoller who conceived economics as a sociological discipline (cf. his *Grundriss*) deserves this interest, however the present time may think of the character and scope of economic science.

fact beyond which reasoning cannot go and of which almost every other proposition is merely an illustration". Self-interest, however, was conceived as an instinct of nature which governed all men alike, and hence it followed cogently that all the laws which are logically deduced from its operation can claim absolute, historically unrestricted, validity. This conception, which narrowed political economy down to a "natural science of egotism" (Hildebrand) was fought by Sismondi and Roscher, Comte and Knies. Against the "universalism" and "perpetualism" of the old school, they set the assertion that all knowledge is limited by space and time.

Already external circumstances make it clear that classical economics and historicism arose and developed under totally different conditions, for Senior's doctrine remained dominant in England,¹ while Roscher's doctrine became prevalent in Germany. The two countries stood at the time in marked contrast, perhaps most strikingly manifest in ethics. A thesis like that of Mandeville—*Private Vices Public Benefits*—could be successful only in England, where puritanism had filled life with the spirit of a creed which made secular success the sign of eternal salvation—even if it took the form of gain drawn from the slave-trade. In Germany, however, the morals of altruism remained dominant whether it appeared in a Catholic or a Protestant guise—the observation that consistent pursuit of self-interest promotes the public weal, or is, at least under certain conditions, capable of doing so, had not yet been made in that country.

Adam Mueller explained the contrast between England and Germany by the fact that the insular economy was governed by trade and industry, while on the Continent agriculture prevailed. This statement contains a good deal of truth, but the argument must be given an historical turn if it is fully to interpret the facts: England was by that time thoroughly capitalistic. The striving for gain was the mainspring of economic life, and so it seemed only correct to deduce economic theory from its operation. Germany, on the other hand, was still deeply entangled in feudalism. *Quieta non movere* was the principle followed. While capitalistic (i.e. rationalistic) man pursues the maximization of his material welfare even if he has constantly

¹ The apostles of historicism in England, Cliffe Leslie and Ingram, were—Irishmen. This is certainly no mere chance.

to revolutionize his life, feudal (i.e. traditionalistic) man shuns all change even if he has to purchase the ideal of constancy by sacrifices in his well-being. If Robbin's definition of political economy be correct—"economics is the science which studies *human behaviour* as a relationship between ends and scarce means" (*An Essay on the Nature and Significance of Economic Science*, 1935, 16)—it is clear that the two different types of man necessarily demand, and naturally developed, two different types of economic science.

To give only one illustration of the great contrast between the environment of Nassau Senior and that of Wilhelm Roscher, it may be recalled that the English agriculture of 1840 was carried on by capitalistic farmers, the German by unfree serfs. And the German peasant was not only bound by numerous feudal obligations, which made it impossible for him freely to pursue his self-interest, but he stood also in a sentimental relation to his inherited soil and inherited methods which deep awe prevented him from giving up, however much material considerations might advocate such action. Is it then surprising that the economists of a country, two-thirds of whose inhabitants were engaged in agriculture (Sombart, *Der moderne Kapitalismus*, II, 1928, 2, 627), in a feudal and traditionalistic agriculture, were not willing to accept a theory which started from, and rested on, the free operation of self-interest? "The light weight which would suffice to turn the scale with a calculating people", says *Sismondi* (*Nouveaux Principes*, 1819, I, 433), "does not suffice if it has become rusty by prejudices and long habits." Tradition must be acknowledged beside the pursuit of gain as an active factor: "Habits are a moral force which is not subject to calculation, and the writers of Political Economy have too often forgotten that they have to do with men and not machines" (l.c. 312).

The German economic theoreticians of 1840 could not acknowledge the doctrine of their English fellow economists, deduced as it was from the principle of self-interest, as correct, simply because this principle did not prevail in their country. Nothing was more natural on their part than the conviction that an investigation and clarification of the special character of the individual national economies was the first and foremost need, that only a broad descriptive sociology could lay the foundations

on which the science of economic life must build—a science whose contents depend upon, and vary with, the institutional framework within which economic intercourse has place. “Our aim is the description of what the peoples have thought, willed, and felt with regard to economic life, what they have intended and achieved, why they have intended and achieved it,” said *Roscher* (cit. Mombert 466 sq.), and this programme involved not only a transition from isolating and abstract theory to inductive and synthetic observation, but still more the extension of the narrowly limited catallactics of the English economists to a comprehensive study of culture. “Economics is to-day a science only in so far as it expands into a sociology,” *Schmoller* proclaimed (cit. Brinkmann, *Gustav Schmoller und die Volkswirtschaftslehre*, 1937, 126). “Its observations must be investigations into the social forms of economic life.”

These fundamental convictions which tended to base economics on induction and comparison rather than on deduction and abstraction, contained from the outset the historical element, for it was not difficult to see that the contrast in economic life between the two countries was due not only to geographical reasons, but also to the fact that they represented different phases of development. “The country that is more developed industrially”, says Karl Marx in *Das Kapital* (I, 1867, ix), “only shows, to the less developed, the image of its own future.” Friedrich List’s *Nationales System der Politischen Oekonomie* rested entirely on this idea. It was, however, a deeper experience which made the sociological the socio-historical school; the experience of the dynamic process which resulted in the formation of antagonistic classes—a process which evolved before the eyes of this generation.

The eighteenth century had cherished the belief that the establishment of perfect liberty in economic life would carry with it an ideal order of society: an order of perfect equality in which everybody provided with his labour-tools would have the chance of drawing by higher achievements for the community, higher rewards from the community. But this hoped-for democracy of petty producers came to nought. History led instead to a dictatorship of great industrialists. The old dream was possible only so long as small-scale production prevailed in which labour was dominant. It became impossible as soon as large-

scale production in which capital dictated had conquered the field. In the place of a thousand weavers who, in 1770, had still laboured with their own implements in their own cottages, stood by 1830 the factory: the bourgeoisie was split into capitalists and proletarians, and to the ascendancy of a few was opposed the fall of the many. "Instead of the expected equality of the classes" Lorenz von Stein lamented (cit. Spann 151), "competition has evoked an ever-increasing inequality between them". Obviously the new era brought not the opening of a never-ending age of perfect felicity, but only the beginning of a new period in the sufferings of mankind. Into the place of the old estates stepped the new classes—into the place of the old struggles stepped new conflicts. The dream of an *ordre naturel* with an unchangeable harmony was frustrated by the reality of the *ordre positif* with its dynamic contrast. To no generation was it more impressively demonstrated that there is no standing still in this world. "Change is the only thing eternal," wrote Heinrich Heine, filled with the sentiment of his time, "nothing constant, only death."

Thus the great industrial revolution which destroyed not only a social system but also a social ideal explains the predominance of the idea of evolution in the first half of the nineteenth century. It explains the historical as well as the ethical thesis of the new school. The ideal order—it was now clear—would not develop spontaneously but would have to be consciously created. It was seen to be not an offering of nature but a task of man. The socialism of the revolutionaries and the social policy of the conservatives have here their roots.¹ "We persist in the belief", said Sismondi (*Etudes d'économie politique*, 1837, II, 4), "that political economy should be the investigation and application of the great law of benevolence and clarity which God has given to the human societies." But he does not preach passivity; he calls for active interference: "The true problem for the statesman is to find that combination and pro-

¹ Especially interesting is the attitude of the liberals in the camp of historicism. They, too, believed that the ideal order was still to be created, not indeed by the destruction or transformation of capitalism, but by the consistent realization of its principles, the principles of free exchange economy, which, as they believed, were not yet fully in operation (because of such facts as the continued existence of a monopoly in the soil). Cf. for example Lujo Brentano's original theory of trade unionism: Stark, *Sozialpolitik*, 1936, 47 sq.

portion of population and riches [of labour and capital] which will guarantee the greatest happiness to the human race on a given territory" (*Nouveaux Principes*, 1819, I, v sq.). Instead of liberalism social reform is now the dominant principle of economic policy.

The preponderance of the sociological and descriptive tendency which adopted this interventionism was, however, only of brief duration. Even in Central Europe it lasted hardly for a generation. The reason for its short-livedness was that the conditions which had given birth to it and on which it rested were swept away in a few decades by the rapid development of capitalist production. In Prussia the spirit of the east-Elbian junkers might continue to dominate, Austria was by 1870 already developing a commercial and capitalistic atmosphere, and thus an economic science germane to the English could arise on Austrian soil. By this time, moreover, Western Europe had overcome the shock which had been caused by the breakdown of the ideal of harmony in the age of industrial revolution, and so here too the way was prepared for a new political economy conceived as a "mechanics of self-interest" (Jevons, *The Theory of Political Economy*, ed. Jevons, jun., 1931, xvii sq.).

The new classicism which now developed could not, however, start, like the old, from the concept of a society in which every man, provided with his means of labour, has to contend in freedom and equality for his share in production, where the social product is distributed, according to strict justice, in the struggle of competition. Freedom and equality of the producers had been destroyed by the splitting of the third estate into antagonistic classes. Not so the freedom and equality of the consumers. The endeavour to achieve with the given means the greatest possible effect could now fully operate only on the market of consumers' goods, and thus it was this aspect of economic life which was chosen for the starting-point of economic theory.

To *Carl Menger*, national economy was an agglomeration of individuals competing for scarce commodities. He says "on the origin of human economy" (*Grundsätze der Volkswirtschaftslehre*, *Collected Works*, ed. London School of Economics, 1934, 59):

The endeavour of the individual members of a society to command, to the exclusion of all other members, the right quantities of goods, has . . . its origin in the fact, that the quantity of certain goods at the disposal of society is smaller than the demand, and that therefore, as under such conditions the complete satisfaction of the demand of all individuals is impossible, each individual has the incentive to provide for his demand by the exclusion of all the other economic subjects. But in view of the competition of all members of society for a quantity of goods which under no circumstances suffices completely to satisfy all needs of the individuals . . . a practical solution of the conflict of interests here obtaining is conceivable only by delivering the individual partial quantities of the entire quantity at the disposal of society into the possession of individual economic subjects, and protecting them in their possession by simultaneously excluding all other economic subjects.

