Early modern political philosophies and the shaping of political economy

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Abstract
In the course of the eighteenth and nineteenth centuries the paradigm of a new science, political economy, was established. It was a science distinct from the Aristotelian sub-disciplines of practical philosophy named oikonomía and politiké, and emphasis on its character of science not unlike the natural sciences – still called ‘natural philosophy’ – mirrored precisely a willingness to stress its autonomy from two other sub-disciplines of practical philosophy, that is, ethics and politics. However, the new science resulted from a transformation of part of traditional practical philosophy, allowing the inclusion of bodies of knowledge accumulated by experts of commerce and public finance. Such bodies of knowledge were unified by the (true or alleged) discovery of regularities, mechanisms, causal connections making for a new partial order within the overall social order. How far this paved the way to a science similar to mathematics or rather left a normative discipline as alive as ever was a recurrent question for at least a century, until the marginalist revolution opened the way for a sharp division, leaving ‘economics’ as a science of causes and effects facing ‘economic policy’ as a discourse on ends.

Introduction
The emergence of an autonomous economic discourse in the modern age has been interpreted in various ways either as a stage in the progression from traditional or metaphysical ways of thinking to a scientific approach to the study of both nature and society or as a losing sight of objective values with a drift toward relativism. Needless to say, the actual story is much more complex. In the traditional Aristotelian view of practical philosophy, the latter was divided into three parts: monastic – that is, ethics in so far as it deals
with the individual; *oeconomica* – that is, the art of administering the household (*oikos*); and *politica*, the discussion of justice and the government of the city or the state (*polis*). In the *Oeconomica*, a treatise compiled by the Aristotelian school, the phrase *oikonomía he politiké* occurred once, indicating the management of state’s finances.

At the dawn of the modern age, economic discourse was developed within various bodies of literature. One was that of natural law doctrines worked out by scholastic philosophers or by followers of the ‘new science of natural law’ founded by Hugo Grotius and Samuel von Pufendorf. Another was casuistry, literature dealing with ‘cases of conscience’. A section in both kinds of treatise was dedicated to property, commerce, the just price, loans and usury. Somewhat later, another body of literature appeared with a secular and practical character, later on named mercantilism, consisting of pamphlets discussing issues related to matters of commercial policy and embodying piecemeal social theorizing occasionally yielding some fruitful insight into commercial and monetary mechanism. A German tradition, cameralism, yielded writings on commercial and fiscal policies (Foucault 1966: 166–200; Tribe 1978: 80–109). Another genre was the post-Renaissance literature carrying a revival of Aristotelian *Politica*. This is discussed in more detail in the following section.

**Political discourse on commerce and corruption**

**Humanism on wealth and virtue**

In the fifteenth and sixteenth centuries, Niccolò Machiavelli, Francesco Guicciardini and Leon Battista Alberti were authors of treatises giving advice on the best ways to preserve the state and promote civic virtue, a virtue different from the virtues taught by Christianity. This tradition was continued in the following centuries in Northern Europe and among the United States’ founding fathers. One obvious example is *Utopia* (More 1516); a later one is *Oceana* (Harrington 1656). Both develop a sustained argument against commerce and in favour of agriculture, seen as providing the economic conditions for equality and martial spirit among citizens (Pocock 1975).

**Mandeville on vice as public virtue**

Bernard de Mandeville’s *Fable of the Bees* is a short satiric poem, with extended commentaries, telling the story of a rich, civilized and powerful hive which, as an unforeseen effect of the abolition of vice among the bees, becomes suddenly miserable and depopulated. Mandeville drew inspiration from Galilean experimental science and seventeenth-century programmes to reform moral philosophy by applying the method of natural philosophy to moral studies. The iatro-political analogy with which Mandeville starts views society as an organism whose basic function, namely making man a sociable animal, is entrusted to
the latter’s vilest qualities, just as the most important organs in animals are made up of thin membranes and small channels that an uneducated eye would not observe. In human society, nothing is good or bad in itself, but only with respect to its function, and ‘what we call evil [...] is the great principle which makes us sociable creatures’ (Mandeville 1729, 1: 369). Hence the paradox, in a ‘small society’ with a small population living on agriculture – like Harrington’s Commonwealth of Oceana – ‘virtuous’ behaviour is possible and private virtue is likely to serve the public interest in while in a ‘great society’ such as English society of the time, with a large population, a powerful army, trade, growing towns, manufactures, arts and sciences, the public good may coexist with kinds of behaviour that common morality condemns, such as theft, alcoholism and prostitution. ‘Virtue’ is rarely productive of public good and vice is inseparable from its greatness.

