Economy in Society

Economy in Society:
Economic Sociology Revisited

by

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* The abbreviation "I" refers to what is termed in the present book sociology of the economy, whereas "II" denotes economic sociology. Both concepts are explained in the first section of Chapter Two

FOREWORD

This book is, in a sense, a rather odd animal. The reason for this is that its author attempts what is commonly considered an impossible mission—he would like the book to be all things to all people.

Well, perhaps a more modest formulation would be appropriate. The book may be read in at least two different ways. Firstly, its author does not hide the fact that it is meant to be not only an overview of the discipline's historical background and both old and contemporary achievements, but also as a novel perspective within the field, and hopefully a ground-breaking one. Its socio-economic approach, based on a new and in many respects theoretical and conceptual apparatus, is not only valuable in its own right, but casts light on many phenomena and conceptions providing a range of fresh insights. From this perspective the book may be treated as a (not altogether typical) textbook on what has come to be known as economic sociology.

However, it should have at least some appeal for the so-called common or average reader, as another strength of the book lies in the fact that it is both scientifically rigorous and written in an accessible style. It manages, hopefully, to avoid mathematical and other jargon so common in economics and sociology which should broaden its potential readership. Both from the viewpoint of the academic and the general reader, however, the book will be, at least such are the author's hopes and expectations, considered as thought-provoking. It follows that the author is well prepared for the fact that his product may stir some, or even a storm of controversy. After all, it is only owing to sometimes harsh debate and discussion that any progress in science, social science included, can emerge.

CHAPTER I.1.

ECONOMIC SOCIOLOGY: TRADITIONS AND ORIGINS

I.1.1. Pre-classical Economics

Economic sociology, as a specific sub-discipline of sociology, crystallised not so long ago. Published in 1937, the Encyclopaedia of Social Sciences contained no article on the sociological approach to economic phenomena and processes. Published thirty years later (1968), the International Encyclopaedia of Social Sciences, despite containing the term "economy and society," still lacked the term "Economic Sociology." In the following three decades, the position of economic sociology was very different, demonstrated by the establishment in 2001 of the economic sociology section of the American Sociological Association, a fact testifying to the established position and authority of a given field of research. Economic sociology's growing institutionalization is also manifested in its presence at leading American universities such as Harvard, Stanford, Cornell and others. An important event, or even turning point in the development of economic sociology, took place in 2005, prompting the following commentary: "If a relatively new (sub-) discipline is able to produce an encyclopedia covering a vast range of topics, one can indeed say that it has come of age" (Dolfsma 2006).

The young age of economic sociology as a distinct field of sociology does not mean that one cannot talk about its shorter or longer history, proto-history, or even traditions or sources. The greatest, although not exclusive, role in the formation of the sub-discipline was played by, unsurprisingly, sociology and economics. For proof of the latter just look at the standard definition of economics, which in one of its wordings states that this science "seeks to answer three basic questions: what to produce and in what quantities? How to produce—using what techniques and technologies? Who and to what extent will use the social product produced?"

In principle, all, especially the last two questions, overlap the field of interest of sociology. Even the first question, the allocation of scarce resources, considered a classic economic problem, does not, or at least should not be the exclusive domain of economists, because both at a micro and macro level it assumes presuppositions in the form of rationality, criteria and motives of choice of both means and objectives of action, each of which has obvious social content. Similarly, production and work processes in general are not only technological in nature, but, as we shall see in further chapters, are native objects of study of economic sociologists. The answer to the third question, at least from the perspective of a sociologist assuming the same theoretical and methodological principles as the author of this study, is difficult to put in terms other than of ownership-class relations.

The origins of economic thinking, including socio-economic thinking, can be seen in ancient Greece. The poet Hesiod (seventh century BC) should be mentioned in this context not only owing to his maxim "no work dishonours, idleness brings shame." Incidentally, as we shall see, it cannot be regarded as an expression of the typical Greek attitude towards work. In his poem *Works and Days*, Hesiod explains the problem of scarcity of goods as a result of an error by Pandora, who according to Greek mythology opened a box received from the gods. She persuaded her husband to this deed, thus releasing all the evils of the world and from then on men have faced the scarcity of resources against unlimited needs.

