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**THE BIRTH OF MODERN ECONOMIC SCIENCE
READING GILLES CAMPAGNOLO'S BOOK**

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The birth of modern economic science Reading Gilles Campagnolo's book¹

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Abstract: The 1870s have always held a special attraction for specialists in the history of thought. For economic theory these are the years of the Great Crossroads when economic theory was at critical breaking point, after which several powerful theoretical streams emerged that were to determine later on the overall course of the evolution of economics. The book by the French economist and philosopher Gilles Campagnolo is an attempt to find out exactly what happened in the years of the Great Crossroads. It offers not only factual and historical reading, but also theoretical interpretation to explaining the evolution, mutual influence and intermingling of the above individual schools of thought in the economic science. The present paper is a review essay on Gilles Campagnolo's new book.

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¹Gilles Campagnolo, *Criticisms of Political Economy. Menger, Austrian economics and the German Historical School*, Routledge, New York, 2009, pp. 416.

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1

Times of economic turbulence have always called for economic theory reassessment as well as questioning the theoretical models that frame our thinking and shape our decisions. Therefore, a look back into the theories of the past could be a fruitful source for present reflection. Or, to put it otherwise: interest in the history of economic thought surges in times of crisis and the marginal utility of the history of thought takes precedence over the declining marginal utility of the predominant current theory. So it is today, 2010.

The 1870s have always held a special attraction for specialists in the history of thought. For economic theory these are the years of the Great Crossroads when economic theory was at critical breaking point, after which several powerful theoretical streams emerged that were to later determine the overall course of the evolution of economics. The three streams concerned are: (i) the subjectivist thinking evolution and constructing the value theory along the principles of the marginal utility analysis; (ii) the modification of the classical labour theory of value within the framework of Karl Marx's sociological meta-model, and (iii) the development of the historical approach to economic theory under the influence of the historical school of law. These three streams that emerged at about the same time represent the different responses to the crisis in classical economics mainly personified by Adam Smith and David Ricardo to "end its path", of course, in the treatises of John Stuart Mill (whose work of political economics became a primary textbook for the time). This crisis occurred because the abstract postulates of classical political economy had failed to realistically explain not only the actual dynamics of price, but also the relationship between prices and value, with the latter, as the above scholars believed, being ultimately determined by labour costs and finally by labour.

The fundamental shifting of the issue of prices and value from the area of objective labour costs and production to the area of individual preferences that took place during the marginal revolution in the face of Carl Menger (1871), Stanley Jevons (1871) and Léon Walras (1874), in a sense succeeded in saving, of course through different means and to a different degree of cogency, the liberal and universally applicable principles of the classical school. That is not what two other "adversaries"

of the classical school thought, in particular the German historical school (based on the objective German idealistic philosophy), and Karl Marx's labour theory (based on dialectical materialism). However, inside the "subjective" revolution, and subjectivist way of rejecting classical postulates, the differences between the three streams are fundamental (the reference is to Jevons, Menger and Walras). There is no doubt, however, especially to the specialists in marginalism, that within the framework of the subjective school Carl Menger proposes diametrically different ways of thinking and leads the economic science along paths different from those traced by Stanley Jevons and Léon Walras. Menger differs from Jevons (proponent of partial equilibrium) and from Walras (proponent of the general equilibrium and mathematisation of economics) in both his theory and methodology. The last two authors (whom Menger himself mentions on numerous occasions as fundamentally different) subsequently were used to build a dominant paradigm of economic sciences. This paradigm, of course with some developments, continues generating concepts and practical decisions to this very day.

Now, what better occasion to express one's thoughts than the reading of a good book. That is what I am thinking to do in connection with the publishing of Gilles Campagnolo's book.

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So, the book by the French economist and philosopher Gilles Campagnolo is an attempt to find out exactly what happened in the years of the Great Crossroads. It offers not only factual and historical reading, but also theoretical interpretation to explaining the evolution, mutual influence and intermingling of the above individual schools of thought in the economic science (the author prefers to speak of science "matrices"). It is my view, and not only, that over the latest years Gilles Campagnolo has asserted himself as one of the respectful authorities on the works and life of Carl Menger (1840-1921) and the early period of the Austrian School (a period, which inevitably relates with knowledge of the entire German economic tradition). Recognising, in the first place, that Gilles Campagnolo is a philosopher by education, and a good one too, and secondly, that he spent several years working with the archives and the library of Carl Menger in Tokyo, it could be surmised that his

advantages of judging about the philosophical and epistemological qualities of most of the authors from that period, Carl Menger above all, are obvious.