This passage is very illuminating. It exposes the fundamental idea of the utility theory of value as well as its historical roots. The fundamental idea consists in basing the theory of value and price on individual man and his individual psyche. "Menger", Wieser once said (*Theorie der gesellschaftlichen Wirtschaft*, 1924, 120), "sees . . . in all social formations of economic life nothing more than unintended social resultants of teleological endeavours of individuals." This is true.¹ "He who wishes theoretically to understand the phenomena of national economy . . . must go back . . . to its true elements, the single economies in the nation", Menger points out (*Untersuchungen ueber die Methode der Sozialwissenschaften, Works*, II, 87), "and try to fathom the laws according to which the former arise from the latter." For national economy is only a "*Complication von Singularwirtschaften*".² Jevons expressed himself in the same sense: "Economics must be founded upon a full and accurate investigation of the conditions of utility, and, to understand this element, we must necessarily examine the wants and desires of man", i.e. of the isolated individual (*The Theory of Political Economy*, ed. 1931, 39). Hence the endeavour to view man first of all outside the bonds of society, to choose the individual, not as a social, but as a natural being for the starting-point of economic theory. "Our

¹ Cf. especially *Untersuchungen ueber die Methode der Sozialwissenschaften*, 1883, 182 sq.

² This is a very characteristic term which it is hard to translate. "A combination of independent economies" would perhaps best render its meaning, but the stress is on the word "independent" rather than on the word "combination".

needs spring from our instincts, and these have their roots in our nature", says Menger (I, 32), and he exemplifies his doctrine by the "inhabitant of a primeval forest", by an "individual cast ashore on a desert island", by an "economic subject which, living in isolation, inhabits a rocky island in the sea" (82, 95, 100)—in short, he tries to deduce the laws of the social occurrences in the market from the laws of the pre-social psyche of the individual. "The value of goods", we read in the *Grundsätze* (80), "is . . . independent . . . of the existence of society", and it becomes a social category simply by the fact that every nation is "an aggregate of individuals" (Jevons, l.c. 15). "In reality, it is a law operating in the case of multitudes of individuals which gives rise to the aggregate represented in the transactions of a nation" (ibid.).

These laws of the pre-social psyche of the individual, and, indeed, their importance for economic theory, were by no means unknown to the age of classical economics.¹ Still the classical doctrine had remained social. What is it that gave birth to the atomistic conception of society as the consequence of which the attempt to advance from individual psychology to market analysis must be understood?²

¹ Hobbes had already said in the *Leviathan* (cit. Boucke, 43 sq.): "The value of all things contracted for, is measured by the appetite of the contractors"—as pure subjectivism as can be conceived. And F. W. Lloyd as early as 1834 combined subjectivism and the marginal principle. Value, we read in his *Lecture on the Notion of Value* (16), "in its ultimate sense undoubtedly signifies a feeling of the mind which shows itself always at the margin of separation between satisfied and unsatisfied wants".

² The only attempt hitherto undertaken historically to interpret the theory of marginal utility was made by Bukharin; he describes it, as the title of his book suggests, as the "Economic Theory of the Leisure Class". His explanation is roughly this: in the course of evolution, the bourgeoisie became more and more a class of people living on their money rents. "As a result of the development of the various forms of credit, the accumulated surplus flows into the pockets of persons having no relation whatever to production, the number of these persons is constantly increasing and constitutes a whole class of society—that of the *rentier*" (24). These men are interested exclusively in consumption. "The psychology of the consumer is characteristic of the *rentier*" (27). Hence the doctrine of the Austrians, especially the basing of the doctrine of value and price on the idea of use-value. "We find here . . . a consistent carrying out of the point of view of consumption . . . It was the international *rentier* who found his learned spokesman in Boehm-Bawerk" (29, 34). Bukharin finally sums up his argument in the following words (31): "We consider the Austrian theory as the ideology of the bourgeois who has already been eliminated from the process of production." Apart from all other considerations, this interpretation is untenable if only for the one reason that the time which saw the origin of the marginal utility doctrine, the years 1854-74, mark the climax of capitalistic development, in which the bourgeois conceived and felt himself as an entrepreneur and not as a *rentier*.

It is easy to find the answer to this question. Never was society nearer to the state of perfect competition than in the years in which the utility theory of value arose—never, in fact, was it more a sum of independent individuals. There were as yet hardly protective tariffs for the peasants, hardly cartels for the entrepreneurs, hardly trade-unions for the workmen. All these social limitations of individual freedom in economic life developed only after 1871, and this year marks in economy and science the climax in the evolution of individualism. Even Menger only brought reality into words when he described as the essence of the economic system “the competition of all members of society for scarce quantities of goods”, and moved “the individuals who endeavour completely to satisfy their needs” into the centre of theory.

This close affinity between atomistic market system and atomistic market theory is no less strikingly apparent in *Walras*, both externally and internally. Externally, for the will to prove “that free competition procures the maximum of utility” (*Études d'économie politique appliquée*, ed. Leduc, 1936, 466), was the starting-point and end of his theoretical endeavours. Internally, for his whole system is nothing but an exact description of an ideal market with unhampered competition in the state of equilibrium.¹ Walras, too, conceives national economy as a system of competing individuals who aim at realizing the greatest possible satisfaction of their needs. “The world”, he says (*Abrégé des éléments d'économie politique*, ed. Leduc, 1938, 57), “may be considered as a vast general market composed of different special markets where social riches are bought and sold, and we wish to recognize the laws according to which this buying and selling tends spontaneously to take place. For this purpose we suppose always a market perfectly organized with regard to competition, as in pure mechanics machines without friction are supposed.” Vienna and Lausanne have the same reality in view: an equilibrium-system of man-atoms who strive after the maximum realization of pleasure (cf. Edgeworth, *Mathematical Psychics*, 1881, Part I)—only with the difference that in

¹ Even the decisive idea of the doctrine of Walras and Pareto was known to the classical economists, as Bousquet (62) has rightly emphasized: “The whole of the advantages and disadvantages of the different employments of labour and stock”, says Smith (*Wealth*, ed. Cannan, 1904, I, 100), “must, in the same neighbourhood, be either perfectly equal or continually tending to equality.”

Vienna the man-atom, in Lausanne the equilibrium-system was made the pivot of economic theory. The historical background is in both cases the struggle of all against all, as it had been realized through the principle of competition, then at the height of its historical development.

This doctrine of Menger, Jevons and Walras is to-day the dominant dogma, although the discussion of the problems of imperfect competition and economic planning has recently made it manifest that even in the present day economic reality and economic science grapple with the same problems. Edgeworth's and Pareto's disciples consider the theory of marginal utility and equilibrium as a piece of eternal truth which mankind may regard as its secure possession, just as Ricardo's disciples had regarded classicism and Schmoller's disciples historicism. But even this new doctrine is only the expression of a transient epoch in the never-ceasing flow of history,¹ yesterday not yet dreamt of, to-day in full splendour, to-morrow abandoned and forgotten. Alfred Marshall, perhaps the greatest in this circle, knew this: "Though economic analysis and general reasoning are of wide application", he states (*Principles of Economics*, ed. 1936, 37), "yet every age and country has its own problems; and every change in social conditions is likely to require a new development of economic doctrines." And Keynes says in the same vein: "Economists . . . write always *sub specie temporis*, and achieve immortality by accident, if at all" (*Essays in Biography*, 1933, 212).

The awareness that we are not capable of unveiling eternal

¹ In his introduction to the *Collected Works of Carl Menger* (London 1934) F. A. v. Hayek says (XI): "Wieser reports that Menger once told him that it was one of his duties to write surveys of the state of the markets for an official newspaper, the *Wiener Zeitung*, and that it was in studying the market reports that he was struck by the glaring contrast between the traditional theories of price and the facts which experienced practical men considered as decisive for the determination of prices." To-day the study of market reports must arouse similar impressions: the leading international markets for raw materials—rubber and tin may serve as representative examples—show no price-formation in the sense of Menger and Boehm-Bawerk, i.e. no price-formation resulting from subjective valuations of isolated and competing individual sellers and buyers, but price-formation through sellers' cartels which work by the regulation of their supplies according to the total demand, i.e. price-formation determined by the relation of objective quantities—of social demands and social supplies conceived as units. Thus a new reality is given which demands a fundamentally new theory and will bring it forth. If I. R. Hicks says: "It has to be recognized that a general abandonment of the assumption of perfect competition . . . must have very destructive consequences for economic theory" (*Value and Capital*, 1939, 83), he only shows that any orthodoxy must one day come into conflict with facts and succumb.

truths may well give a sombre colouring to our work. But to be ephemeral is the destiny of all that is human, and we must reckon with this fact. It is not given to us to bid the stars stand still, as did Joshua over the vale of Aijalon. Truth, like the daily bread, must be won each day anew, and in this task, as in all others, science and learning are but the mirror of life.

APPENDIX I

THE FORMAL PROBLEMS OF THE HISTORY OF ECONOMICS

The historical interpretation and explanation of the theories put forward in the past is the first and foremost task which the historian of political economy has to fulfil. But besides this great problem, which might be called his material problem, he is confronted with several others more or less formal in character. Three of them are of outstanding importance. They are indicated by the following questions: When did political economy arise? What were the phases of its evolution? How can it be defined and divided from other fields of thought? In other words: the historian of economics must know where to begin; how to group the thinkers whom he means to discuss; and, lastly, who is to be included in, and who to be excluded from, his considerations.