In Christian culture a similar idea can be found in the myth of original sin, as the first parents were expelled from paradise because of their disobedience to the will of God. The first woman persuaded her husband Adam to disobey God's will and pick fruit from the forbidden tree. As a consequence, from then on they had to work, and men have been in need of many goods, a need that appeared only with the departure from paradise. The abundance of goods as an attribute of paradise means, in socio-economic terms, the dominance of property (which will be discussed later) over labour.

Hesiod also dealt with the effectiveness of management, formulating in this context the principle of maximum effect with minimum effort. Greater production efficiency, according to Greek thought, can be achieved through the division of labour. Perhaps the most famous figure in the pantheon of Greek philosophers, Socrates, formulated a concept of exactly this social division of labour: "Let shoemakers make shoes, let blacksmiths forge iron, but let the state government be appointed from among the best … the wisest."

The historian Xenophon, who lived four hundred years after Hesiod in Athens, and was a disciple of Socrates and remained under the strong influence of his work, divided labour according to professional qualifications, expressing contempt for manual labour. Physical labour dishonours the "free" man, distorts the body and leaves no time for political, social and cultural concerns. Xenophon was also the first author to explicitly refer to "a science of economy." Xenophon created a work entitled *Oikonomikos* (*oikos*—house, farm; *nomos*—law), or "Host" (hence the word "economist"). Xenophon's work is primarily a manual of household, or city-state management (in this case, Athens). It contains, in addition to a range of management guidelines, a handful of economic thoughts. At the very beginning, Xenophon quotes from his master, Socrates, that: "'economy,' like the words 'medicine,' 'carpentry,' 'building,' 'smithying,' 'metal-working,' and so forth, is the name of a particular kind of knowledge or science." By "economists" we now generally understand political economists, macro-economists or micro-economists, but in this case the word refers to domestic economy. Property or estate management requires knowledge, like "medicine, blacksmithing and carpentry" (Xenophon 2008, 1). Thus management is a knowledge-based craft.

The above-mentioned name was propagated by Aristotle. Through it he understood teachings about the phenomena of household management, contrasting it with "chremastics" as a science and art of wealth acquisition or money making through market exchange. The latter was contrary to Aristotelian ethics because its purpose was the pursuit of money. The Greek philosopher thus raised the question of a fundamental distinction between two economies: the natural and the commodity-money economy. The distinction is taken up at a later stage of thought by, among others, Max Weber in his dichotomy of *Haushalten* and *Erwerben*, or Karl Marx who distinguished use values and exchange values. At the same time, formulating the above opposition, Aristotle was in a perverse way opposed to the latter, including the most recent, theoretical tendency to associate the economy with the principle of maximizing profit, and by the same token treating the relation to it of the household as highly problematic.

The above-mentioned affinity of the great Greek thinker to another great scholar who lived many centuries later in fact extends still further, becoming apparent when one takes into consideration early insights in the labour theory of value in Aristotle´s *Politics*. He developed a "theory of the value of labour," holding that the value of labour skills is given by the goods they command in the market. He maintained that value is not created solely by the expenditure of labour in the production process, but also that utility and labour skills are pertinent to the determination of exchange values and exchange ratios (Jaffe & Lusht 2003). Other issues of a socio-economic character that were of interest to the ancient Greek thinkers were property and social classes.

Solon (638–558 BC) was a statesman credited with having laid the foundations for Athenian democracy. Solon broadened the financial and social qualifications required for election to public office. The Solonian constitution divided citizens into four political classes defined according to assessable property. That classification might previously have served the state for military or taxation purposes only. The standard unit for this assessment was one *medimnos* (approximately twelve gallons) of cereals, and yet the kind of classification set out below might be considered too simplistic to be historically accurate:

- **Pentacosiomedimni**
  - valued at 500 medimnoi of cereals annually
  - eligible to serve as Strategoi (Generals)
- **Hippeis**
  - valued at 300 medimnoi production annually
  - approximating to the mediaeval class of knights, they had enough wealth to equip themselves for the Cavalry
- **Zeugitai**
  - valued at a 200 medimnoi production annually
  - approximating to the mediaeval class of Yeoman, they had enough wealth to equip themselves for the infantry (Hoplite)
- **Thetes**
  - valued 199 medimnoi annually or less
  - manual workers or sharecroppers, they served voluntarily in the role of batman, or as auxiliaries armed for instance with the sling or as rowers in the Navy.