Apart from the book, on which I will dwell, I would like to mention a few other of Campagnolo's works that should also be considered, namely his book in French on Carl Menger, as well as the possibilities of interpreting Menger in the different philosophical and economic traditions (Campagnolo, G., *Carl Menger entre Aristote et Hayek. Aux sources de l'économie moderne*, CNRS Editions, Paris, 2008); the collection of studies under his editorship on the various philosophical and methodological issues in Menger's works (Campagnolo, G. (HRSG./ed.), *Carl Menger. Neu erortert unter Einbeziehung nachgelassener Texte. Discussed on the Basis of New Findings*, Peter Lang Verlag, 2008), and a number of studies again on Carl Menger, Max Weber, the Austrian School as a whole, the French liberal tradition, the economic views of 18 and 19 c. German philosophers, etc. All these studies, under various forms, are seeking to discover new findings, new ideas and new answers to the question as to how the economic science evolved during the years of the "Great Crossroads", i.e. from 1870s until the end of 19 c. Before coming to Campagnolo's new book, I would like to stress his contribution in rediscovering some archival truths about Carl Menger's works and in bringing to light some unpublished or little known works of the Austrian scholar. Of special importance is the English translation of Menger's article written in French in 1892, N 6, pp. 159-175 and published in the leading French magazine *Revue d'économie politique*, entitled «La monnaie mesure de valeur» (the translation by Campagnolo is featured in the *History of Political Economy*, "Money as Measure of Value", 2005, Vol. 35, N 2, pp. 233-244). Actually, this article, published in the same year, 1892, as the well-known article on the origin of money (On the Origin of Money, *Economic Journal*, 1892, N 2, pp. 238-255), offers a number of new ideas, which in a sense make the interpretation of Menger's economic approach more complicated and intricate. I would also note that presently Campagnolo has dedicated himself to the challenging task of translating into French Carl Menger's basic works.

3

Campagnolo's new book, published by Routledge, includes introduction by the renowned specialist of the history of economic thought Prof Bertram Shefold and consists of three parts, each part subdivided into three chapters. Each chapter presents different aspects and forms, which the evolution of economic thought assumed during the time of the Great Crossroads, the various trends, etc. All chapters are united by the fact that the Great Crossroads took place in Germany and the German speaking world, a fact that triggered a complex analysis and individual interpretation by the French author.

Indeed, Germany and the German speaking world became the birthplace of a very curious and unique evolution of the economic theory. The rejection of the classical political economy and the proposed alternatives took several directions as a result of the specific theoretical and methodological accumulations. The classical political economy has been criticised along several lines: first, by the historical school; second, by Marx's and Rodbertus's "exploitation" variant of the labour theory of value, and third and lastly, by Carl Menger's subjective theory of value. As a result of the interaction between the first two alternatives over a period of time, Carl Menger's reaction led to a unique theoretical model, emerging as a radical critique not only of the English classical political economy, but also of its negation by the proponents of the historical school and the exploitation theory. It is exactly this peculiarity, which makes Menger's subjective theory *fundamentally* different from the variants propounded by Stanley Jevons and Léon Walras. Campagnolo's book provides an in-depth analysis of the specifics of formation of the above intellectual trends in the German economic thought that led to Menger's ingenious insights.

The first part of the book highlights the basic intellectual sources and premises of formation of the critical spirit of the German identity and building the specific character of the German economic, political and spiritual path.

What stands out above all is the German speculative idealistic philosophy (Immanuel Kant (1724-1804), Georg Hegel (1770-1831) and Johann Fichte (1762-1814) – a philosophy, which is actually the first to criticise sharply the British classical political economy and its philosophical and methodological postulates. The German

philosophers are sceptical about some basic classical political economic features, especially its subjectivism, materialism, utilitarianism, liberalism and universality, and in a practical aspect – of its inability to reflect reality and the changes taking place in the prices level and relative prices. Already here we could find the Gilles Campagnolo's conviction that every critique of a given economic theory and paradigm is first and foremost a philosophical and epistemological critique. All debates between economists are in effect debates between philosophical and viewpoint models, between philosophically equipped and not-so-well equipped economists, as well as between economists sharing some or other philosophical postulates. Or, as the author himself states as early as in the introduction: "What we shall aim to do in the following pages is to show how that happens to be the case *when economic conceptions are grounded on philosophical concepts*"¹.

In this particular case, the German philosophical idealism, while questioning the utilitarisme and materialism of the philosophy of classical political economy, gives a new direction to building the economic system, a new perception of freedom, of the role of the nation and state, and of developing its own notions of freedom and individual's choice. The historical theory of law of Friedrich Karl von Savigny (1779-1861), who was by the way Marx's teacher, also helps to reassess the economic theory and reject the abstract British classical model. Campagnolo gives an interesting and rarely met in the economic literature presentation of Johann Fichte's philosophical and economic views, his idea of closed economy, expounded in a separate book (which so far has not been translated into English, although it is available in French and Italian²). Along with Fichte, Campagnolo analyses the basic postulates of Kant, his apriorism, as well as those of Hegel who creates his own theory of freedom and individual choice.

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The next step Campagnolo takes is to outline the specific in the economic theories and the characteristic features of the economic disciplines taught in Germany that led to the Great Crossroads and finally to the formation of the German model. Here,

¹Campagnolo, G., *Criticisms of Political Economy. Menger, Austrian economics and the German Historical School*, Routledge, New York, 2009, p. 8.

²Fichte, J.-G., *L'Etat commercial fermé*, Editions de L'Age d'homme, Lausanne, 1980 [1800].

needless to say, we come to the theoretical system of Friedrich List (1789-1846), which opposes David Ricardo's universal model (Ricardo's book was published in 1817) called a "national system of political economy" (a book by List was published in 1841), and of course the traditions of cameralism (Kameralwissenschaft), administrative sciences and government management. And again, although from a different perspective, the ideas of Fichte and Hegel are brought into focus (as that of Hegel's entrepreneur). As a third and last step an economic interpretation of Goethe's poetry is made, of the myth of Faustus, led by nostalgia for the romanticism of the middle ages, the strength of spirit and vocation, and in denial of the dullness and viciousness of capitalist production society. In these sections dedicated to Goethe's poetry one could find a number of theoretical lines of reasoning, such as about the meaning of *human action*, which later on lay at the core of the Austrian economic theory (according to Faustus "Action is all - Everything lies in action.")³. The old, bad and decaying capitalism is once again criticised through the works of German philosophers, such as Fichte, who holds that trade between nations leads to conflicts and wars, rather than peace, harmony and welfare, in contrast to what liberals believe (Frédéric Bastiat in particular). The direction followed is gradually towards re-examining the predominant economic model and consequently to the formation of a new "historical" theoretical matrix. The processes of this formation and its variants are discussed in the second part of the book.