The serious question asked by Mandeville may be said to be, what are the costs and benefits – once we take the fact of social cooperation as a datum – carried by the choice for either the neo-classical utopia or the great society. The importance of Mandeville’s paradox may be understood when one realizes that the question asked by both Montesquieu and Rousseau was how to assess such costs and benefits.

Montesquieu on passions

Charles-Louis de Montesquieu was one more author who wanted to follow the model provided by Galilean science in order to study states ‘as they really are’ rather than as they should be and examine interactions between various political systems and human nature ‘as it really is’. Drawing inspiration from classical authors, he believed he had discovered a scientific proof of the truth of one of their claims – namely, that republican governments promote virtue while monarchical ones promote passion. The virtue at stake is love of one’s homeland and of equality. It is not Christian virtue but ‘political virtue’. Elaborating on Mandeville’s paradox, he contends, in book 19 of The Spirit of Laws, that ‘not all political vices are moral vices, and that not all moral vices are political vices’ (Montesquieu 1748: 314).

In modern Europe, the development of trade fosters republican governments or ‘civilized monarchies’, i.e. those where the sovereign’s power is limited by division of powers; these, in turn, by countering unruly passions, foster political virtue, civilized manners and peace among nations (Hirschman 1977). In book 21 he declares that, in such societies, interest acts as a lieutenant of virtue, and ‘happily, men are in a situation such that, though their passions inspire in them the thought of being wicked, they nevertheless have an interest in not being so’ (Montesquieu 1748: 389–90). And yet, despite his optimism, Montesquieu sees clearly the price to be paid. He is aware that commerce establishes bonds between nations but causes division among individuals; and he admits also that, while it carries ‘a certain exact sense of justice’, the opposite of ‘robbery’, it weakens those moral virtues that prompt people to care not only for their own interests but also, on occasion, for those of others.
Rousseau on corruption and cooperation

Jean-Jacques Rousseau formulated a new version of civic humanism based on an evolutionary account of human history. In his account, the genesis of morality goes along with the emergence of political power and private property and the ensuing corruption of humankind. The savage lives in a condition that requires no conscience because compassion is enough to inspire cooperation with fellow beings (Rousseau 1755). It is with technical progress – namely, developments in metallurgy and agriculture – that a split is produced within the individual and between the latter and his fellow beings. This is the gap between desire and fulfilment, which provides both the spring of individual improvement and that of destructive passions. The structure of all societies up to this point has been deeply unjust. Justified kinds of inequality would have been those associated with natural ones – that is, greater physical or intellectual capacity. Political institutions of every nation and time have instead been a trick enabling the rich to turn the poor from potential aggressors into their own gaolers. Such radical illegitimacy tends to become worse in modern societies where the corrupting powers of money and opinion are bringing about New Barbarism or a new state of nature (Rousseau 1755). The remedy suggested is a new social contract by which human beings would reach a true moral state – not a return to a state of nature – and become masters of themselves, with no sovereign other than their own (collective) will (Rousseau 1762). The price to be paid would be a renunciation of economic growth and an option for the state Mandeville had described as ‘small society’ – that is, a political community with limited territory and population, without big towns or international trade.

Political economy between Galilean science and political discourse

The phrase ‘political economy’ was rescued in the seventeenth century as a title for a book, Traicté de l’Oeconomie politique (Montchrétien 1615), treating four subjects, namely manufacture, commerce, navigation and the sovereign’s revenue, and outlining a number of proposals for regulation of these matters. One particular claim is that ‘interest’ is the key idea for the politician and politics is the art of designing a ‘machine’ channelling divergent interests in the right direction, thus creating a harmony of interest, a surrogate for ‘virtue’.