The first problem—the problem of origin—naturally and necessarily arises with regard to any science, but it is especially intricate in political economy. Never was a paternity more hotly contested than this: Socrates and Aristotle, Bodinus and Serra, Monchrétien and Petty, Cantillon and Carl, Quesnay, Smith and Ricardo have been called the founders of economics, and specious arguments have been brought forward in support of their respective claims. It is perhaps but a matter of opinion whether Aristotle was more important than Socrates, or Monchrétien than Serra. Yet it is difficult to decide whether economics was of ancient or modern origin. Here lies a real question of principle which cannot easily be answered.

The next problem concerns the development of economic thought. It arises from the fact that history is not simply a sequence of independent arbitrary acts, but essentially a connected process which suggests strict lawfulness, or at least definite regularity. This process takes place in certain discernible stages and phases, and the problem is how to comprehend them. The rhythm of development is hidden behind the bewildering manifoldness of life, and it is not easy to grasp its outlines. Apart from all difficulties of detail, there is a fundamental decision to be made: what is it that gives unity to those stages or phases? were they units of time, or essentially intellectual units? In other words: have we to group the thinkers of the past according to periods, or according to schools? Only after this preliminary problem has been solved, can we proceed to the further question of how the individual phases or stages of thought can be delimited and defined.

Lastly, a principle of selection is needed to decide which thinkers and theories should be discussed, and which could be passed over.

In every period there is a wide range of ideas on economic life, from very primitive concepts to over-refined systems of thought. Where is the line of division between scientific and unscientific ideas? Obviously, it is difficult to give a neat answer to this question. Again two fundamentally different attitudes are possible: either the net is cast very restrictedly, or it is cast very widely; either the word economics is understood in a restricted and technical sense, or it is given an all-comprehensive meaning. In the present it may be simple enough to separate the corn from the chaff, but in the past it is not always easy to part thinkers and talkers, connected as they appear by the spirit of their age. Yet a boundary line has to be drawn, be it at a venture.

It is manifest that the three problems here outlined can only be brought to a satisfactory solution on the basis of a clear conception of the character and scope of scientific economics. Unfortunately there is no point that could be more controversial. The discussion of the true definition of political economy resembles a war of all against all. It is not possible to wait until the theoreticians reach, or as much as approach, a generally acceptable formula. Happily, this is not necessary for our purpose. We can do without a theoretical definition of political economy; all we need is an historical, or rather an *historio-sociological* one.

In his classical book, *The Character and Logical Method of Political Economy* (1875, 18), John Elliot Cairnes describes the mission of economic science in a striking simile which to-day would probably meet with general approval. He says: "What Astronomy does for the phenomena of the heavenly bodies, what Dynamics does for the phenomena of motion; what Chemistry does for the phenomena of the functions of organic life, that Political Economy does for the phenomena of wealth: it propounds the laws according to which those phenomena co-exist with and succeed each other; that is to say, it expounds the laws of the phenomena of wealth."

This co-existence and co-ordination of the phenomena under observation, political economy has in common with the exact sciences: astronomy studies the system of the stars, mechanics the system of powers, chemistry the system of elements, economic analysis the system of market relations. Everywhere the picture is formally the same: although the parts of these systematic wholes are seemingly independent of one another, they still unite into a perfect order, and this order can only be explained on the basis of the assumption that hidden laws are active in the universe which from the chaos of the parts form the cosmos of the whole. To perceive these hidden laws is the endeavour of the human mind. Its results constitute the sciences. This is the fundamental concept which lies behind Cairnes's definition of political economy.

If we accept this description of the essence and tasks of economics, the question at once arises whether economy has in fact always been a system governed by secret laws similar to those which constitute

the order of the firmament? To answer this query in the affirmative, as has often been done by the modern economists, who are always prone to exaggerate the similarity between their discipline and the exact sciences, would mean disregarding the findings of that branch of learning which alone is called upon and capable of giving the answer: history.

Historical investigation has established beyond all doubt that the economic activities of man—at least in their essential parts—took place through hundreds or even thousands of years within units of life which owed their order not to a hidden but to a visible constitution, not to a super-human, but to a human law: in a domestic or town economy. In order to know how production and consumption were constituted on a typical manor of the ninth century, it is not necessary to describe it and then to analyse the result of observation: a study of Charlemagne's *Capitulare de villis* is sufficient. And the same is virtually true of production and consumption in the medieval cities, although here a primitive exchange is already inserted: the minute economic legislation of a town like Strassburg reveals to our eyes the whole mechanism of the division and integration of labour which operated within its walls.¹

Not so in modern national economy, and in the modern state. What distinguishes the Middle Ages economically from Modern Times is the fact that the single units of life then produced almost all the goods which they consumed, while to-day hardly anyone produces all he needs for the satisfaction of his wants. In other words, production and consumption were then consciously co-ordinated, while to-day this co-ordination is brought about independently of all individual wills by the mechanism of the market. Organized and free economy, natural and exchange economy, are opposed to each other. And only the free or exchange economy offers the spectacle of an equilibrium system governed by secret laws which can be investigated according to the same principles as the realm of the stars, the powers, or the elements. *Viewed historically, then, political economy is the investigation and analysis of the order dominant in modern exchange economy.*²

¹ As in the consciously organized economic systems of the past, so in a consciously organized economic system of the future, no political economy in our sense could exist. Bukharin says with justice (*The Economic Theory of the Leisure Class*, 1927, 49): "In a socialist society", which he, as it seems, conceives as a thoroughly organized and centrally directed planned economy, "political economy will lose its *raison d'être* . . . for . . . the causal consequences in the life of the unbridled elements will be replaced by the causal consequences of the conscious performances of society."

² The theoreticians who stand in the Lausanne tradition will probably reject this description. They base their deductions as a rule on two concepts which seem to be timeless: scarcity and choice between alternative uses of scarce means. In this sense Robbins says in his *Essay on the Nature and Significance of Economic Science* (2nd ed., 1935, 16): "Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses." This definition seems to exclude the restriction of the science to a certain economic order. Indeed Roll, who propounds a similar definition, asserts: "The necessity

If we keep this truth in view, we shall easily understand why the economic dogmas before and after 1750 were so different in character. The *communis doctorum opinio* delimits the two periods by emphasizing that not until the time of Cantillon and Quesnay does the idea appear that economic life is ordered by natural laws, and that these laws form a systematic whole, while before the middle of the eighteenth century, economic thought consisted only of normative judgments on economic matters, or at best of isolated laws. This is certainly true. But the historian must find the deeper cause behind this empirical statement. It lies in the transition from natural to exchange economy. The idea that spontaneous laws are operative in economic life could be conceived only after an economic order above the individual and independent of human will had become discernible in modern national economy—an order similar to that of the firmament. So long, however, as the order of economic life, as on the manor or in the town of the Middle Ages, was instituted by man and moulded by his will, economics had to be a normative discipline—a normative discipline like the art of legislation. Where science faces superhuman laws, it asks: what is? Where it is confronted with human laws, it asks: what is to be done? In the former case, positivism is its natural attitude; in the latter, criticism. Thus Cantillon and Quesnay did not discover new truths in an old science, but created a new science, the science of national and exchange economy.

Yet the adage *natura non facit saltum*, is true even here. Political economy, like exchange economy, did not suddenly enter upon the world ready made, but developed in a slow and laborious process. The beginnings of neither can be grasped with exactitude: the stream of life is not measurable with a foot-rule. But this we may say: the principles of free exchange, as well as their intellectual reflection, appear first in the sphere of money and monetary circulation—naturally so, for the sphere of money was, so to speak, the sphere of market and market exchange in a feudal world; its extension was at the same time the extension of the field of exchange economy, and the driving back of the system of natural economy. It first conquered those domains which had always been freest: foreign

of choice is independent of the social system in which it takes place" (*Elements of Economic Theory*, 1937, 16). Now, man is of course always confronted with the scarcity of provision. Without it there would be not only no economy but also no culture. Human behaviour in this situation, and towards this situation, however, is totally different in different social systems. The *homo oeconomicus* studied by the classical and neo-classical economists is only one form of the *homo rationalis*, typical of modern times. (Even the famous Robinson Crusoe is only the man of modern society in isolation, not some isolated man—such a one cannot exist, and least of all as a being capable of reasonable choice). In the organized or natural economy of the past the *homo traditionalis* was the dominant type. To him the same rules cannot be applicable as to his so much younger brother.—The view of the theoreticians of the Lausanne tradition is itself characteristic of the mentality of modern man: he is so imbued with rationalism that he cannot understand how the *homo sapiens* can possibly have acted in the struggle for existence otherwise than reasonably. Yet there were thousands of years of Totem and Tabu.

trade, and then commerce ; in a later stage industry ; and only after some centuries the citadel of tradition, agriculture.¹ As soon as this had fallen, and Quesnay's work proves that it happened about the middle of the eighteenth century, a comprehensive analysis could arise which could form the laws of exchange economy, hitherto grasped only in isolated observations, into a system, corresponding to that already existing in fact. But the individual laws formulated before 1750 were the materials of, and hence of course germane to, the system of laws discovered and expounded after 1750, and their discussion should therefore constitute the first chapter of any history of political economy.

These considerations, then, make it possible to judge confidently of the problem connected with the origin of economic science. It arose neither in the fifth century² B.C. nor in the eighteenth century A.D., but accompanied modern exchange economy in its development—a development whose first beginnings—if a certain date can be stated at all—should be sought in the sixteenth century.

The conviction that economics constitutes the science of exchange economy was by no means alien to the age of Quesnay and Smith. We find it clearly expressed by a thinker of that period, Sir James Steuart. "Civil and domestic liberty", he says in his *Inquiry into the Principles of Political Economy* (*Works*, ed. Sir James Steuart, jun., 1805, I, 200 sq.), "introduced into Europe by the dissolution of the feudal form of government, set trade and industry on foot ; these produced wealth and credit ; these again debts and taxes ; and all these together have established a perfectly new system of political economy, the principles of which it is my intention to deduce and examine." The words of this statement may be a little primitive—the idea they express is clear and true.