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The second part of the book also contains three chapters, which look in succession at the evolution of the historical school (Chapter Four), the intermingling between economic sciences and state administration and government, as is typical for Germany (Chapter Five), and an original interpretation of Karl Marx (Chapter Six).

The period from 1815 to 1914, from the Congress of Vienna, through the Battle of Sedan (1870), to the outbreak of World War I, as Campagnolo sees it, is a period of stable "social" monarchy in the German speaking world. It is also the time of the Great Crossroads, when new economic theoretical matrices are taking shape. During that period the historical school emerged, which subsequently passed through at least

³ Campagnolo, *Opt.cit.*, p. 97.

three phases, starting with Wilhelm Roscher (1817-1894), who is considered a representative of the old school, which strived to adapt the principles of classical economy to German reality and the "German spirit", through his disciples Karl Knies (1821-1898) and Bruno Hildebrand (1812-1878), to come to the so-called new historical school of Gustav von Schmoller (1838-1917), where anti-theoretical and anti-scientific views of how economic research should be done were carried to extremes and provoked Carl Menger's reaction. Schmoller's methodology became the leading one in the German Union for Social Policy (Verein für Socialpolitik), founded in 1872, adopting radical anti-theoretical research projects (Schmoller was Adam Smith's all-out adversary) and bringing everything into the focus of analysis of the differences between economic phenomena – from microscopic to meta-systemic – thus leading to oversimplification and deformity of the "historical matrix"⁴. Campagnolo also underlines the role of Bismarck's pragmatism who strived to "co-opt" German social democracy, which has always stood out among the other left European parties for its pragmatic character (e.g. Ferdinand Lassalle).

Chapter Five provides an interesting look at the roots of the "state" character of the German matrix along the lines of the cameralist tradition, of the typically German interlacing of administrative sciences and government with economic theory. In addition to the principles of cameralism, seen as a specific form of mercantilism⁵, we also find here a number of legal and political doctrines, which originated in Germany. The reference is mostly to two thinkers, originators of the theoretical premises of the "social" monarchy, namely Robert von Mohl (1799-1875), a law scholar and political economist, and Lorenz von Stein (1815-1890), political scholar and sociologist (there is evidence that both exerted intellectual influence on the formation of the model of state of the Meiji restoration in Japan). I would also like to note that both Karl Marx and Carl Menger had thoroughly studied and drawn on von Stein⁶.

⁴ *Opt.cit.*, p. 142.

⁵ Within a broader context, debates continue even to this day as to whether it is better to interpret mercantilism as a summation of economic practices and administrative measures, or as an entire theoretical school, as an independent theoretical "matrix"; see Etner, F., *Les historiens de la pensée économique*, Paris, Economica, 2006, pp. 125-135.

⁶ Campagnolo, *Opt.cit.*, p.169.

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Chapter Six offers different directions to interpreting Karl Marx's theory created in the years of the Great Crossroads, which offered its own theoretical model adapting a matrix of classical political economy to the German context. Marx's theory is a specific type of negation of the classical political economy, which is in a sense its extreme variant. We could also call it a labour theory of value brought to extremes, expanded with the principle of alienation and exploitation, or the theory of value interpreted along the principles of dialectics and historical materialism (this is, by the way, familiar from the socialist textbooks before 1990).

Campagnolo sees two possible choices that Marx can make to define his attitude to the classical political economy as well as to the Hegelian dialectics. Unlike Menger, who denies both, Marx decides to extremise and expand the classical political economy, and adopt the principles of dialectics⁷.

My reflection is that in a sense, the dialectical method makes it possible for Ricardo's static system to become dynamised by taking account of the temporality of the economic system. Dialectics incorporated allows Marx to examine economics against a broad social context in relationship with the other spheres of society – law, politics, ideology, etc. It allows him to sociologise the economic categories, and thus observe the whole society in motion. The socio-dialectical approach allows him to preserve the “peaceful” classical logic of the equivalence of economic exchange and at the same time substantiate the category of added value. Added value introduces the non-economic into the exchange through the mechanisms of conflict, authority and power. The task is, of course, resolved by defining a new type of commodity, the labour force, which replaces labour in the classicists. Dialectics plays the role of a detective's tactics enabling the cop (Karl Marx in this case) to resolve the mystery of the origin of added value formally complying with the equivalence of exchange⁸.

⁷ Campagnolo, *Opt.cit.*, p.188. Wilhelm Roscher, the father of the historical school, makes his own adaptation of the English political economy while dismissing the dialectical method.