The phrase économie politique and its translations became increasingly popular a century later, when Richard Cantillon (1755), François Quesnay (1758), Pierre-Paul Le Mercier de la Rivière (1767), Anne-Robert-Jacques Turgot (1776), Pietro Verri (1771), James Steuart (1767), Étienne Bonnot de Condillac (1776), Adam Smith (1776) and others published treatises which brought together topics that had been previously ascribed to separate disciplines such as politics, casuistry and commerce. The phrase had not yet become the name of a discipline and it did not necessarily occur in the titles of these authors’ works, which included Essai de la nature du commerce en général, Réflexions sur la formation et la distribution des
richesses and *Le commerce et le gouvernement*. The new genre implied a syllabus, standards for admissible arguments, and a shared agenda. In fact, it resulted from an osmotic process involving different traditions of discourse: piecemeal theorizing from cameralism, the so-called mercantilist literature exemplified by Thomas Mun, as well as from the older tradition of casuistical literature on *Mercatura*, and theorizing about societal laws from the natural law tradition (Brown 1984: 25–48). Standard topics were the nature of wealth, the market, money, price and value, agriculture, domestic and international trade, credit and taxation. Nothing was completely new, and treatment, sometimes quite sophisticated, of some of the topics may be found in works from previous genres. At some point the discipline started being taught as an independent subject, albeit still under the label ‘commerce’, first at the University of Naples and then at the East India College at Haileybury. In the first years of the nineteenth century, ‘political economy’ became the name of a discipline. The novelty was that the topics clustered together above were now considered in relation to each other and in comparative isolation from ethics, theology and politics. This is a decisive point. Newborn political economy was never understood as a pure science of facts independent of values, even less as a building founded ‘on the bedrock of self-interest’. It was a critical theory of society making room for a normative dimension. But there were two contrasting approaches to justification of such normative dimension, a deductive one adopted by the Physiocrats and an ‘inductive’ and minimalist one adopted by Smith (Cremaschi 1989: 98–9).

**Physiocracy**

The physiocrats were among the founders of the new science but, nonetheless, the main pillar supporting their own theory was a quite traditional notion of natural law. More precisely, they adopted the thesis of the existence of a ‘natural order’ that is both expedient and morally good. From Nicolas Malebranche, Quesnay inherited the idea that God acts through general laws and causes each particular event by means of these laws. A physical law is the course of every physical event of the natural order, while a moral law is the rule of every human action conforming to the physical order most advantageous for mankind, with enlightened interest prompting individuals to desire the application of such order since it serves both their own and the sovereign’s interest (Quesnay 1765; 1767). In a word, the physiocrats addressed the same problem as Montesquieu but contributed to the solution their own idea of physical/moral laws. Like him, they wanted to channel passions in a useful direction. The alleged discovery of a natural order provided the way to make the expedient coincide with the right just as it brought together distinct self-interests (Mercier de la Rivière 1767). The philosopher’s task is, first, to discover such an order and, second, to persuade the sovereign that following it is in his own interest. An undesirable implication is that the natural order cannot establish itself spontaneously and requires substantial social engineering. Thus, economic science is proclaimed by Nicolas Baudeau to be the heir of both ethics and politics. He writes that the moral and political sciences are the most useful parts of philosophy and economic science deserves to be placed
above all others, for ‘Social order just needs to be understood in order to be able to carry out the function of criterion and standard of liberty, of self-interest; and it is mainly ignorance that turns desire of enjoyment into a greedy, exclusive, oppressive and tyrannical attitude’ (Baudeau 1768: 28; see Steiner 1998; Cremaschi 2002).

**Adam Smith**

Smith declares, in book 7 of his *Theory of Moral Sentiments*, that there are two ‘useful’ parts of moral philosophy, namely ethics and jurisprudence (Smith 1759: 340). The latter ‘investigates the general principles which ought be the foundation of the laws of all nations’ (Smith 1978: 397). Both disciplines should follow a third way between Stoic or Platonic rationalism and Mandevillian relativism (Forbes 1982).