The definition of political economy as intellectual counterpart of modern exchange economy not only affords a key to the problem of its origin, but at the same time indicates the natural confines of its field. If it be true that economics is the science of exchange

¹ How, in the agricultural system of those centuries, feudal and capitalistic elements (i.e. elements of natural and exchange economy) combined into a transitional form I intended to show in a book, "Der landwirtschaftliche Grossbetrieb im Zeitalter des Feudalkapitalismus", the publication of which was prevented by the outbreak of war in September 1939. Cf., however, my publications *Ursprung und Aufstieg des landwirtschaftlichen Grossbetriebs in den boehmischen Laendern*", Bruenn 1934, and *Niedergang und Ende des landwirtschaftlichen Grossbetriebs in den boehmischen Laendern, Jahrbuecher fuer Nationaloekonomie und Statistik*, Jena, 1937.

² Only one more problem presents itself in this connection : did not Antiquity also develop an exchange economy ? The discussion on this point between Karl Buecher and Eduard Meyer is well known (Buecher, *Beitraege zur Wirtschaftsgeschichte*, 1922 ; Meyer, *Die wirtschaftliche Entwicklung des Altertums*, 1895). An unprejudiced view of this question seems to lead to a compromise. Meyer is right in asserting that Antiquity reached a high stage of economic evolution, but Buecher is not wrong in maintaining that this evolution did not lead to the full development of a national and exchange economy. In other words : Antiquity did not make national and exchange economy the dominant system ; the absence of a political economy in our sense at once explains and confirms this fact.

economy, all statements that have contributed to the knowledge of this system of economic intercourse are relevant to its historical development, all others not. The literature on the subject exhibits two antagonistic errors in this respect. Some writers, like Roscher,¹ indiscriminately include all utterances on economic matters, even if they have no bearing on the character and constitution of modern economy; others, like Dühring,¹ would fain exclude all writings which do not come up to the strictest standards of scientific investigation. Roscher fails to see the difference between utopian thought and economic analysis; Dühring is ready to reject all contributions, however valuable in themselves, which are connected with any practical tendency. Surely, the middle way between these two extremes is the best. We must indeed concentrate our attention on those theories and thoughts which have helped to explain the mechanism of the economic order of modern times; but we have to glean those theories and thoughts wherever we can find them, even if we have to disentangle them from a mass of matter without scientific value. Practically speaking, it is socialism which constitutes the main problem. Socialism, and social critique in general, form part and parcel of the history of economics in so far as their exponents have contributed to the understanding of the economic aspect of modern society; but pronouncements of a purely negative character, pronouncements which do not explain what is, but enlarge upon what ought to be, belong to the realm of fancy and fiction rather than to that of science and learning. It would be equally foolish to exclude Marx, and to include Ruskin in a description of the development of political economy.

Perhaps the most difficult of the three problems which we set out to solve is the division of the history of economic thought into its constituent periods. Again, the study of its literature is of little help, because it exhibits an overwhelming variety of opinion. But it is not unreasonable to hope that our historical definition of economic science will prove a reliable guide even here.

The historians of economic science who followed Wilhelm Roscher as their model took the principle of periodization as a rule more from the general history of intellect and culture than from economic thought itself. The periods which they envisaged were too broad: only an indistinct, hardly perceptible idea, an elusive "spirit of the age", united the thinkers whom they connect. Their adversaries, who adhered to the principles of Eugen Dühring, grouped the theoreticians according to their dogmatic quarrels as they appeared in day-to-day discussion. The schools which they construct are certainly too narrow²: hardly two authors can be reduced to a

¹ Roscher and Dühring represent the two fundamentally irreconcilable conceptions of the history of economic thought to which the first words of this book refer—Roscher the historical, and Dühring the critical approach.

² Gide and Rist in their treatment of Lexis's life-work show how unsuitable is the periodization of development according to schools. Although they appreciate Lexis, they devote to him only a footnote because he "belonged neither to the

common creed, even if they were germane in a deeper stratum of their thought, as is often revealed by retrospective consideration. The adherents of *historism* are prone to forget that they are concerned with the past of *science*. Their opponents, on the other hand, fail to realize that it is the *past* of a science which is to be studied. But it is at the same time the *past and science* with which the historian of political economy has to deal.

What we need, then, is a principle of periodization which is taken from *economics proper*, but comprehends it as a progressive development. Now, if economics is considered as the science of exchange economy, its progressive development must consist in a growing knowledge of the laws which constitute the inner order of the system of economic intercourse known by that name. No doubt, our understanding of the mechanism of production and consumption under capitalistic conditions has greatly increased in the course of time, and the successive advances that have been made might serve as a guiding thread through the chaos of economic literature. But, as this book has endeavoured to prove, the history of economic doctrine is not a simple progress from error to truth; our knowledge has indeed become firmer and broader, but only with regard to those aspects of exchange economy which have remained essentially unaltered since the system appeared on the stage of history, and their number is small. Economic reality has undergone prodigious changes in the last three centuries, and economic doctrine has faithfully reflected and recorded them all. The principle of periodization which we seek must express at once the absolute progress of knowledge, and the much more important relativity of its tenets; it must take into account, not only our growing comprehension of the capitalist order, but also its great historical variations which the science describing it could not but share.

Though at first sight it might seem impossible to reconcile elements so utterly dissimilar, there is a way out of this difficulty. The successive constellations through which capitalism has passed, have each brought one of its fundamental traits to particular perfection, and the scientific thought of the respective periods has naturally given particular prominence to those fundamental traits. In other words, in changing its character, modern exchange economy has successively exposed to view several of its lasting features, which may indeed have existed before, but became discernible only then. Their comprehension constitutes, as it were, the securer gains of a science which historical development has forced (and still forces) to a continual adaptation of its tenets to the changing realities. They, and they alone, mark the epochs in the evolution of modern economic thought.

Four epoch-making ideas of this sort strike the eye in a survey of the history of economic doctrine. The first had asserted itself by 1570-80. It consisted in the realization that national economy—historical school nor to that of state-socialism" (534)—as if one could acquire civic rights in the realm of science and learning only by submitting to a school!

the economy of a whole nation—is the modern economic unit. The second broke through by about 1750–60. It is embodied in the conviction that modern exchange economy must be conceived as a system of interdependence. The third appeared between 1820 and 1830; then it was fully realized that our system of national and exchange economy, that is to say, modern capitalism, is not a natural order, eternal as the physical framework of human life, but only a historical category. The fourth and last fundamental perception was reached after 1870: the perception that it is the psyche of man in which and through which the laws of the present-day economic order operate. Thus the history of political economy is divided into four periods: from the origin of socio-economic thought to the perception of the interdependence of all economic phenomena; from the perception of the interdependence of all economic phenomena to the discovery of the principle of evolution; from the discovery of the principle of evolution to the pursuit of economic analysis into the psyche of the individual; from the foundation of economic science on psychology to the present day.

A preliminary stage of the analysis of national and exchange economy is to be seen in the various monetary theories which appeared as soon as money began to undermine and transform the natural economy of the Middle Ages. However, so long as circulation continued to function without difficulties, the phenomena of the means of circulation remained uninvestigated. Only when practical problems arose did men set out to analyse its character and operation, and it was public administration which caused such problems to arise. Jean le Bon, King of France, changed the nominal value of the livre tournois between 1351 and 1360 more than seventy times, not without creating confusion in that part of the economic life of his country which was already subject to exchange economy,¹ and thus he evoked a monograph, which is the first that deserves to be included within the scope of economic science: Nicole Oresme's work *De origine et natura, jure et mutationibus monetarum*, written about 1360. The description of bimetallism propounded in this treatise, which builds on the doctrine of Johannes Buridanus, expresses the conviction that the value of money is based upon the use-value of the money-metal, that the rate of value between gold and silver is therefore formed in commercial intercourse, according to secret market laws, and that legislation would do best to follow the relation thus created; all ideas which proved that Oresmius offered to his contemporaries a genuinely scientific analysis of a partial domain of exchange economy which is thoroughly modern in character.²

This lively interest in the problems of monetary circulation never ceased in the two centuries which followed Oresme's publication. It may suffice to mention Copernicus and the Saxon mint-discussion.

¹ It came even to a revolt at Paris under Etienne Marcel.

² Cf. also the perception that debasement of the coinage constitutes in fact a concealed tax, and "Gresham's Law".

A new powerful incentive, however, came when by 1560 the broad stream of gold from Mexico and Peru poured forth by way of Portugal and Spain into Western Europe and revolutionized the traditional price-system. The ablest French thinker of the time, *Jehan Bodin*, then turned towards economy and gave in his *Réponse à M. de Malestroit touchant le fait des monnaies et l'enchérissement de toutes choses* (1568), an analysis of the great inflation which clearly grasped the primary reason of the disquieting rise in prices. "The principal and almost sole [cause of it] which nobody has so far touched, is the abundance of gold and silver", he says (*cit. Baudrillart, Bodin et son temps*, 1853, 169), "which is to-day greater in this kingdom than for four centuries." According to Bodin, not human mint-laws, but superhuman market laws had increased the prices. In his interesting *Étude sur Jean Bodin* (1876, 66) Edouard de Barthélemy judges that "in his *Réponse* Bodin expressed for the first time some of the essential ideas of political economy with clearness, with fullness, with a correct feeling of the existence of natural economic laws superior to the arbitrary arrangements and conjectures of authorities".