According to Aristotle, only the *Pentacosiomedimnoi* were eligible for election to high office as archons and therefore only they gained admission into the Areopagus. A modern view affords the same privilege to the hippeis. The top three classes were eligible for a variety of lesser posts and only the Thetes were excluded from all public office.

Depending on how the historical facts known to us are interpreted, Solon's constitutional reforms were either a radical anticipation of democratic government, or they merely provided a plutocratic flavour to a stubbornly aristocratic regime, or else the truth lies somewhere between these two extremes. Be that as it may, Solon’s taxonomy should be regarded as a mix of what is probably the earliest theory of stratification with a class perspective rather than one of classes pure and simple. Plato, however, divided the ideal state into three classes: rulers, soldiers and breadwinners. In this elitist-egalitarian utopia, rulers and soldiers must not hold private property, should only be subject to the common property so as to avoid conflicts over ownership, and focus only on the state. Slaves and craftsmen must work to maintain the ruling classes.

By contrast, Aristotle presented what may be seen as an ideological justification of private property. In *Politics*, Book II, Part V, he argued that:

> Property should be in a certain sense common, but, as a general rule, private; for, when everyone has a distinct interest, men will not complain of one another, and they will make more progress, because every one will be attending to his own business... And further, there is the greatest pleasure in doing a kindness or service to friends or guests or companions, which can only be rendered when a man has private property. These advantages are lost by excessive unification of the state. (Aristotle 350 BC)

The obligatory mode of Plato's statement is not accidental; ancient Greeks treated economic considerations as a part of philosophy (understood as an all-embracing science) and were ethical and normative in nature, assessing what was good in economic life and what was wrong, and showing how it should be. As we have seen, while one can find many more or less sound observations on economic topics in their writings, the Greeks did not form any coherent theory of economics. Certain views on the economy, however, must have been assumed by their flourishing activity within a variety of areas of the economy. Among other things, they knew certain forms of insurance and credit operations, and were excellent merchants.

Even more practical were the Romans. From the very beginning, they were a farming people, therefore most of the works on the widely understood economic sector written by Roman authors were concerned with estate management. Ancient Rome also gave Europe the Roman law, and particularly the theory of contract and property (*jus utendi et abutendi*).

The Middle Ages did not lead to fundamental changes in views on economic phenomena. Agriculture, crafts, trade, and money as a source of wealth were still the subject of interest, now considered in the context of ethical and moral principles of the Christian religion. Thomas Aquinas (1225–1274) dealt with the ethical side of economic activities. He condemned usury—*Iustum pretium* is a just price, i.e. reflecting the value of the goods. Opposed to the community doctrine of original Christians, he defended feudal ownership. However, at the same time he stressed that property carries the burden of care for the poor.

Scholastic economics was a stage of development highly regarded by Joseph Schumpeter, who published the influential *History of Economic Analysis*. Its history begins with the Franciscan St. Bernardine of Siena (1380–1444), who dealt with, among other things (of course through the prism of morality) the role of the entrepreneur. A figure linking Bernardine with late Scholastics is Thomas De Vio, Cardinal Cajetan (1468–1534), who described the contemporary theory of money.

From this the thought moved to Salamanca and the Dominican founder of the school of Salamanca, Francisco de Vitoria (1485–1546). It is this sixteenth-century Spanish School of Salamanca, the main centre of learning and commerce, that is considered to be the peak moment of the development of scholastic economic thought. For example, the Dominican Domingo de Soto (1494–1560) stated that, "the price of goods is not determined by their nature, but how they serve humanity." He believed also that the natural law of man is "to hand over objects that are lawfully his in a chosen manner."

In the preface to the significant work of Alejandro Chaufen on the subject of late Scholastic economic thought, the philosopher Michael Novak suggests that a relationship exists between the Austrian economic school and a nascent interest of the late Scholastics in economic enterprise and entrepreneurial economics. This convergence is combined with another involving, common for both schools of thought, methodological individualism and subjectivism. Late scholastics are therefore linked to the late period of the nineteenth century Austrian school by, among others, the theory of economic value according to which the value of any product or service lies not so much in objectively existing properties of the product as in how people personally relate to that product. This means that the economic value is the result of individual intentions and states of mind, and therefore, ultimately, is subjective.