Smith’s third way entrusts moral standards to the impartial spectator, the source of an open-ended standard that may only be applied to the raw materials represented by historical laws and customs. It is this character that makes room for psychological, sociological and economic reconstructions. The philosopher needs causal explanations of facts in order to appraise the propriety of sympathetic responses in different situations (Haakonssen 1982: 206–7). The methodological background is anti-Cartesian, ruling out top-down approaches and making room for auxiliary disciplines that are, in turn, not so much deductive Cartesian sciences as conjectural reconstructions of social processes. These take place mainly as unintended results of actions that obey laws independent of the essential qualities of the entities at stake but ‘superimposed’ on them. This reflects, in the social world, the ‘metaphysics’ of modern natural science, with its refusal of Aristotelian essences.

Smith wanted to develop a science of man and society and within this an economic science – some kind of systematic reconstruction of economic systems, more comprehensive than cameralist or mercantilist piecemeal theorizing and more empirical than physiocratic natural order. This yielded a division into two parts – a ‘mitosis’ – of the traditional notion of natural law, making room for two different fields: a normative discourse based on judgments formulated by the impartial spectator and a descriptive reconstruction of social phenomena discovering some kind of order in social phenomena.

Thus, political economy is understood as value-free science but in a peculiar sense. Causal explanation is a preliminary step for any value judgment since, in order to account for and eventually criticize the judgments of real spectators, the philosopher needs to first reconstruct cause-effect relationships. He needs to show, for example, that the manual labourer is the one who nourishes the whole society in order to make it obvious that the one who maintains the whole society should be well nourished and well fed, or show that gold and silver are not the essence of a nation’s wealth in order to unmask the merchant’s fallacious arguments in favour of aggressive commercial policies. But, nevertheless, social science still needs some substitute for the ‘law of nature’ – for example, the impartial spectator – as a standard against which to assess the appropriateness of custom and laws.
Let us now see how this strategy works in The Wealth of Nations. The work is both an example – perhaps the best – of those treatises on ‘commerce’ I have mentioned and a sustained political argument for legislative change that would bring about a more equitable and humane society. Smith endorses Montesquieu’s idea that commerce is less obnoxious than war – that is, that wealth-seeking activities provide channels into which passions may be directed towards goals that are less destructive than several other goals. In addition, he declares that the ‘desire of bettering our condition’ (Smith 1776: 341) is a ubiquitous calm passion providing a spring of action generally beneficial to both the individual and the community, and even more disorderly passions such as ‘ambition’ or dreams of wealth and luxury (Smith 1759: 50, 149, 181–3) can have unintended beneficial effects such as promoting the growth of the wealth of the nation and improving the condition of the worst off (Smith 1759: 183–5). The ‘system of natural liberty’ he advocates is not a top-down programme but rather a non-artificial set of regulations justified by widely shared judgments (Smith 1776: 687) which, once ‘natural liberty’ is recognized for manual labourers no less than for merchants (Smith 1776: 99), will gradually bring about redistributive effects close enough to those an impartial spectator would desire to see.

All this depends on a more sophisticated framework than most commentators suspected. As argued above, political economy was understood as an auxiliary discipline of natural jurisprudence and thus a kind of indirectly normative discourse. According to this view, a system of moral and legal rules – emerging through a non-artificial process – is one side of any social system, whose other side is a system of causal chains leading to the emergence of some kind of social order. In the jargon of twentieth-century social science, society is a system regulated by two subsystems, the former being the total sum of individual non-coordinated actions yielding unintended results such as the division of labour and market mechanisms, and the latter being the joint effect of numberless cases of ‘change of situation’ yielded by the human mind’s innate tendency to mirror itself in others, causing the emergence of systems of moral and legal rules.