⁸ In fact, Marx is a clever cop, because assuming that labour is the main source of value, even from the beginning of his political system he sought to explain added value along the principles of the equivalence of exchange. As a result of his investigation he found out that labour force had become a commodity, and this commodity had the ability to generate value added, appropriated in formally voluntary, yet de facto forcible way. This is like you make up a criminal, assume he has committed a crime, and then you go

Overall, Campagnolo who knows, values and defends Hegel (as for instance from John Elster's attacks) makes a "dialectical reading" of Marx, which is nothing new given the numerous interpretations of Marx's system⁹. Although Marx's affinity to dialectics is indisputable, it is sufficient to see Marx's early works where he almost literally applies Hegel's terminology to the economic categories, and the way of presenting the internal contradictions of the commodity, the form of value and of money in Volume One of *Das Kapital*), I must point out that a different interpretation of Marx is also possible. What I mean is a "materialistic" interpretation of Marx, where dialectics is less dominating, and is not always the same "good" dialectics as that of Hegel, but is instead for its most part the materialism and anti-religious views of Ludwig Feuerbach (whom by the way Campagnolo only mentions). According to Feuerbach the reasons for alienation are rooted in the material conditions of life and the living environment (Schumpeter places a special accent on the theories of material environment in Volume Two of his *History of Economic Analysis*, specifically mentioning Feuerbach and Marx¹⁰). I will only note the extreme "Feuerbachian" interpretation of Marx, made by the famous Russian theologian, philosopher and economist Sergey Bulgakov, who is definite that Marx was not very familiar with Hegel's dialectics and that his dialectics in general differed from that of Hegel, although he skilfully paraded with dialectical wording¹¹. I am not prepared to answer the question as to whether and how much was Marx a good dialectician, and whether a "materialistic" dialectics is possible at all (an issue on which voluminous writings were produced in the former communist countries). In any case, Bulgakov's caution should be taken seriously.

investigating what that crime is (so you can call yourself a "top cop"). Rather than go the other way round: establish a crime, then investigate into who and why did it.

⁹ I will not dwell on these interpretations, especially as regards Marx's sociological system, but I will only mention the interesting interpretation of the theory of value made from the perspective of Isaac Roubine's dialectics, which has been published lately in French. Isaac I. Roubine, *Essais sur la théorie de la valeur de Marx*, trad. J.-J. Bonhomme, Editions Syllepse, Paris, 2009 [1924].

¹⁰ Schumpeter, J., *Histoire de l'analyse économique, tom 2 L'âge classique (1790-1870)*, Gallimard, Paris, 1983 [1954], pp. 83-85.

¹¹ Bulgakov, S., Karl Marx As a Religious Type: His Relation to the Religion of Anthropothesisism of L. Feuerbach, in: Bulgakov, S., *Two Cities: An Inquiry into the Nature of Social Ideals*, Astrel, Moscow, 2008 [1906, 1907], pp. 120-148 (In Russian: Булгаков, С., Карл Маркс как религиозный тип (Его отношение к религии человекобожия Л. Фейербаха), в: Булгаков, С., *Два града*, изд. Астрель, Москва); Bulgakov, S., Feuerbach's Religion of Anthropothesisism, in: Bulgakov, S., *Two Cities: An Inquiry into the Nature of Social Ideals*. Astrel, Moscow, 2008 [1906, 1907], pp. 67-120 (in Russian: Булгаков, С., Религия человекобожия у Л. Фейербаха, в: Булгаков, С. *Два града*, изд. Астрель, Москва). See also different interpretations of Marx by: Aron, R., *Le Marxisme de Marx*, Editions de Fallois, Paris, (2002 [1962]); Ellul, J., *La pensée marxiste*, La Table Ronde, Paris, (2003 [1947/1979]); Bedeshi, G., *Introduzione a Marx*, Editori Laterza, 2005 [1981], among many others.

And finally, it is worth noting Campagnolo's interesting thoughts of both Marx's and Menger's kinship with Aristotle's realism. "Marx and Menger acted so with their eyes fixed not only upon classical economics, but also, and going back before Smith's *Wealth of Nations*, upon the fundamentals of *philosophia practica perrennis* that dated back to Aristotle"¹². Although we are more used to a holistic reading of the Aristotelian economics (such as that of Marx)¹³, Campagnolo goes on to show – "paradoxical" as it might seem at first glance – an individualistic interpretation (like that made by Menger). For the sake of truth, the similarities between Marx and Menger are in no way exotic and have been noticed by a number of authors, the common in them having its roots in Aristotle.¹⁴

7

The third and the last part of the book is dedicated to Carl Menger and the main sources of Menger's "marginal" revolution, in particular Aristotle, the classical political economy and the British liberal philosophical tradition, and some other theories. This part of Campagnolo's book offers a range of new and unfamiliar to the reader facts from Menger's works, which are the result of the several years spent with Menger's libraries and archives. The time spent on Menger allows him to make interesting interpretations and put forward hypotheses that might in some cases appeal to the adherents of the Austrian school, while in others perhaps disappoint them¹⁵. I will not discuss in detail the disappointments, but will only mention Menger's negative (most probably) attitude to Frédéric Bastiat, as could be surmised from his notes on the back cover of Hermann Gossen's book¹⁶ (curiously, Karl Marx held

¹² Campagnolo, *Opt.cit.*, p.190.

¹³ Particularly during the socialist time.

¹⁴ On the theory of value see, for instance, Hong, H., Marx and Menger on value: as many similarities as differences, *Cambridge Journal of Economics*, 24, pp. 87-105. Hong holds that the similarities between the two authors are grounded in precisely Aristotle's metaphysics, essentialism and realism.

¹⁵ The only visit with similar tasks as Campagnolo's was made by Emil Kauder in 1959-1960.