Sociologists of economy should criticize this approach not so much for its subjectivism *per se* as for its idealistic interpretation, i.e. not just in reference to the individual but restriction of this relation to a relationship with their psyche, while at the same time disregarding their objective needs and interests. Meanwhile relativism, in contrast to absolutism or immanentism that regards values as inherently belonging to given material or ideal objects is, in our opinion, a correct approach to the nature of social values. Transferring such an understanding of value into the field of economy, however, can be regarded as an expression of a specific sociological imperialism, which can be as harmful as its economic counterpart critically assessed later in the book; value in the sociological sense need not be a value in the economic sense. To be specific, values understood in such a way have much in common with the use value of economists, as opposed to exchange value. Hence, another accusation against the said approach is the confusion of different levels of understanding of economic value.

A significant breakthrough in the development of economic thought was brought about by the Renaissance, fostered by the change of intellectual climate, and encouraged thorough inquiry and profound changes in socio-economic conditions. The latter consisted of significant acceleration of the development of agricultural production, craft and trade as a result of increasing processes of the replacement of natural economy with commodity-money economy (initiated by the replacement of tribute by rent) and as a result of geographical discoveries. This created a demand for economic knowledge corresponding to the new situation and social needs. Among economic issues, problems of trade, especially foreign trade as well as money, were brought into the forefront.

At the beginning of the seventeenth century the first coherent set of economic views emerged, called Mercantilism, which saw sources of wealth in bullion, accumulated through trade considered the main area of economic activity, and changes within economic policy opting for a strong protectionism, limiting the freedom of economic activity of individuals.

Marx, in his *Theories of Surplus Value* (chapter IV), elucidates both the core of the current under consideration and its historical socio-economic context:

> The basis of their theory was the idea that labour is only productive in those branches of production whose products, when sent abroad, bring back more money than they have cost (or than had to be exported in exchange for them); which therefore enabled a country to participate to a greater degree in the products of newly-opened gold and silver mines. They saw that in these countries there was a rapid growth of wealth and of the middle class. What in fact was the source of this influence exerted by gold? Wages did not rise in proportion to the prices of commodities; that is, wages fell, and because of this relative surplus-labour increased and the rate of profit rose—not because the labourer had become more productive, but because the absolute wage (that is to say, the quantity of means of existence which the labourer received) was forced down—in a word, because the position of the workers grew worse. In these countries, therefore, labour was in fact more productive for those who employed it. This fact was linked with the influx of the precious metals; and it was this, though they were only dimly aware of it, which led the Mercantilists to

declare that labour employed in such branches of production was alone productive.

The remarkable increase (of population) which has taken place … in almost every European State, during the last fifty or sixty years, has perhaps proceeded chiefly from the increased productiveness of the American mines. An increased abundance of the precious metals" (of course as a result of the fall in their real value) "raises the price of commodities in a greater proportion than the price of labour; it depresses the condition of the labourer, and at the same time increases the gains of his employer, who is thus induced to enlarge his circulating capital to the utmost of his ability, to hire as many hands as he has the means to pay;—and it has been seen that this is precisely the state of things most favourable to the increase of people… Mr. Malthus observes, that 'the discovery of the mines of America, during the time that it raised the rice of corn between three and four times, did not nearly so much as double the price of labour.' The price of commodities intended for home consumption (of corn for instance) does not immediately rise in consequence of an influx of money; but as the rate of profit in agricultural employments is thus depressed below the rate of profit in manufactures, capital will gradually be withdrawn from the former to the latter: thus all capital comes to yield higher profits than formerly, and a rise of profits is always equivalent to a fall of wages.

(John Barton, Observations on the Circumstances which Influence the Condition of the Labouring Classes of Society, London 1817, 29)

So, firstly, according to Barton, in the second half of the eighteenth century there was a repetition of the same phenomenon as that which, from the last third of the sixteenth century and in the seventeenth, has given the impulse to the Mercantile system. Secondly as only exported goods were measured in gold and silver on the basis of its reduced value, while those for home consumption continued to be measured in gold and silver according to its former value (until competition among the capitalists put an end to this measuring by two different standards), labour in the former branches of production appeared to be directly productive, that is, creating surplus-value, through the depression of wages below their former level.