But Bodin—and that was the truly epoch-making fact—did not stop with monetary theory but expressed for the first time in his *Six livres de la République* (1576) the fundamental principle of mercantilism :

As to raw materials imported from foreign lands it is necessary to lower the duties, and to increase them for works of handicraft, and not to permit that these should be brought in from foreign lands, nor should raw materials like iron, copper, steel, wool, flax, raw silk, and other similar articles be suffered to be carried away, [for only] thus the subject may gain the profit of his work and the prince the impost (ed. 1593, 877).

These words contain a definite programme for a national trade policy, and they reveal that Bodin had learned to see national economy as a true unit. But here, as everywhere, science followed the lead of life. Bodin only compressed into a principle the idea which his contemporary, René de Biragues, had already applied in practice.

In order that our subjects may the better devote themselves to the manufacture and processing of wool, flax, hemp, and bast which grow and abound in our kingdom and land, and make and draw the profit now made by foreign countries which come here to buy them generally cheap, carry them off and process them and then import the cloth and linen which they sell at an excessive price [we read in an edict of 1572 by this precursor of the great Colbert], we have ordered and now order that in future it will not be lawful for any of our subjects or any stranger under what reason or pretext soever to transport wool, flax, hemp, and bast outside our kingdom and land. . . . We also expressly forbid all import into this our kingdom of all cloths, canvas, lace, and purl-lace of gold or silver, likewise of all velours, satins, damasks, taffetas, camlets, canvas, and all sorts of striped material or material containing gold or silver . . . under penalty of the confiscation of the said merchandise (Baudrillart, l.c. 14 sq.).

Thus from the time of Biragues and Bodin national economy became the object of all endeavours speculative and practical, and Francesco Ferrara was justified in his opinion that we must regard Johannes Bodinus as marking the beginning of the evolution of political economy. He heads the long line of authors who, between the middle of the sixteenth and the middle of the eighteenth centuries, devoted themselves to the study of economic life and are traditionally summed up as mercantilists.

In close connection with Johannes Bodinus stands the unidentified Englishman known only as "W. S. Gentleman" but variously identified with William Shakespeare, William Stafford, or John Hales. His *Compendious or Briefe Examination of Certayne Ordinary Complaints of divers of our Countrymen in these our Dayes*—also called *A Discourse of the Common Weal of this Realm of England*—was first published in print in 1581, although the editor, Elizabeth Lamond, has made it seem probable that the dialogue originated as early as 1549. Not only does the little book propound in monetary theory many opinions similar to those of Bodin (cf. esp. 71 and 109) but it leads likewise to the conclusion at which the great Frenchman had arrived, viz. that the welfare of the nation depends upon a strong national trade and monetary policy. This early advocate of mercantilism compares the inhabitants of England to the passengers of a ship and thus expresses in a striking simile the indissoluble connection and common destiny of all members of the national state and the national economy.

In the period of roughly one hundred and fifty years after Johannes Bodinus the mercantilistic view of economic life was greatly developed; it increased both in depth and breadth. All parts of exchange economy were investigated, and the more ground capitalism gained from feudalism, the more comprehensive became the scope of economics. In agricultural production, however, the traditional economic methods survived until far into the eighteenth century, and consequently what literature offers on this subject is almost exclusively rules of art, not laws of economy. A comprehensive analysis of national and exchange economy in the sense of the economic science of to-day was possible only when the last remnants of domestic and natural economy had been swept away.

The first to see modern exchange economy as a system of interdependence, and to perceive the interaction of all members of a people in production and distribution, seems to have been *Ernst Ludwig Carl*, author of a three-volume *Traité de la richesse des princes et de leurs états et des moyens simples et naturels pour y parvenir. Par M. C. C. d. P. d. B. allemand*,¹ published in 1722-3 at Paris. The basic idea of this very remarkable work² which, as the preface says,

¹ Carl Conseiller des Princes de Brandebourg. Tautscher (l.c. 80) lays claim to honours which he does not merit, when he says: "The solution of the pseudonym has now been achieved", as if he had accomplished it, for already Roscher (376) ascribes the *Traité* to the "Bayreuther Carl" without, however, noticing its importance.

² Tautscher, the re-discoverer of Carl, reproduces in his article quoted in the text among others the following definitions (90, 92, 93), which strike us as strangely

aims at describing according to a uniform method, all realities of national economy and all ideas concerning national welfare in their essential and systematic connection, may be summed up as follows :

The natural order of economic life unites men in a common production founded upon the division of labour, and secures the maximum of well-being to all. The social economy constituted by the natural economic order is the collaboration of the individual economies which are connected with one another, and bound together, by mutual dependence. The goods produced are directed by interchange to the place of their use and consumption. In this interchange the price brings their income to all producers (A. Tautscher, *Der Begründer der Volkswirtschaftslehre—ein Deutscher, Schmollers Jahrbuch*, 1940, 99).¹

Here a modern comprehensive theory of production and distribution founded on a secure knowledge of the character of national and exchange economy is presented to us.

In spite of the high level, however, which economic analysis had reached in Carl's work, his *Traité* had hardly any influence on the further development of political economy. More successful seems to have been his contemporary Richard Cantillon, whose *Essai sur la nature du commerce en général*, quoted by François Quesnay and Adam Smith, appeared in 1755.² In the twelfth chapter of the first part of this work, Cantillon gives his description of distribution, which—however primitive it may appear—marks an epoch because it starts from the social product and lucidly shows how it is measured out to the different classes of producers. He suggests that the produce of the soil—which, anticipating the physiocratic theory, he identifies with national income—is divided between farmers and landlords (in the relation of two to one), and regards the incomes of all other producers, especially those in trade and commerce, as derived earnings. He assumes that half of all inhabitants of the state live in towns, half in the country, and then investigates how the circulation of money and merchandise takes place under such ideal conditions. While the mercantilists had only analysed a single section of the whole or at best juxtaposed some partial pictures, here the essence of national economy as an economic system is fully understood.

modern and remind us strongly of Menger : Goods are only those things which serve for the satisfaction of human needs (*Traité*, I, 34 ; II, 460) ; the importance which goods have for the satisfaction of human needs constitutes their value (I, 47) ; goods not directly serving the satisfaction of needs acquire value if they serve for the production of goods serving directly the satisfaction of needs (I, 34 sq., and 60) etc.

¹ It is absurd to make the solution of the problem of the origin of political economy a matter of national pride and prejudice. Had Carl not known Boisguillebert, had he not changed feudal Germany for highly developed France, he would never have become the author of such a treatise. The creation of political economy is the result of a fruitful collaboration of the leading nations. Here as everywhere Turgot's word is true : " He who does not forget that there are political states separated from one another and diversely constituted, will never treat well of any question of political economy " (Letter to Mlle Lespinaise of January 26, 1770, *Lettres*, ed. Guillaumin, II, 800).

² It was probably written as early as 1725.

"The importance of Cantillon", says F. A. von Hayek in the preface to his edition of the *Essai* (1931, xxxiv), "seems to lie in the fact that he was the first to succeed in permeating and describing almost the whole field of what we call political economy."

Cantillon furnished the basis on which Quesnay could build. Quesnay's *Tableau Economique* was published three years after Cantillon's book. It is in essence a striking representation of the economic process, considered as an indivisible whole, and gives a more convincing exposition of the interdependence of all economic phenomena in a capitalist society than even Carl and Cantillon had offered.

With Carl, Cantillon and Quesnay opens the great age of economic theory which reached its climax in Adam Smith and David Ricardo. Not unjustly described as classical, it first gave a comprehensive analysis of exchange economy as a system of interdependence. It showed how the market combines the seemingly independent individual economies into a great order, and how this order appears as the expression of the highest rationality. But this rationality the classical writers conceived in the style of their time as something absolute, something timelessly perfect, as an emanation of an unchangeable reason of the universe. What unites all thinkers of this period is the common conviction that the laws of national economy found by them were natural laws, similar in essence to the laws of gravitation. Karl Arnd, one of the last disciples of Smith and Ricardo, formulated this view perhaps with the greatest distinctness. "Political economy is a science which brings those unchangeable natural laws into prominence on which the economic life of the peoples rests. These natural laws are based on the inner nature of men and things and are as eternal and unchangeable as the physical laws of the universe" (cit. Mombert, 477, 353). The classical economists, like their contemporaries, all viewed the past à la Rousseau: in the beginning there was an age of nature. Unreason made man disturb the harmony of the natural state, and mankind sank into the misery of the historical epoch. The reconstitution of the natural order, they believed, would create a new age of harmony founded upon eternally unchangeable laws—secret laws whose revelation is the task of political economy. But this scheme was only the result of rationalistic speculation, not of historical observation. The idea of evolution, the great discovery of the nineteenth century, was still unknown. For the classical economists, Marx justly observes (*Misère de la philosophie*, 1847, 113),

the institutions of feudalism are artificial institutions, those of the bourgeoisie natural institutions . . . The economists explain how production goes on within the given framework—it is . . . the error of all economists that they represent the conditions of bourgeois production as eternal—but what they do not explain is how these conditions themselves are produced, that is to say, the historical movement which gave them birth (160, 94).

To the solution of this problem, the growth of national and ex-

change economy, science turned in the age of romanticism with increasing interest while, prior to 1820, it had been concerned exclusively with the structure of the system of economic intercourse.