¹⁶ Campagnolo, *Opt.cit.*, p. 295, p. 370. See also Campagnolo, G., *Carl Menger: from the works published in Vienna to his Nachlass*, in: Campagnolo, G. (HRSG./ed.), *Carl Menger. Neu erortert unter Einbeziehung nachgelassener Texte. Discussed on the Basis of New Findings*, Peter Lang Verlag, 2008, pp. 31-58, p. 49-50. In this note Bastiat was criticised for substituting the positive assertions (what is) about the benefits of *laissez-faire* in the economic science with normative ones (what ought to be) (previously he was criticised for his affinity to the labour theory of value, etc.). See more on the French economist influence on Menger, Campagnolo, G., *Origins of Menger's thought in French liberal economists*, *Revue of Austrian Economics*, 2009, vol. 22, n 1, pp. 53-79.

similar attitude to Bastiat), which contrasts with Joseph Salerno's statements of Bastiat's "positive influence" on Menger¹⁷.

So, Chapter Seven of the book examines the ancient Greek sources of Menger's theoretical system, mainly the role of Aristotle's teaching, which appears to be the prime source for the formation of Menger's theory. On the whole, Menger was critical to nearly all modern philosophical and economic theories. I already mentioned that Menger started the intellectual tradition, where an individualistic, Austrian interpretation of Aristotle¹⁸ became possible. Menger had carefully read Aristotle (which is evident from the numerous notes found in his library) and borrowed from him a number of methodological and theoretical elements. The Austrian scholar believes that with Aristotle it is possible to apply methodological individualism (Menger does not use this term, but speaks of *atomism* instead), while the issues of exchange, value, money and prices could logically be derived from the individual will without resorting to the mediation and supremacy of the state. Aristotle speaks of proportionality, rather than of equivalence of exchange, proportionality implying different types of justice, and not mechanical equality¹⁹. Aristotle asserts that the individual makes a choice among various kinds of goods, ranked in a definite order. It is beyond any doubt that Aristotle's rank-ordering of goods proves crucial for Menger in constructing his own system of the heterogeneity of goods; hence of defining

¹⁷ Salerno, J., Carl Menger: the Founder of the Austrian school, in: *15 Great Austrian Economists*, Holcombe, R., ed., 1999, pp. 71-100, p. 82. Curiously, Salerno mentions Menger's reference to Bastiat's *Principles* as positive, while this is not exactly true – the remarks are critical rather than positive. Menger's "negative" attitude to Bastiat is perhaps influenced by the criticism against Bastiat for his lack of scientific approach by Elliott Cairnes, whose textbook (1873) Menger actively used and valued. On Cairnes's attitude to Bastiat see Salerno, J., Comment on the French liberal school, *Journal of Libertarian Studies*, vol. 2, No1, pp. 65-68 (p. 66) and Salerno, L., The neglect of French Liberal School in Anglo-American Economics: a critique of received explanations, *Revue of Austrian Economics*, 1988, vol. 2, n 2, pp. 113-156. Menger sought to make the economic science free from moral and value speculations: everything else he viewed as journalism (Menger had a similar attitude to Marx whom he regarded as a journalist). Schumpeter too regarded Bastiat as a journalist rather than as a theoretician. I personally dismiss this type of judgments, but this is not the right place to bring up my reasons.

¹⁸ The possibilities for such an interpretation are relatively well studied by the representatives of the Austrian school: see for instance Smith, B., The Question of Apriorism, *Austrian Economic Newsletter*, 1990, pp. 1-5.

¹⁹ Aristotle holds that man, the individual and his family originated before the state and refers to Homer, who believes that man descended from cyclopes and can be analysed in isolation from society. Trade, exchange, and language, respectively, also originated before the state (Campagnolo, *Opt.cit.*, pp.244-245). For more insights about Aristotle's views on exchange, proportionality and justice, see Karpouzhanov, M., *La procédure monétaire. Un essai sur la dimension qualitative de la monnaie*, Thèse de doctorat, L'Université Paul Cézanne, Aix-Marseille III, 2009, pp. 45-48.

values, prices, etc. Later on, this heterogeneity and interrelatedness of goods made it possible for the Austrian theory of the economic cycle to spring up. Aristotle is also the originator of the principle that individuals are active in price formation: they are *price-makers* rather than *price-takers* (which is by the way in sharp contrast to Walras's model and the neo-classical perception).

It is obvious that Menger closely follows the principles of realism and causality, and believes that these principles should lie at the core of economic science. These two principles are in fact the only ones that Menger recognises and values when he comes across them in other authors or schools. Thus, for instance, needs and goods must be derived from life (their evaluation is real, though not objective). Nevertheless Menger criticises Aristotle on a number of points: he does not accept for instance his broad social approach²⁰, believing that economic activity should be a subject of a special science that must keep clear of the other social spheres (similar criticism was later on levelled at John Stuart Mill)²¹. Menger believes that the economic science should be a science with its own, unique method and theory.

It is important to note here something, which, I believe, Campagnolo is aware of, although never mentions. This is the fact (which will also be discussed below) that Menger makes a distinction between the genetic approach to constructing the theory and the systemic one. We can see this in his studies on money. I think there are reasons to believe that this distinction stems from the difficulties faced by Aristotle. This could explain for example the Menger's attitude to money. Money emerges spontaneously without any external interference (a genetic approach to analysing the pure theory of money), while money also coexists with other institutions, such as the state, or there is institutional complementarity (a systemic approach to formulating monetary reforms and monetary policy). On the one hand, genetically, the

²⁰What disappointments for those who like revitalisation of socially embedded economy, interdisciplinary and so on?