Economic and social developments conditioned changes not only in content, but even in the very name of discipline. Antoine Monchrentien de Vateville (1615) wrote the "Treatise on Political Economy" in which he considered economics to be a political science. This was during the development of absolute monarchy in France, which was still building its power. Therefore, the state interfered in the economy. This purposeful intervention in the social life was to increase state revenue.

From our point of view, it will not be without significance to mention that in Polish literature, political economy was sometimes also referred to as the science of a "social economy." This term can be found, among others, in the title of the book by J. Supiński, *School of Polish Social Economy (1862–1865)* and S. Grabski's *Social Economy* (Marciniak 2001).

In 1730 there appeared a work considered to be the first general economic treatise, the "Essay on the Nature of Commerce" by Richard Cantillon, an Irish-born emigrant to France, educated in the scholastic tradition. His work confirms relationships of this tradition with the later Austrian school, as evidenced by, among others, the recognition of the market as an entrepreneurial process. Cantillon's thought, however, is notable not only for that reason. He implicitly accepted what was a *de facto* concept of the value of labour power by acknowledging the role of class struggle.

However, it is the school of the Physiocrats, a word from Greek meaning "government of nature," who held that agriculture was the source of wealth, considered to be the first school of political economy as they studied economic phenomena in the sphere of production and perceived the existence of objective economic laws. The physiocrats placed particular stress upon patterns that emerge from *laissez-faire*, stating that: "the movements of society are spontaneous and not artificial, and the desire for joy which manifests itself in all its activities unwittingly drives it towards the realization of the ideal type of State" (de la Riviere 1767; cited in Gide & Rist 1948, 30).

Among the outstanding achievements of this theoretical stream one should consider the "Tableau Économique" by Francois Quesnay, the first account in the history of economics of social wealth flow between branches of production. This is the first scheme of simple reproduction (repeated from period to period at the same size). Quesnay was first to adopt the assumption of constancy of prices, production and net product as well as the capitalist system of land lease.

The economic tables are based on a quantitative analysis, and feature the flow of wealth between classes in an accounting way, which shows their socio-economic nature. In this combination of economic with sociological analysis the scheme under consideration, regardless of its outdated characteristics such as an over-emphasis on agriculture, appears more modern than many arch-modern economic accounts. Quesnay distinguishes between large circulation (circulation of manufactured product between classes) and small circulation (circulation within each class).

Social classes according to Quesnay are:

The king, landowners (lay and clergy). This class owns the land, which they then lease and for which they receive rent equal to the value of net product, i.e. surplus (over the cost of production).

Productive class. The class of farmer's tenants—only they produce net product. They lease the land and make necessary capital expenditure. Only this class augments social wealth.

Sterile class, which includes industrialists, artisans, merchants. This class does not increase social wealth but only processes the generated wealth. As a result of its activity it generates only the equivalent of used resources of consumption.

Passive class, which includes the urban proletariat and the poor. The existence of this class depends on the economic situation of the three main classes. It is, to use Marx's phrase, the reserve army of free wage labour.

Quesnay's diagram of interbranch flows as in the following:

The class of farmers (tenants) allocates two billion lire. They hand over the sum to the proprietary class as rent for the cultivated land; for one billion lire the class buys from the sterile class (industrial) tools needed for production.

The proprietary class allocates the two billion lire from farmers: one billion goes to the purchase of consumer goods, for consumption in the class of farmers; one billion for the purchase of industrial products from the sterile class (industrial).

The sterile class allocates the two billion lire from farmers and proprietors: one billion goes to the purchase of consumer goods from the class of farmers; one billion for the purchase of raw materials necessary for industrial production also from the class of farmers.

Thus, farmers get back three billion lire, which after reinvestment can be used for production.

Quesnay treated the "economic tables" as a kind of method that allows for the creation of economic theories and to establish conditions for the process of simple reproduction.

Quesnay's "Tableau Économique" represent an ideal state of the economy—economic equilibrium. Quesnay believed that the implementation of the principles of "Tableau Économique" would remove all economic difficulties. However, he was aware that the reality deviates from the ideal presented in the tables, because the class of landowners spends more than half their income on buying industrial articles and the sterile class buys not from domestic farmers but abroad. The class of farmers get less resources than the amount that would guarantee the process of simple reproduction.