The separation of political economy from politics

The anti-Jacobine reaction and the opposition between Freedom and Liberty

I already mentioned that, in the last decades of the eighteenth century, the phrase which had been adopted by Montchrestien as a title, ‘political economy’, gradually won currency as the name of a self-contained discipline. It was used in this sense by James Steaurt and Jean-Baptiste Say. In the 1790s in Britain, at the peak of anti-Jacobin repression, it became fashionable to separate political economy from politics in order to protect its practitioners from accusations of political radicalism while stressing its character of objective science, in contrast to both prejudices shared by so-called ‘practical men’ and traditional views on property, trade, poverty and population. One obvious political implication of the
campaign for science against prejudice was the defence of ‘freedom’ or, better, ‘free trade’. The alternative key word, liberty, tiptoed out of public discourse. It had been one element of Smith’s system of natural liberty, but now it echoed too much of Jacobinism. After the 1819 Peterloo Massacre, ‘Liberty’ became a dangerous word while ‘Freedom’ – meaning primarily ‘Free Trade’ – remained respectable. Smith started being cited in parliament by both Tories and Whigs in connection to his defence of property and vindication of free enterprise, but his moral and political theories were forgotten (Rashid 1998: 135–81; Rothschild 2002: 55–60). Up to 1815 radicals continued to refer to him as an authority in favour of the rights of the labouring poor, and the movement of ideas from the mid-nineteenth century going under the label ‘Ricardian Socialism’ was still mainly based on Smithian arguments, but his economic work started to be read in isolation from his moral work and his political arguments for natural liberty were overlooked.

Political economy, as understood by the first generation of self-appointed ‘political economists’, was not part of politics, but a ‘science’ separated from the ‘science of legislation’ and more theoretical than practical (Rothschild 2002: 52–86; Winch and Collini 1983: 349–88). There was some confusion about both aspects. While Malthus and Ricardo were allied in the defence of ‘the science’ against ‘practical men’, at some point they started discussing the method, scope and function of political economy. Ricardo defended the abstract nature of the science on the basis that there are so many causes at play in real-world economies that it is safer to examine simplified models illustrating simple cause-effect relationships (Ricardo 1820: 5–7; see Cremaschi and Dascal 1996: 498–505). Malthus argued instead, from the same starting point, that one should try to explain real-world processes by taking multiple causes into account, paying the price of a loss in rigour but gaining greater realism and relevance, since political economy loses all value when reduced to an abstract science instead of being part of ‘moral and political science’ (Malthus 1820, 1: 203; see Cremaschi 2010).

In the 1820s and 1830s, Malthus’s views were adopted and expanded by the school of ‘Christian political economy’, which included John Sumner (1816), Thomas Chalmers (1832) and Richard Whately (1831). They viewed political economy as a theoretical toolbox, to be used in order to implement policies designed by a more encompassing moral and political discourse. This was essentially moral discourse, grounded in strong assumptions, according to which self-interest could not be assumed to be the main spring of action, wealth should be defined as including such entities as culture and morality, and there were higher goals for economic policies than the growth of material wealth of a nation (Waterman 1991; Cremaschi 2014: 127–56).

The opposite camp was a somewhat odd alignment of ultra-orthodox Ricardian political economists such as John R. McCulloch with the tiny sect of ‘philosophical radicals’ founded by Jeremy Bentham. James Mill, both political philosopher and political economist, was the missing link between the economic school and the political lobby. Despite an old myth, there was no trace of Benthamite philosophy in Ricardian economics, and Bentham’s own writings on economic subjects predated Ricardo’s contributions and
provided a rather traditional kind of economic argument, with little relation to Bentham’s own epistemology, ethics and politics. The fact is that Ricardo was recruited by Mill for tactical reasons in order to add to the philosophical radical war machine such powerful weaponry as a prestigious economic doctrine would afford. Part of this strategy was an attempt to make Ricardian economics appear more distant from both Smith and Bentham than it actually was – that is, that it provided a set of deterministic economic laws surrounded by the same scientific aura that radiated from Bentham’s science of morals and legislation. In fact, Ricardo, like several other ‘friends of mankind’, was just a fellow traveller of the philosophical radicals: his moral and epistemological ideas were different from Bentham’s programme of reduction of ethics and politics to calculus, and his approach to political economy was inspired by intellectual modesty, i.e. awareness of ubiquitous multi-causality and the consequent limits of theories in terms of explanatory power (Cremaschi 2004), an attitude quite different to Mill’s search for iron laws. The latter’s shocked reaction to the third edition of Ricardo’s *Principia*, with its well-known chapter on machinery that questioned the benefits of technical innovation for the working class, is proof of the distance of his views from those of Ricardo.