²¹ Of course, in Aristotle's time the private and public spheres were still hard to differentiate and household activity was regarded as almost identical with that of economy as a whole. Menger also notes that Aristotle does not have a theory of value and its measurement, and that in some cases he fails to make a distinction between value and price. See also Polanyi, K., *Aristote découvre l'économie*, in: Arensberg M., Pearson H., Polanyi K., *Les systèmes économiques dans l'histoire et la théorie*, Paris, Larousse, 1975 [1957], pp. 93-117.

methodological individualism could be applied, and on the other, systemically, to take into account the role of the other spheres, politics, ideas, etc.²².

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Menger shows intimate knowledge of the classical political economy, which could not be asserted to the same degree as regards the English philosophy and modern philosophical theories in general (Chapter Eight in Gilles Campagnolo's book). The critique targeted at Smith, Ricardo, and Mill is easy to explain. Menger equally discards their economic theories, as well as their philosophical grounds. Menger almost disregards Marx as a shallow socialist journalist, who is not even a professor²³. There is little likelihood that he carefully read *Das Kapital* (published in 1867, that is, four years before *The Principles* came out in 1871): most probably he did not. Menger's critique against the exploitation variant of the labour theory of value is aimed mostly, if not solely, at Karl Rodbertus (Jagetsow) (1805-1875). As regards the theory of added value, this is explicable, which can not be affirmed of something else that I am going to discuss in more detail.

Simeon Demostenov (1886-1968)²⁴, a Russian-Bulgarian economist, an associate and a student of Menger, whom he held in high esteem, notes that Menger surprisingly does not mention Rodbertus when expounding his theory on the origin of money as the most exchangeable and marketable of all good. According to Demostenov this theory was *entirely* developed by Rodbertus in 1842 and was well-familiar to

²² It is not a coincidence that later on in his book on the methodology of economics (1883) Menger classifies economic sciences into three groups – theoretical sciences, historical sciences and practical sciences (which include finances and economic politics).

²³ Campagnolo, *Opt.cit.*, p. 255

²⁴ Simeon Demostenov is an original author, an exceptional authority on the history of monetary theories and proponent of the Austrian school, who criticises and develops further the Austrian theory of money and value along many lines (his disputes are mostly with Carl Menger and Ludwig von Mises). Demostenov is the author of the original theory of monetary universals ("*Universale monétaire*", general concepts and categories of money), which determine the global-to-national money ratio and the substantialism, nominalism, or functionalism of monetary theories, respectively, as well as the author of the functional interpretation of money as a "universal and immediate instrument of demand". In the summer of 1913, while still a Russian citizen, he worked in Menger's private library, and most probably during that stay he attended Carl Menger's private seminar. See Demostenov, S., *Essays on the Theory of Money*, Part I, Sofia Royal Press, 1937, p. 101 (in Bulgarian: Демостенов, С., *Очерки по теория на парите*, част I, Придворна печатница, София).

Menger²⁵. Clearly, Demostenov does not provide an answer as to why Rodbertus was ignored. Demostenov stresses his affinity to the genetic approach to the theory of money, which he refers to as the Hales-Rodbertus-Menger approach. In this connection, Demostenov makes an extremely interesting theoretical interpretation of John Hales's treatise (1549)²⁶, an author who pioneers the approach of the genetic origin of money as a selection of the most exchangeable of all goods. Curiously, Carl Menger does not mention this treatise either though perfectly familiar with the theory of money since its origin (Nicole Oresme, Gabriel Biel, Ferdinando Galiani, Geminiano Montanari, etc.)²⁷. I am just stating the fact. What seems interesting here is that Demostenov places a special accent on the difference between the genetic and the systemic view on money, which he thinks is not always adhered to by Aristotle, while it is taken into account by John Hales²⁸.

It is clear, to me at least, that Menger's views on money can also be interpreted along these lines, of course in a direction of reconciling this confusion and ambiguity in Aristotle. The issue is that if not viewed literally, without taking into account the distinction between *genetic (causal)* and *systemic (functional)*, Menger's writing would reveal an irremediable inconsistency.²⁹ What I mean is that on the one hand he

²⁵ Demostenov, *Opt.cit.*, 1937, pp.14-16. Demostenov, S., *Essays on the Theory of Money*, Part II, University Press, Sofia, 1945, p. 67 (in Bulgarian: Демостенов, С., *Очерки по теория на парите*, част II, Университетска печатница, София.).

²⁶ Demostenov, S., *Some Debatable Issues of the Theory of Money*, Year-book (Annual) of the State School of Financial and Administrative Sciences, Sofia, 1942, pp. 60-65 (in Bulgarian: Демостенов, С., Някои спорни въпроси на паричната теория, Годишник на държавното училище за финансови и административни науки, София); Demostenov, *Opt.cit.*, Part II, University Press, Sofia, 1945, pp. 47-87. The treatise in question is by an author with the initials W.S. entitled: *A Discourse of the Common Weal of this Realm of England*. There are different hypotheses (conjectures) as to the authorship of this tract, some of which pointing to William Shakespeare and Thomas Smith, but Demostenov believes its author to be John Hales. Curiously, the very "meticulous" book on monetary theories before Adam Smith, authored by Arthur Eli Monroe, mentions Hales but not enough and in a different relation; see Monroe, A., *Monetary Theory before Adam Smith*, Harvard University Press, Cambridge, 1923, p. 46, p.50, pp.55-56, p. 59. The same ignorance is common for the contemporary studies on money, I'll just mention such erudite like Charles Goodhart, see Goodhart, Ch., The two concepts of money: implications for the analysis of optima; currency areas, *European Journal of Political Economy*, 1998, vol. 14, pp. 407-432, and Nenovsky, N., On money as an institution, ICER Working papers 2009/N 12. On the discussion and monetary theory of that time see Ellis, H., *German Monetary Theory*, Harvard University Press, Cambridge, 1934, and of course the fundamental work of Mises, Mises, L. von, *The Theory of Money and Credit*, Liberty Fund, Indianapolis, 1980 [1934, 1924].