Karl Marx, while finding a number of logical and arithmetic errors in Quesnay's scheme, appreciated the accomplishments of the scheme which is apparent from, *inter alia*, his statement in his "Theories of Surplus Value":

> And this is the great merit of Physiocracy. The Physiocrats put themselves the question: how is surplus-value (for him [the anonymous writer] it is revenue) produced and reproduced? The question how it is reproduced on an enlarged scale, that is, increased, comes up only in the second place. Its category, the secret of its production must first be revealed.

Quesnay:

> definitely denies that economies made by the wage-earning classes have the faculty to increase capital, and the reason he gives for this is that these classes should not have any means on which to make economics, and that if they had a surplus, an excess, this could only be due to an error or to some disorder in the society's economy

Quesnay's Physiocratic system:

> regards the consumption of artisans, and even of those who merely consume, as meritorious, because this consumption, even though in an indirect and mediated way, contributes to the growth of the nation's revenue; since but for this consumption the consumed products would not have been produced from the land and could not have been added to the revenue of the landowner.

And in the *Theories of Surplus Value* (chapter IV) further praise can be found to the effect that:

> … the Physiocrats put forward the correct view that from the capitalist standpoint only that labour is productive which creates a surplus—value; and in fact a surplus—value not for itself, but for the owner of the conditions of production; labour which produces a net product not for itself, but for the landowner, for the surplus-value or surplus labour-time is materialised in a surplus-produce or net product. But here again they have a wrong conception of this; [...] Surplus-value itself is wrongly conceived, because they have a wrong idea of value and reduce it to the use-value of labour, not to labour-time, social, homogeneous labour. Nevertheless, there

> remains the correct definition that only the wage-labour which creates more value than it costs is productive. (Marx 1863)

Physiocracy recognised the principle of full freedom of business activity. However, a crystallized doctrine that put forward an individual as an economic agent, while at the same time criticized the intervention of state appeared only at the turn of the eighteenth and nineteenth century, at the end of French absolutism. This was Economic Liberalism. While intervening, the state infringes on the basic mechanism of the economy—the market mechanism (the activity of an individual, violating its freedom to act). English Liberalism, whose standard exponent is Adam Smith, proclaimed that society is the sum of free individuals.

I.1.2. Classical Political Economy

Although owing much to the physiocrats, as well as to the teaching of Frances Hutchinson (1694–1746) and David Hume (1711–1776), Adam Smith (1723–1790) is credited for having secured the foundations of classical economics, not least for his rejection of Quesnay's representation of agriculture as the source of wealth. For Smith, human activity in general, rather than agricultural activity in particular, is the original source of economic value. The influence of Bernard de Mandeville (1670–1733) is manifested in *The Theory of Moral Sentiments* (1759), where Smith explains how general welfare is served by the pursuit of private interests. However, it is with *The Wealth of Nations* (1776) that Smith ultimately "eclipsed the tentative efforts of his predecessors" (Gide & Rist 1948, 69). Its general thesis is that economic prosperity is a manifestation of spontaneous social interaction. Prosperity is enhanced by the free exchange of a vast array of differentiated commodities secured through the division and specialization of labour. However, that achievement is possible only where there is a supportive institutional framework: the "Smithian" mode of argument for free market policies, starting from a realistic view of man and his psychology, and recognising the all-persuasiveness of ignorance in human affairs, gives as important a place in its objectives to freedom and the Rule of Law as it does to some kind of ideal, optimal economic efficiency (Hutchinson 1984, 162).