**Political economy among the ‘sciences morales’**

The physiocratic tradition did not survive the shock of the French Revolution. In the two following decades Smith’s work was introduced to France and what was believed to be Smith’s labour-value theory was received with particular enthusiasm. His approach was thought to present a view of political economy as a ‘moral science’, unlike the physiocratic view of it as a ‘natural science’ because of the central role assigned by the latter to land. At the time it was said, ‘once we look at it from Smith’s point of view, this science is classified among the other moral sciences, whose aim is to improve their subject matter and bring it to the highest degree of perfection to which it may be brought’ (Garnier 1802, xviii–xix). Thus, Smith’s lesson was interpreted as a decisive argument against physiocracy and favouring a return to Turgot’s utility-based value theory, in turn grounded in ‘sensism’, the theory of knowledge whose main proponent was Étienne Bonnot de Condillac.

Jean-Baptiste Say and Antoine-Louis-Claude Destutt de Tracy are the two best-known figures among the new *economists* giving birth to what is generally classified as the French classical political economy, which amounted to a body of Smithian doctrines combined with Turgot’s ideas. A somewhat odd example is the notion of law, a term Smith was careful to avoid, preferring to stick to the Newtonian term ‘principle’. However, the term is given pride of place by the French economists, who believe that ‘moral and political laws’ have an objective character, that – as Say states in the ‘Discours préliminaire’ to his *Traité* – ‘they derive from the nature of things with the same degree of certainty as all the laws of the physical world; they are not imagined, they are discovered [...] one never can violate them with impunity’ (Say 1803: 17). Another innovation is the place given to utility as a basis of value. Value – Say declares in the first chapter
of Book 1 – depends on utility, in so far as it is recognized by partners of social interaction: ‘exchange value is arbitrary and ill-determined until it is not recognized’ (Say 1803: 79; 1819: 66), and this is why it is ‘social wealth’, rather than ‘natural wealth’, that ‘may be taken as a subject matter of scientific study’ (Say 599; see Arena 1998: 125–26). No less than Smith, Say and Destutt de Tracy believe that political economy is far from an a-moral science grounded in self-interest and their agenda rescues some fundamental questions from French eighteenth-century moral and political discourse – namely, how to improve national morality and how to counter self-love’s destructive effects by transforming it into enlightened self-love (Destutt de Tracy 1798; Say 1800). Say claims that it is enlightened self-interest that ‘moral man’ pursues, and political economy, being a part of ‘moral science’ rather than the natural sciences, does provide a justification for such self-interest. This in turn is related to the fact that ‘utility’ is a social phenomenon, i.e. that the subject matter of study is the utility which is recognized to be such by ‘man in society’ in so far as he is ready to give something in exchange for things embodying utility. In nineteenth-century France there was consensus around the idea that science, economic progress and the improvement of morality go hand in hand. The ethical element embedded in the physiocratic notion of natural order had been dropped, and the most individualistic and hedonistic elements that Bentham’s followers believed could be extracted from classical political economy were domesticated by Say’s utility value theory, while a social and moral dimension was incorporated into the economic agent’s motives.

The Historical School and the ethical element in economic theory

Germany in the eighteenth century had no literature that could be classified as political economy due to the survival of an Aristotelian understanding of practical philosophy making room for a sub-discipline known as oeconomica, still understood as literature for the pater familias, as well as of the particular German genre of cameralis. At the end of the century, first James Steuart, then Smith, and later on Say and Ricardo were translated into German. After Kant manifested his appreciation of Smith as a moral philosopher and political economist, his followers made room for political economy in the Kantian tree of knowledge, placing it in the pigeonhole ‘empirical moral philosophy’, a sub-discipline which Kant saw as an auxiliary to ‘pure moral philosophy’. Hegel, in paragraph 189 of his Elements of the Philosophy of Right, revealed his own admiration for Smith, Say and Ricardo, whose contributions he believed provided dazzling examples ‘of the ways in which the mind […] detects within the subject matter examined simple principles laying behind the infinite variety of disjoined facts it faces in a former phase’ (Hegel 1828: 227). In the first decades of the nineteenth century a German classical school came into being, inspired mainly by Say, Sismondi and Malthus. Smith and Ricardo were often criticized for alleged mistakes, namely their defence of laissez faire, their labour-value theory and their characterization of unproductive labour (Kurz 1998: 128–30). Within fifty years, however, the classical school was replaced by a rather assorted company called the ‘German Historical School’, whose main proponents were Friedrich List (1841), Carl Knies (1853),
Wilhelm Roscher (1854–94) and later on Gustav Schmoller (1893). This was essentially a reaction against what was seen as a deductive and amoral approach to social studies. Against ‘rationalism’, the School fostered the ‘inductive method’, and against ‘utilitarianism’ it promoted the ‘ethical’ approach, which implicitly rejected the existence of unchanging economic laws and spurned laissez faire in favour of state intervention (Tribe 1995). In Roscher’s words,