²⁷ See for instance Menger, C., *Principles of Economics*, Libertarian Press, 1994 [1871], pp. 309-320.

²⁸ Demostenov, S., *Opt.cit.*, 1945, c. 67-70, pp. 80-82.

²⁹ Ikeda, Y., Carl Menger's Monetary Theory: A Revisionist View, HETSA meeting in UWA, 2004, www.wiwi.uni-frankfurt.de/kolloquium/ws0708/ikeda.pdf; Sennholz, H., The Monetary Writings of Carl Menger, in: *The Gold Standard: An Austrian Perspective*, Llewellyn Rockwell, Jr. (Eds), Lexington, Lexington Books, 1985, pp. 19-34. See also Campagnolo, G., Carl Menger: from the works published in

speaks of spontaneous institutional emergence of money, and on the other – in various instances (including in his article in French issued in 1892 and in his reports on monetary reform) Menger stresses the importance and the role of the state and authority. This inconsistency however is easily reconciled when taking into account the methodological division already mentioned, namely a genetic and causal approach in the first case, and a systemic and functional one in the second. Under the systemic approach it is clear that money is part of the institutional complex and can not exist in isolation. Thus, every practice would be doomed to failure, if it takes into account the genetic causal approach only (that is why Menger can not be considered a proponent of free banking).

Unlike the economists of the classical school, whom Menger knows and slashingly criticises (the British economists), and partly the French (e.g. Say is held in respect for his theory of the entrepreneur, the Italian born French economist Pellegrino Rossi – for his theory of value, etc.), Menger is not so very familiar with philosophy, but his knowledge rather rests on a careful study of textbooks and commentary books (such as the review on the history of philosophy by Friedrich Uberweg 1872³⁰). Menger recognises the importance of methodology for smoothing out a new theoretical system, and as Campagnolo says, which by the way sounds extremely instructive even for our own time, 2010: “Menger himself had written that only, but precisely, in time of such crisis, a theoretician had to reconsider the methods of science and could possibly investigate its hypotheses”³¹.

Menger’s methodology is specific and on the whole few are the philosophers that he considers valuable (mostly those who place an accent on causality, are proponents of realism, as well as methodological individualists). Menger equally dismisses “the dogmatics of classical political economy” and “the narrow intellectual bounds of the historical school”. And not only this: he dislikes empiricism (e.g. John Stuart Mill who in addition to all else brings detriment to economic science by proposing

Vienna to his *Nachlass*, in: Campagnolo, (HRSG./ed.), *Opt.cit.*, pp. 42-44; Campagnolo, G., *Carl Menger entre Aristote et Hayek. Aux sources de l'économie moderne*, CNRS Editions, Paris, 2008, pp. 147-160.

³⁰It would be interesting to make a parallel with Bulgakov’s assertion that Marx was not very familiar with philosophy. I think Bulgakov is wrong; however I am not in a position to judge about Menger; I am rather inclined to form my opinion from the facts given by Campagnolo.

³¹ Campagnolo, *Opt.cit.*, 2009, p. 257.

independent principles governing production and principles governing distribution). Neither does he like induction based on experiment, but only induction related with the principle of realism (he points out repeatedly the realism in Francis Bacon as a continuator of Aristotle to some extent)³². With regard to German philosophy, although he values Immanuel Kant in some respects, mostly because of the latter's idea that science should rest on pure reason and causality, Menger believes that Kant has a negative attitude to the application of the causal method to economic sciences. It could be argued that unlike Mises who applies Kant's aprioristic method, Menger is an Aristotelian by conviction, i.e. an upholder of realism. By way of a slight digression, I will note that in this respect, if we could speak of *apriorism* in Menger, this radically differs from that of Mises. While for Menger *apriorism* is realistic and should be sought in the surrounding world, in the living environment (similar to Aristotle), in Mises it is in the mind, i.e. it is ideal and subjective (as for Kant)³³. Mises's praxeological model (the science of studying action without empirical observations, of the axioms of action, mainly goals and means), and the epistemology of economic science that stems from it could in no way be regarded as elaboration on Menger, and Mises's critique of empiricism and historicism is different from that of Menger. According to Menger causality and realism, which are common to all sciences, are manifested in an *apriorism* specific to each science³⁴.

9

At the end, in the final Chapter Nine, Campagnolo examines the sources of Menger's marginalism. Here he provides some interesting facts. Among the authors that influenced the "father" of the Austrian school, Campagnolo places Hans von Mangoldt, who was near to defining marginal utility, and Karl Heinrich Rau who "was lucky" not to belong to the historical school³⁵. As to Herman Henrich Gossen (1810-1858), who defined his famous psychological laws of the utility and dynamics

³² Menger's attitude to Auguste Comte is two-fold: he is curious about his positive philosophy, especially the principle of causality, although in general he does not accept the French positivism. Menger has a different approach to complexity: unlike Comte, he believes that it is a combination of *dissociable* and analyzable components; see Campagnolo, (HRSG./ed.), *Opt.cit.*, pp. 55-57.