It is thanks to Smith that economics began its career as an independent science. Smith accomplished a synthesis of accumulated economic thought, and developed and amended certain elements of it, thus forming a coherent theoretical framework whose foundation was the issue of wealth. This theory became the basis of a system of economic views known as the classical school of political economy, amongst whose exponents one should mention especially David Ricardo. The major achievements of classical political economy are the development of market theory, the development of the theory of value based on labour,[1] and a thorough

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[1] For the sake of historical accuracy and fairness it is worth noting that the ideal of work as the basis for the value of goods had already been formulated by, among others, Benjamin Franklin and Martin Luther. In its more mature form the theory has been traced back to *Treatise of Taxes*, written in 1662 by Sir William Petty and to John Locke's notion, set out in the *Second Treatise on Government* (1689), that property derives from labour through the act of "mixing" one's labour with items in the common store of goods, though this has alternatively been seen as a labour theory of property. Other writers (including Joseph Schumpeter) have traced the concept back even further to Ibn Khaldun, who in his *Muqaddimah* (1377), described labour as the source of value, necessary for all earnings and capital accumulation, obvious in the case of craft. He argued that even if earning "results from something other than a craft, the value of the resulting profit and acquired (capital) must (also) include the value of the labour by which it was obtained. Without labour, it would not have been acquired."

Adam Smith accepted the LTV (labour theory of value) for pre-capitalist societies but saw a flaw in its application to capitalism. He pointed out that if the "labour embodied" in a product equalled the "labour commanded" (i.e. the amount of labour that could be purchased by selling it), then profit was impossible. David Ricardo (seconded by Marx) responded to this paradox by arguing that Smith had confused labour with wages. "Labour commanded," he argued, would always be more than the labour needed to sustain itself (wages). The value of labour, in this view, covered not just the value of wages (what Marx called the value of labour power), but the value of the entire product created by labour.

Ricardo's theory was a predecessor of the modern theory that equilibrium prices are determined solely by production costs associated with "neo-Ricardianism." Based on the discrepancy between the wages of labour and the value of the product, the "Ricardian socialists"—Charles Hall, Thomas Hodgskin, John Gray, and John Francis Bray—applied Ricardo's theory to develop theories of exploitation. Marx expanded on these ideas, arguing that workers work for a part of each day adding the value required to cover their wages, while the remainder of their labour is performed for the enrichment of the capitalist. The LTV and the accompanying theory of exploitation became central to his economic thought.

Nineteenth century American individualist anarchists based their economics on the LTV, with their particular interpretation of it being called "Cost the limit of price." They, as well as contemporary individualist anarchists in that tradition, held that it is unethical to charge a higher price for a commodity than the amount of labour required to produce it. Hence, they proposed that trade should be facilitated by using notes backed by labour.

Adam Smith held that, in a primitive society, the amount of labour put into producing goods determined its exchange value, with exchange value meaning in this case the amount of labour a good can purchase. However, according to Smith, in a more advanced society the market price is no longer proportional to labour cost since the value of the goods now includes compensation for the owner of the means of production: "The whole produce of labour does not always belong to the labourer. He must in most cases share it with the owner of the stock which employs him. Nevertheless, the "real value" of such a commodity produced in advanced society is measured by the labour which that commodity will command in exchange. But Smith disowns what is thought of as the genuine classical labour theory of value; that labour-cost regulates market-value. This theory was Ricardo's, and his alone. Classical economist David Ricardo's labour theory of value holds that the value of goods (how much of another good or service it exchanges for in the market) is proportional to how much labour was required to produce it, including the labour required to produce the raw materials and machinery used in the process. Ricardo stated it as, "The value of a commodity, or the quantity of any other commodity for which it will exchange, depends on the relative quantity of labour which is necessary for its production, and not as the greater or less compensation which is paid for that labour" (Ricardo 1817).

In this, Ricardo seeks to differentiate the quantity of labour necessary to produce a commodity from the wages paid to the labourers for its production. However, Ricardo was troubled with some deviations in prices from proportionality with the labour required to produce them. For example, he said "I cannot get over the difficulty of the wine which is kept in the cellar for three or four years (i.e., while constantly increasing in exchange value), or that of the oak tree, which perhaps originally had not 2 s. expended on it in the way of labour, and yet comes to be worth £100" (Quoted in Whitaker). Of course, a capitalist economy will stabilize this discrepancy until the value added to aged wine is equal to the cost of storage—if anyone can hold onto a bottle for four years and become rich, it will be done so much that it is hard to find freshly corked wine. There is also the theory that adding to the price of a luxury product increases its exchange-value by mere prestige.