The first writer who refused to regard Smith's doctrine as a collection of universally valid laws was Adam Mueller, with his *Elemente der Staatskunst*, published in 1808-9. He endeavoured to prove (307) "that the political economy of Great Britain, however solid its basis may be, and however applicable it may be to the nature of that island, cannot serve as a scheme and model of political economy in general", because in different times and places conditions are different—a fact which, as the inhabitant of a country still half feudal, he easily realized. In his work a dynamic interpretation of economic life is postulated and foreshadowed.¹

The political science which I aim at [says Mueller (ed. Hendl-Verlag, 1936, 10)] shall conceive the state in its flight, in its movement, and therefore I am not fully satisfied with any of the theories hitherto propounded on this subject. . . . They are, to use a simile from the medical art, exhaustive in the anatomy of the state, but if the whole phenomenon of the life of the state is to be properly comprehended, they themselves lack the indispensable life. . . . Our usual theories of the state are agglomerations of notions and therefore dead, useless, unpractical: they cannot keep pace with life because they are based on the illusion that the state can be understood entirely and once for all; they stand still, while the state progresses into the unending. . . . The state is not only the union of many families living side by side, but also of many families following one another; this union should not only be infinitely great and intimate in space, but also immortal in time. The doctrine of the connection of the generations following one another is an empty page in all our theories of the state, and herein lies their great defect (17, 40),

the overcoming of which is the task of the future.

If we regard the programme laid down in 1843 by Wilhelm Roscher in his *Grundriss zu Vorlesungen ueber die Staatswissenschaft nach geschichtlicher Methode* as characteristic of historicism, we must place *Simonde de Sismondi* beside Adam Mueller at the helm of this intellectual movement. Roscher founded his economics on four fundamentals: the sociological and historical aspects of exchange economy, the comparative method, and the idea of relativity. All these prin-

¹ More cannot be maintained. An analysis of Mueller's work proves that, in many points, he had not overcome rationalism, however his present-day admirers may represent him. Just one example: in methodology he was inclined to prefer deduction. He places at the beginning of his considerations "three simple ideas understandable even to children, apparently self-evident, as they use to be placed at the head of any science such as mathematics, from which the whole science starts and to which it incessantly returns" (23). Cf. also *Prolegomena einer Kunst-Philosophie, Vermischte Schriften*, 1817, II, 263 sq., esp., 272. Similar traces of rationalism we find in Mueller's philosophy of law (cf. *Elemente*, 36), of the state (e.g. 150), of history (e.g. 38), and in many other contexts. On economic life Mueller says: "All commodities and . . . all persons have a tendency to disperse and to bring themselves into equilibrium according to general laws of nature. . . . This is an institution of nature" (275). Cf. on this point Knies, *Die Politische Oekonomie vom Standpunkte der geschichtlichen Methode*, 1853, 22 sq.

ciples had been already clearly proclaimed in 1819 by Sismondi in his *Nouveaux principes d'économie politique*. He says, quoting Smith against Ricardo, whom he wishes to criticize :

Adam Smith considered political economy as a science of experience. . . . He recognized . . . that it can only be founded on the history of the different peoples, and that it is only from a judicious observation of facts that principles can be deduced. . . . He endeavoured to examine each fact in its social setting and never to lose sight of the diverse circumstances with which it was connected. . . . Absolute propositions, and abstractions, must, generally speaking, be avoided in political economy (I, 57, 49, 288).

The following words are almost spoken in the vein of Schmoller : Smith's "new disciples in England have thrown themselves into abstractions which make us entirely lose sight of the ground. The science is so speculative in their hand that it seems to detach itself from all practice" (58). Even the great and admired Adam Smith is blamed because of his rationalism.¹ "Adam Smith conceived the science as exclusively submitted to calculation, whilst it belongs in some respects to the domain of feeling and imagination which cannot be calculated" (56). For Sismondi (as for all followers of the historio-sociological movement) political economy was not a *science de calcul* but a *science morale* (288), that is to say, not a natural, but a cultural science.

In the generation after Sismondi, these principles were fully developed ; in France the emphasis was more sociological, in Germany more historical (Saint-Simon and Comte² on the one side of the Rhine, List and Roscher-Hildebrand-Knies on the other). In England—after Mill had taken half a step in this direction³—

¹ Nevertheless, Sismondi was still strongly influenced by the spirit of the eighteenth century. The second book of his investigation (*Formation et progrès de la richesse*) constantly makes use of the "solitaire", i.e. a Robinson Crusoe, and comes to judgments like this : "The wealth of all is but the sum-total of the wealth of the individuals" (63), a view whose atomism was rejected by fully developed romanticism with its organic concept of society. The third book, however (*De la richesse territoriale*), shows already a strongly developed historicism. The argument often reminds the reader of Schmoller's *Grundriss*.

² Schumpeter's rhetorical question : "What has Comte's world of thought" —and that of Hegel, who is mentioned in the same connection—"to do with the historical school?" (103) appears simply incomprehensible. Common to Hegel and Schmoller, Comte and Ingram is "only" the idea of evolution—i.e. the dominant idea of the post-Napoleonic age which in intellectual history is so sharply severed from the eighteenth century, whose children were Smith and Ricardo.

³ In the *Principles of Political Economy* Mill says : "The laws and conditions of the Production of Wealth partake of the character of physical truths. . . . It is not so with the Distribution of Wealth. That is a matter of human institution solely. . . . The Distribution of Wealth depends on the laws and customs of society. The rules by which it is determined . . . are very different in different ages and countries" (ed. Ashley, 1909, 199 sq.). Cf. also Mill's very interesting letter to Comte of April 3, 1844. ("I shall take special pains to separate the general laws of Production, which are necessarily common to all industrial societies, from the principles of the Distribution and Exchange of wealth, which necessarily presuppose a particular state of society. . . .") Cf. further his *System of Logic*, 1843. This division

Marx created a great synthesis between French sociology, German philosophy of history, and British economics. In teaching that, whilst it is true that the economic system of the present day is subject to definite laws, these laws are not eternal like those of nature, but changeable like those of society,¹ he harmonized the old doctrines with the new and overcame their apparent antithesis by a higher concept of the world and knowledge.

What is, however, common to the historio-sociological school and classical economics, is the practice of taking the things of the external world, especially of course the phenomena of economic life, as they appear to our senses, i.e. as realities outside the human consciousness. This is clearly manifest in the basic notion of economic theory, the notion of value. "The value of a thing", says John Stuart Mill in his *Principles* (ed. Ashley, 1909, 478), "means the quantity of some other thing or of things in general which it exchanges for." To have overcome this concept and thus opened a new epoch in the history of doctrine, was the achievement of *Stanley Jevons* and *Carl Menger*, who published their books in 1871, after earlier attempts in the same direction, those of Gossen and Jennings, had come to naught. Menger was fully aware that by his psychological considerations he had changed and deepened the analysis of economic phenomena.

As a more thorough investigation of psychic facts makes the perception of external things appear merely as the influence on ourselves of the things which come to our consciousness, i.e. in the last analysis as the perception of a state of our own person [he says in the *Grundsätze* (ed. London School of Economics, 1934, 81)], so all the importance which we ascribe to the things of the external world is, in the last analysis, only a result of that importance which the conservation of our being in its essence and its development, i.e. our life and our well-being, have for us. Value is therefore not anything inherent in the goods, nor any attribute of them, but merely the importance which we ascribe to the satisfaction of our needs, or to our life and our well-being, and which we consequently transfer to the economic commodities as the exclusive causes thereof.

In the same sense Jevons pointed out (*The Theory of Political Economy*, ed. 1931, 37), that—though "the ordinary necessities and conveniences of life such as food, clothing, buildings, utensils, furniture, ornaments etc." i.e. tangible things, are "the immediate object of our attention"—"pleasure and pain" i.e. psychic magnitudes, "are undoubtedly the ultimate objects of the Calculus of Economics". Thus both overcame Mill's concept of value. Value, says Menger (86), is no "independent thing existing for itself. It is a judgment which men engaged in economic activities form on the importance of the goods at their disposal for the preservation of their lives and their of the theory of production and the theory of distribution, however deeply Mill may have conceived it, cannot be defended, because the process of history comprehends all parts of social life alike.

¹ As by a flashlight we discern the whole contrast between Smith's school and Siamondi's followers in Marx's word: "Proudhon does not know that all history is but a continuous transformation of human nature" (l.c. 144).

welfare, and so nonexistent outside the consciousness of those men". And Jevons (43): "Utility, though a quality of things, is no inherent quality. It is better described as a circumstance of things arising out of their relation to man's requirements." A revolution, comparable to the Copernican turn in Kant's work, has here been achieved.

On the foundations laid by Jevons and Menger economic science has continued to build ever since. Hence, if we survey its evolution, we see it divided into four sections: Bodinus and Hales, Carl, Cantillon and Quesnay, Mueller and Sismondi, and Jevons and Menger mark the boundaries between the periods. But this division of the history of economic doctrine can only be regarded as well established if we not only suitably place the milestones but also prove that the thinkers and thoughts within these epochs were germane in character. Now, as has already been emphasized, it is difficult to find a distinct principle common to Mun and Schroeder, Ricardo and Carey, Marx and Schmoller, Wieser and Edgeworth. The life of economic science has been too rich to admit of any quick schematization. In the course of the centuries, however, not only the doctrinal content of political economy has changed, but also its position in the system of sciences, and that may perhaps help us to secure our periodization of the past. The thinkers who have opened the four periods came from four different worlds: the author of the *Six livres de la république* was a lawyer; Quesnay, the author of the *Recherches philosophiques sur l'évidence des vérités géométriques* was at heart a philosopher; Sismondi, the author of the *Histoire des républiques italiennes du Moyen-âge*, was a historian; and Jevons, the author of the *Principles of Science*, was by instinct a mathematician. Thus political economy approaches now one, now another, branch of knowledge, and this fact clearly reveals its historical course and change of character.

In the first period, headed by Bodin, economics is closely related to *jurisprudence*, especially administrative law. What Boucke (28) says of *Justi* is more or less true of all mercantilists: "Social phenomena are narrowed down to questions of administration in the belief that this is the central theme of economics." What measures were to be taken—that is to say: what legal commands were to be issued—in order to overcome natural economy and to foster the growth of exchange economy was the basic problem of political economy between 1570-80 and 1750-60.