³³ In Mises (unlike in Hayek) the objective also exists, yet in its Kantian sense as intersubjective, an intersection of individual subjectivities.

³⁴ Of course, this issue is debatable and subject to various interpretations. See Smith, *Opt.cit.*, also Hoppe, Hans-Hermann, *Economic Science and the Austrian Method*, Ludwig von Mises Institute, Auburn, Alabama, 1995. Hoppe does not mention Menger at all, which is suspicious at the very least.

³⁵ Campagnolo believes that before 1871 Menger used mainly Rau's book, and then that of Rossi, Say's successor at College de France; see Campagnolo, (HRSG./ed.), *Opt.cit.*, pp. 49.

of satisfaction earlier than Menger (Gossen's book was published in 1854, although it remained unnoticed until 1870), which was why initially Maffeo Pantaleoni blamed Menger for plagiarism, Campagnolo is clear: Menger read Gossen's book much later than his own book was released³⁶. Gossen's work found its place in Menger's library in 1886, that is, after the publication of Menger's two major books, in 1871 and 1883. Subsequently, Menger wrote critical remarks on the psychological interpretations of marginal utility³⁷. Although later on he became interested in psychology and medical psychology in particular (as for instance Wilhelm Wundt), Menger criticised the use of psychology and behaviourism findings in forming the basis of economic science³⁸. In general, the basis for the ranking of needs and goods Menger finds once again and *only* in his favourite Aristotle³⁹.

10

In conclusion we could say that the rejection of the classical political economy – the time of the Great Breaking Point of the 1870s – as a result of combining different theoretical components into one whole led to the formation of several types of matrices – historical, Marxist, and marginalist, of which the last could be differentiated into at least three (Jevons, Walras and Menger). Campagnolo believes that the most original of these matrices is that of Menger: he sees it as an alternative and radically different from those of the other two “fathers” – marginalists, Stanley Jevons and Léon Walras⁴⁰, who theoretise within the frame of equilibrium (the first on partial equilibrium, and the latter – on general equilibrium) and mathematisation. Later, their matrices made it possible for the classical political economy to be “saved”, partially at least, through its incorporation into Alfred Marshall's synthesis.

³⁶ Although it was possible (for Menger) to borrow and later, to return the book, or to be aware in details about Gossen's ideas by someone who read it. On Pantaleoni's marginal utility theory see Pirou, G., M. Pantaleoni et la théorie économique, *Revue d'économie politique*, tom XL, mai-juin, 1926, pp. 1144-1165 and Faucci, R., *L'economia politica in Italia. Dal Cinquecento ai nostri giorni*, UTET, Torino, 2000, pp. 229-239.

³⁷ Campagnolo, *Opt.cit.*, 2009, p. 303-304; see also Campagnolo, *Opt.cit.*, 2008, pp. 68-77.

³⁸ Campagnolo, *Opt.cit.*, 2009, p. 288-297.

³⁹ Campagnolo, *Opt.cit.*, 2009, p. 248-249, p. 293.

⁴⁰ In fact, the “dehomogenisation” of Menger, Jevons and Walras has a long history and is nothing new to specialists: one of the first attempts in this direction is Jaffé, W., Menger, Jevons and Walras Dehomogenized, *Economic Inquiry*, 1976, vol. 14, pp. 511-524. Dehomogenisation is continued by the Austrian school, see for instance Salerno, J., Mises and Hayek Dehomogenized, *The Review of Austrian Economics*, 1993, vol. 6, No 2, pp. 113-146; De Soto, J. H., The Ongoing Methodenstreit of the Austrian School, *Journal des Economistes et des Etudes Humaines*, 1998, Vol. 8, No 1, pp. 75-113. Longuet, S., *Hayek et l'école autrichienne*, Paris, 1998.

The true revolutionary however is Carl Menger whose theory of marginal utility differs from those of the other two and rests on radically different grounds. We could join Campagnolo in his regret⁴¹ that the predominating science took the neo-classical trajectory to arrive today, in my view, at a dead end.

In summary we can say that Campagnolo's book is very valuable and innovative. It allows a glimpse into the "making" of the history of economic thought. As a "cocktail" of an in-depth historical study of facts and archives, a complex sociological analysis of the works of individual authors and entire schools, and the courage to suggest new theoretical hypotheses about the evolution of economic thought and its transmission through time and space, the ingenious philosophical interpretation of economic theories, etc. I personally learned a lot from Gilles Campagnolo's book⁴².

⁴¹ Campagnolo, *Opt.cit.*, 2009, p. 305, see also Campagnolo, *Opt.cit.*, 2008, pp. 77-85.

⁴² Every book can be subjected to criticism; typical of humanitarian sciences is that every critique *always* has a counter-critique, and this counter-critique triggers a new critique, and so on, and so forth (to infinity). To preclude infinity, I will mention an innocent mistake in Campagnolo's book – he gave Bukharin a wrong first name Mikhail (Campagnolo, *Opt.cit.*, 2009, p. 217, p. 384, p. 394). We, however, (especially those of us who studied in the USSR) know well that Bukharin is Nikolai. I believe that in the second edition of the book the mistake will be corrected.