The naturalistic approach to the economy, as founded by the Physiocrats and Adam Smith, was based on ideas drawn from natural science and natural law doctrines. It considers the economy to be a naturally harmonious system of individual forces whose spring is selfishness, even though their Deistic optimism granted that from interaction of such forces only positive consequences would follow. It was a theory which preached the ideals of individualism and liberalism, declared the state almost superfluous and every statesman a villain.

(Schmoller 1983: 27–8)

Marx and the critique of political economy

In the 1870s, a century after political economy’s putative birth, the discipline’s passing away was celebrated in several quarters. Obituaries were of two kinds.

The first was redacted by Karl Marx, a German philosopher and revolutionary leader living in London, in two instalments, A Contribution to the Critique of Political Economy (1859) and Capital (1867–1910). Marx believed his discoveries to be: 1) the twofold character of value incorporated in commodities, depending in turn on the distinction between use value and exchange value; and 2) the existence of surplus value, the new value created by workers in addition to the cost of labour, which engenders profit. An implication is that political economy is on the one hand an important intellectual achievement, the discovery of the anatomy of modern society, and on the other a subtle unconscious mystification representing a historically given structure of social relations as natural and ahistorical. Far from requiring an overarching political philosophy – say, utilitarianism or Comtian positivism – the discipline needed a radical critique from inside that would turn its findings upside down. Detection of policy goals and strategies, in turn, did not require an overall philosophical view – least of all the proletarian Weltanschauung, which was deduced from materialistic philosophical assumptions announced later on by self-appointed Marxists – but had to be entrusted to the reflective practice of the workers’ movement.

Conclusion: the dissolution of classical political economy and the expulsion of the political element from economic theory
A different obituary came from Stanley Jevons, Leon Walras and Karl Menger, the authors of the marginalist revolution. This was a typical example of ‘multiple discovery’, taking place during the 1870s across three different linguistic areas and involving the rejection of typical classical labour-value theory and its substitution by a utility-based theory. The key in the new approach is the idea of decreasing marginal utility by which the rate of exchange between commodities is accounted for on the basis of decreasing satisfaction produced by acquisition of further units of one commodity. Thus they carried out, even though with different results, the combination of political economy and utilitarianism that James Mill had actively promoted in the beginning of the century. Jevons overtly adopts the ‘calculus’ of pleasure and pain, the core of Bentham’s philosophy, as a basis for value theory. He notes that Mill once asserted ‘that there was nothing in the Laws of Value which remained for himself or any future writer to clear up’ (Jevons 1871: v), but he adds that, in his view, a new start is possible in attempting ‘to treat Economy as a Calculus of Pleasure and Pain’ (Jevons 1871: vi). The ethical and political implications of this attempt were that ‘economics’, understood now as a purely theoretical science, was in a position to provide the economic agent – the administrator of a charity no less than a shark of finance – with a clear view of means-ends relations while leaving the choice of ends to a different discipline or discourse: ethics for the individual and economic policy for the nation. Political economy was thus assumed to have come to an end, its heirs assumed to be on the one hand ‘economics’, a theoretical science of causes and effects, and on the other, ‘economic policy’, a different kind of discourse dealing with ends.

This neat division of tasks turned out rather soon to be less neat than it looked at first sight. As early as 1912, Arthur-Cecil Pigou cast doubt on whether ‘social welfare’ is identical with ‘economic welfare’, i.e. that part of social welfare which may be evaluated against the measuring rod of money. Reasons for doubt were, first, that we can only measure in monetary terms a few kinds of satisfaction, not including knowledge, emotions or desires, and second, that non-economic welfare may be modified by the way one obtains one’s revenue as well as by the way it is spent (Pigou 1912: 3–13).

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