In the second period of evolution opened by Carl and Cantillon and decisively influenced by Quesnay and Smith, economic science is in its very roots connected with *philosophy and theology*, or rather, with what unites both, *deism*. To the followers of Quesnay, "Physiocratie" and "Théocratique" were synonymous: the great order of nature which they proposed to investigate was to them the law which Providence, the Highest Being, the Author of Nature, the Founder and Legislator of human society, had given to the universe. "All our interests, all our wills tend to unite", said Mercier de la Rivière (cit. Gide-Rist, 9) for his century, "and to form for our common

happiness a harmony which we can regard as the work of a beneficent deity who wills that the earth should be covered with happy men." In the same vein Bastiat spoke later the great words: "The social mechanism . . . reveals the wisdom of God and proclaims His glory" (*Harmonies économiques*, 2nd ed., 1851, 8). To perceive and prove the "pre-established harmony" which the Creator has given to His creation, was the end of economic thought between 1750-60 and 1820-30.

In the third period of the history of economic doctrine beginning with Mueller and Sismondi, economic thought shows a clear tendency to blend with *history*. Gustav Schmoller, in whose life-work historicism has found its purest embodiment, expressed the conviction that only "laborious special investigations on economic history . . . can afford the right basis to give to economic theory a sufficient empirical substructure". What he once said of himself is characteristic of his whole school: "Whether the future judgment will be that I failed as an historian because I was at the same time an economist, and as an economist because I could not cease to be an historian, I must leave undecided. I can only be both at once and imagine that I owe the best of what I am capable of achieving to this combination" (cit. Mombert, 472, 475). The endeavour to grasp life in its historical fulness inspired the movement which prevailed in political economy between 1820-30 and 1870-80.

Finally, since the last quarter of the nineteenth century, since the time of Menger and Jevons, economic theory has come nearer and nearer to *the exact sciences*. "The theory of economy", says Jevons (l.c. vii), "presents a close analogy to the science of statical mechanics and the laws of exchange are found to resemble the laws of equilibrium of a lever as determined by the principle of virtual velocities." And Pareto says more directly still (*Cours d'économie politique*, 1896, 2): "The science of which we undertake the study, is a natural science like psychology, physiology, and chemistry."

Thus political economy has, in the four centuries of its historical development, three times changed its intellectual character. It has been successively practical, philosophical, antiquarian, and scientific: but in all the phases through which it has passed, it was a faithful reflection of the social reality, the study and understanding of which is its task and trust.

APPENDIX II

THE MAIN LITERATURE ON THE HISTORY OF ECONOMICS

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- 1899 RAMBAUD, JOSEPH. *Histoire des Doctrines Économiques*, 1902.
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INDEX

- Agriculture, 12, 14, 49, 63 ; contrast of English and German, 50 ; (mercantilism), 9 ; (physiocracy), 15 sq., 19-23
 Altruism, 49
 America, 14
Ancien Régime, 17 sq.
 Anderson, J., 41
 Antiquity, 63
 Aristotle, 59
 Arnd, K., 70
 Art, 3
 Artisans (physiocracy), 16 sq.
 Austrian school of economics, *see* Menger, C.
- Bacon, Fr., 10, 44
 Barthélemy, E. de, 67
 Bastiat, F., 8, 75
 Belloni, G., 10
 Bentham, J., 44
 Bidermann, H. J., 14
 Bimetallism, 66
 Biragues, R. de, 67 sq.
 Birth control, 43
 Bodinus, J., 59, 67 sq., 74
 Boehm-Bawerk, E., 55, 57
 Boisguillebert, P., 13, 22, 69
 Bonar, J., 44
 Boucke, O., 74
 Bourgeoisie, 24, 52, 55, 70 ; *see also* Capitalism
 Bousquet, G. H., 56
 Brentano, L., 52
 Buchan, J., 25
 Buecher, K., 63
 Bukharin, N. I., 55, 61
 Buridanus, J., 66
- Cairnes, J. E., 2, 60
 Cannan, E., 26, 40
 Cantillon, R., 7, 18, 59, 62, 69 sq., 74
 Capital, 29-31, 33 sq., 37 sq., 41 sq., 46, 52 sq. ; (Lauderdale) 32 sq., (Ricardo) 34-8, (Smith) 30, 32 ; *see also* Circulating capital, Fixed capital, Variable capital
 Capitalism, 14, 25, 34, 47, 49, 52 sq., 65 sq., 68, 70
 Capitalist class, *see* Capitalism
 — production, *see* Capitalism
 Capitalists, *see* Capitalism
Capitulare de villis, 61
 Carey, H., 14, 29, 44, 74
- Carl, E. L., 59, 68-70, 74
 Cartels, 56 sq.
 Catholicism, 49
 Charlemagne, 61
 Children, Mortality of, *see* Mortality
 Christianity, 3
 Church, 3
 Circulating capital, 42, 46
 Clapham, J. H., 40
 Class struggle, 25, 27, 51 sq.
Classe des propriétaires, 15 sq., 20
 — *productive*, 15 sq., 20
 — *stérile*, 15 sq., 20
 — *stipendiée*, 17
 Classical economics, *passim*, 2, 14 sq., 23, 42, 44, 46, 48 sq., 55-57, 62, 70, 73
 Classical economists, *see* Classical economics
 Classicism, *see* Classical economics
 Cohen, H., 3 sq.
 Colbert, J. B., 14, 16, 22 sq., 67
 Colbertism, 21
 Commerce, 5, 16, 63 ; (Condillac) 20, (mercantilism) 8 sq., 12, (physiocracy) 18 sq., 69 ; *see also* Trade
 Competition, *passim*
 — Imperfect, 57
 Comte, A., 48 sq., 72
 Condillac, E., 20 sq.
 Constant capital, *see* Fixed capital
 Consumers and consumption, 47, 53, 55, 61
 Copernicus, N., 66
 Corn laws, 5, 41
 — — Debate on (House of Lords), 40
 Costs of production, Theory of, 37 ; (Marx), 47 sq.
 Cournot, A. A., 6
 Cultivators, *see* Peasants
 Cunningham, W., 31
- Deism, 74
 Democracy of petty producers, 51
 Descriptive school of economics, *see* Historism
 Determinism, 7
 Diminishing returns, Law of, 40
 Distribution, *passim*
 Distribution, Theory of, (Cantillon) 69, (Carl) 69, (Mill) 72 sq., (Ricardo) 34, 42
 Domestic economy, *see* Natural economy
 Dühring, E., 3, 64
 Du Pont de Nemours, P.S.D., 21

- Economics, as defined by Roscher, 71 ;
as defined by Sismondi, 72 ; as a
sociological discipline (Schmoller),
48 ; as the science of exchange
economy, 65 ; *see also* Exchange
economy, National economy, Political
economy
- Edgeworth, F., 1, 56 sq., 74
Emminghaus, A., 10
England, 5, 11, 14, 17, 39, 49, 68, 71 sq.
Entrepreneur, *see* Industry
- Equality, 25, 51-3
Evolution, Idea of, 48, 52, 70, 72
Exact sciences, 60 sq., 75
Exchange economy, 8, 11 sq., 14, 23, 52,
61-8, 70 sq., 74
Exploitation, Theory of (Marx), 47
Export, *see* Commerce, Trade
Expressionism, 4
- Factory system, 26 sq., 34, 42, 52
Fénélon, F. de Salignac de la Mothe, 22
Ferrara, F., 2, 8, 68
Feudalism, 12, 25, 49 sq., 62 sq., 68, 70
Fixed capital, 32 sq., 36 sq., 42, 46 48
France, 11, 15, 17 sq., 22 sq., 69, 72
Free trade, 5, 21
— will, 7
- Genovesi, A., 14
Germany, 11, 49, 69, 72
Gide, C., 64
Gold, *see* Precious metals
Gossen, H. 2, 73
Grain, 22, 41
— market, 39
Great Britain, *see* England
Gresham's law, 66
- Hales, J., 68, 74
Haney, L., 5
Harmony, 70, 75
Hayek, F. A. v., 57, 70
Hegel, G. W. F., 72
Heimann, E., 47
Heine, H., 52
Hermann, F. B. W., 37
Hicks, J. R., 57
Hildebrand, B., 49, 72
Historical school, *see* Historicism
Historio-sociological school, *see* Historicism
Historicism, 3, 48 sq., 51-3, 57, 65, 71-5
Hobbes, T., 9, 55
Holland, 11, 16
Hornigk, P. W., 10 sq.
Hume, D., 13
Husbandry, *see* Agriculture
- Idealism, Philosophic, 3 sq.
Import, *see* Commerce, Trade
Impressionism, 4
- Income, National (Cantillon), 69,
(Smith) 28
Individual psyche as starting-point of
economic analysis, 2, 4, 54 sq., 66
Individualism, 4 sq., 56
Industrial revolution, 5, 26-8, 32, 37,
52 sq.
Industry, 5, 14, 23, 32, 35 sq., 46, 49, 56,
63 ; (Condillac) 20 sq., (mercantil-
ism) 8 sq., 12, (physiocracy) 15, 19 ;
Domestic, 26
Inflation, 13, 67
Ingram, J. K., 5, 49, 72
Interventionism, 23, 53
Iron law of wages, *see* Wages-fund,
Theory of
Italy, 14
- Jean le Bon*, King of France, 66
Jennings, R., 2, 73
Jevons, W. St., 1-3, 53-5, 57, 73-5
Jurisprudence, 74
Justi, T. H. G. v., 74
- Kant, I., 74
Keynes, J. M., 57
Kries, K., 49, 71 sq.
- Labour, 25 sq., 32-8, 41-3, 45 sq., 51,
53, 56 ; Division of, 31 ; solely
productive of value (Petty) 29,
(Smith) 28
Labour theory of value, (Marx) 47 sq.,
(Ricardo) 30, 33-8, 41, (Say) 33,
(Smith) 30, 48
Labourers, *see* Labour
Land, (Ricardo) 30, 38, (Smith) 28, 39 ;
see also Rent, Soil
Lamond, Elizabeth, 68
Large-scale production, *see* Production,
Industrial
Lassalle, F., 24-7
Lau, T. L., 11
Lauderdale, J. M., 32, 34
Law, J., 13
Laissez-faire, 5, 22
Legislation, 62
Leslie, T. E. C., 49
Le Trosne, G. F., 21
Lexis, W., 64
Liberalism, 8, 23 sq., 52 sq. ; *see also*
Laissez-faire
Liberals, *see* Liberalism
List, F., 48, 51, 72
Lloyd, F. W., 2, 55
Locke, J., 13, 44
Longfield, M., 2
Luxury, 18 sq.
- McCulloch, J. R., 37

- Machines and machinery, 27, 30 sq., 33 sq., 37, 46; as element of cost, 34
- Malthus, R., 13, 40 sq., 44
- Mandeville, B. de., 49
- Manet, E., 4
- Manor, 61 sq.
- Manufacture, 12, 16, 34
- Marburg school of philosophy, 3
- Marcel, Etienne, 66
- Marginal utility, Theory of, 1 sq., 4, 8, 54-7
- Market, 13, 39, 47, 53, 55-7, 62, 70; freedom of, 23
- Market economy, 4, 11
- Marshall, A., 57
- Marx, Karl, 45-48, 51, 64, 70, 73 sq.
- Melon, J. F., 10
- Menger, C., 1-4, 53-7, 69, 73-5
- Mercantilism, 4, 8-14, 23, 67-9, 74
- Mercantilists, *see* Mercantilism
- Mercier de la Rivière, P. P., 21, 23 sq., 74
- Meyer, E., 63
- Middle Ages, 13, 61 sq., 66
- Mill, J. S., 3, 37, 40, 44 sq., 72 sq.
- Milton, J., 44
- Mines, 11
- Mirabeau, V. Riquetti Marquis de, 23
- Monchrétien, A. de, 12, 59
- Monetary theories, 68; preliminary stage of analysis of exchange economy, 66-8
- Money, 35, 62, 66, 69, 75; as element of price formation, 32; as element of production, 32; as stock (Smith), 32; Boisguillebert's view of, 13; (mercantilism), 10 sq., 13; Circulation of, 11, 14, 62; Quantity theory of, 13
- Montalembert, C. Forbes de Tryon, 3 sq.
- Mortality, 43 sq.
- Mueller, A., 18, 49, 71, 74 sq.
- Mun, T., 74
- Napoléon, 41
- National economy, 11 sq., 47, 61 sq., 65, 67-71; Jevons' definition, 54; Menger's definition, 53 sq.; Walras' definition, 56; *see also* Economics, Exchange economy, Political economy
- Natural economy, 11 sq., 61-3, 66, 68; transition to exchange economy, 12, 14, 62 sq., 74
- order, *see* *Ordre naturel*
- Naturalism, 4
- Necker, J., 19
- Newton, Sir I., 44
- Nobility, 17 sq.
- North, Sir D., 13
- Oncken, H., 21 sq.
- Ordre naturel*, 21, 23 sq., 52, 70
- Oresme, N., 66
- Paper (means of circulation), 13; *see also* Money
- Pareto, V., 1, 56 sq., 75
- Peasants, 17, 56
- Peel, Sir R., 5
- Perpetualism, 49
- Petty, Sir W., 7, 9 sq., 12 sq., 28, 30, 59
- Philosophic idealism, *see* Idealism, Philosophic
- Philosophy, 3, 7, 74
- Physiocracy, 4, 8, 15-23, 28, 69
- Physiocrats, *see* Physiocracy
- Pitt, W., 5
- Planning, 57
- Political economy, *passim*, 68-71, 74; Cairnes' definition of, 60; Historio-sociological definition of, 60-3; *see also* Economics, National economy
- Pompadour, Mme de, 19
- Population, Increase of, (Great Britain), 39 sq., 42, 44; (mercantilism), 8 sq., 14; Theory of (Malthus), 13, 44
- Positivism, 3 sq., 62
- Precious metals, 66 sq.; (mercantilism), 9 sq., 13 sq.; (Ricardo) 38 sq., (Smith) 38 sq.
- Presbyterianism, 25
- Price, 34 sq., 38-40, 43, 47, 55, 57, 67; Theory of, (Marx) 46-8, (Menger) 54, (Ricardo) 41 sq., (Smith) 28 sq., 39
- Production, *passim*, Agricultural, 40-4, 68; Capitalist, 23, 70; Costs of, *see* Costs of production; Freedom of, 23, (Smith) 28; Industrial, 31 sq., 51 sq.; Means of, 27, 30-32, 36 sq., Private property in means of, 25 sq., 53; (physiocracy) 18 sq.; Theory of, (Carl) 69, (Mill) 71 sq.
- Profit, 45 sq.; as a factor of price formation (Smith) 28 sq.; Theory of (Marx), *see* Surplus value, Theory of
- Proletarians, 27, 52
- Protectionism, 14
- Protestantism, 49
- Proudhon, J. P., 73
- Psychology, 7, 75
- Puritanism, 25, 49
- Quesnay, F., 15-24, 43, 59, 62 sq., 69 sq., 74; doctrine of distribution, 15-20; doctrine of taxation, 20 sq.
- Ranke, L., 4
- Rationalism, 70-2
- Raw materials, 32, 57, 67
- Religion and religious experience, 3

- Rent, as a factor of price formation (Smith), 28 sq., 38; determined by price, (Smith) 38 sq.; (physiocracy), 19; Theory of, (Ricardo), 41 sq., 44
- Rentier, 55
- Ricardo, D., 24, 28 sq., 33-9, 41-6, 57, 59, 70, 72, 74
- Rimbaud, J.-A., 4
- Rist, C., 64
- Robbins, L., definition of political economy, 50, 61
- Robinson Crusoe, 62, 72
- Roll, E., 61
- Romanticism, 71 sq.
- Roscher, W., 49 sq., 64, 68, 71 sq.; characterization of mercantilism, 8 sq.; view of economic science, 51
- Rousseau, J. J., 70
- Ruskin, J., 64
- Saint-Simon, C. H. de Rouvroy, 72
- Saxon mint-discussion, 66
- Say, J. B., 33 sq.
- Schmoller, G., 3 sq., 48, 57, 72, 74 sq.; view of economic science, 51, 75
- Schroeder, W. v., 9, 11, 74
- Schumpeter, J., 72
- Science, *see* Exact sciences
- Senior, Nassau, 2, 37, 49 sq.; definition of political economy, 48 sq.
- Serra, A., 9, 59
- Shakespeare, W., 44, 68
- Silver, *see* Precious metals
- Sismondi, S. de, 25, 48-50, 52, 71-5
- Slave-trade, 49
- Small-scale production, *see* Labour
- Smith, A., 5, 15, 23-33, 35, 38 sq., 45, 48, 56, 59, 63, 69-73; critique of mercantilism, 10 sq.; critique of physiocracy, 16
- Social reform, 52 sq.
- Socialism, 24 sq., 52, 61, 64
- Socialists, *see* Socialism
- Socio-historical school of economics, *see* Historism
- Sociological school of economics, *see* Historism
- Socrates, 59
- Soil, (Cantillon) 69, (Condillac) 20, (physiocracy) 15, 19 sq., (Smith) 28, 38; *see also* Land
- Sombart, W., 14, 50
- Spinoza, B., 9
- Spiritualism, 4
- Stafford, W., 68
- Stark, W., 52, 63
- State, (mercantilism) 9, 12, 14, 68, (Mueller, A.) 71; intervention, 21, 23
- Stein, L. v., 52
- Steuart, Sir J., 13, 15, 63
- Stock, 39, 56; its function described by A. Smith, 30, 32; *see also* Capital
- Strassburg, 48, 61
- Strutt, A., 27
- Subjectivism, *see* Marginal utility, Theory of
- Surplus value, Theory of (Marx), 45-8
- Tariffs, Protective, 56; *see also* Commerce, Trade
- Tautscher, A., 68 sq.
- Temple, Sir W., 10
- Theology, 74
- Thuena, J. H. v., 44
- Tolstoi, A., 3 sq.
- Torrens, R., 41
- Totem and Tabu, 62
- Town economy, *see* Natural economy
- Trade, 49, 63, 68 sq.; (physiocracy) 15, 23; Balance of, (mercantilism) 9, 11, 13 sq.; *see also* Commerce, Free trade, Tariffs
- Trade policy (mercantilism), 13, 67
- Trade unions, 43, 52, 56
- Traditionalism, 12
- Turgot, R. Baron de l'Aulne, 15, 17, 43, 69
- Universalism, 49
- Ure, A., 26
- Utility theory of value, *see* Marginal utility, Theory of
- Value, 33-6, 45; Hobbes' definition of, 55; Lloyd's definition of, 55; Theory of, (Hermann), 37, (Marx) 45, (Menger) 54, 73, (Mill) 73, (Petty) 29, (Ricardo) 30, 38, 41, (Say) 33; (Smith) 28; Classical, 73; *see also* Labour theory of value, Marginal utility, Theory of
- Van Gogh, V., 4
- Variable capital (Marx) 46
- Verri, P., 10
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- Wages capital, *see* Variable capital
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- Wages-fund, Theory of, 42 sq.
- Walras, M. E. L., 56 sq.
- Wealth of Nations*, *see* Smith, A.
- Wesley, J., 44
- West, Sir E., 41
- Wieser, F., 54, 57, 74
- Wood, H. T., 26, 31
- "W. S. Gentleman," 68
- Zola, E., 4

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