The labour theory as an explanation for value contrasts with the subjective theory of value, which has been hinted at earlier and will be discussed at more length later in the book. This theory holds that value of goods is not determined by how much labour was put into it but by its usefulness in satisfying a want and its scarcity. Ricardo's labour theory of value is not a normative theory, as are some later forms of the labour theory, such as claims that it is "immoral" for an individual to be paid less for his labour than the total revenue that comes from the sales of all the goods he produces.

In fact it is not clear to what extent these classical theorists embraced the labour theory of value as it is commonly defined. For instance, Ricardo theorised that prices are determined by the amount of labour but found exceptions for which the labour theory could not account. In a letter, he wrote: "I am not satisfied with the explanation I have given of the principles which regulate value." Adam Smith, as noted above, theorised that the labour theory of value holds true only in the "early and rude state of society" but not in a modern economy where owners of analysis of ground rent. High appraisal of the achievements of classical economics does not mean uncritical relationship to it. Ricardo distinguished between use value (the objective ability of goods to meet individual needs) and exchange value. He claimed that the basis of value is either the scarcity of goods, which concerns a small group of economic goods (unique goods such as works of art) or the amount of labour expended to produce particular goods, which applies to the majority of commodities.

Ricardo noticed that the amount of value is not constant, that it varies with technical progress, and on this basis he formulated a statement known as Ricardo's Law: value of a product is directly proportional to the effort and inversely proportional to labour productivity (the claim is correct, since in the latter case, production costs are lower). Ricardo was so consequent in his standpoint on the labour theory that he believed that both in "petty-commodity" society and capitalist society value is determined by the amount of labour. The basis of this standpoint however is his false assumption that capital existed in the primitive society, the natural economy. Ricardo construes capital ahistorically, identifying it with every work tool (means of production), even with the stone of the Primitive man.[2] Ricardo failed to see the social content of capital, consisting in the fact that the means of production become capital when used for the employment of wage-labour.

It is also Ricardo himself who was criticised by Marx (in the chapter on "Relative Surplus-Value" in *Capital*), who drew attention to the fact that:

> Ricardo never concerns himself about the origin of surplus-value. He treats it as a thing inherent in the capitalist mode of production which, in his eyes, is the natural form of social production. Whenever he discusses the productiveness of labour, he seeks in it not the cause of surplus-value, but the cause that determines the magnitude of that value. On the other hand, his school has openly proclaimed the productiveness of labour to be the originating cause of profit (read: Surplus-value). This at all events is progress as against the mercantilists who, on their side, derived the excess

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capital are compensated by profit. As a result, "Smith ends up making little use of a labour theory of value."

[2] See an ironic remark by Marx in *Capital*: "By a wonderful feat of logical acumen, Colonel Torrens has discovered, in this stone of the savage the origin of capital. 'In the first stone which he (the savage) flings at the wild animal he pursues, in the first stick that he seizes to strike down the fruit which hangs above his reach, we see the appropriation of one article for the purpose of aiding in the acquisition of another, and thus discover the origin of capital'.

> of the price over the cost of production of the product, from the act of exchange, from the product being sold above its value. Nevertheless, Ricardo's school simply shirked the problem, rather than solving it. In fact, these bourgeois economists instinctively saw, and rightly so, that it is very dangerous to stir too deeply the burning question of the origin of surplus-value.

This criticism does not detract from the scientific merits of the school being discussed. It could be argued, for instance, that the particularly interesting part, from the perspective of sociology of the economy, of the achievements of classics—translating directly into the theory of social classes—was the articulation of the laws governing the division of social product. Adam Smith, for example, wrote not just about classes, highlighting the class of creators of inventions and improvements or, as we would say, anticipating terminology introduced later in this work, producers of the ideal means of production or performers of conceptual work. In addition, this is in a language that the uninitiated reader, unaware of the identity of the author of the statements in question, would probably have taken for Marxian, regarding the class struggle.

Of course, however, the concept of class struggle is usually connected with the names of Karl Marx and Friedrich Engels, which can be treated as a separate school of thought, and is often counted among the mainstream of classical political economy as apart from criticism of certain aspects of the latter (after all, the main work of Marx has the subtitle "critique of political economy"), and it took over a significant part of its output. Among the achievements of Marx and Marxism important for sociology of the economy one must mention the theory of surplus value derived from the theory of value based on labour, the concept of the mode of production and economic formation of society as well as the theory of social classes. We are not dwelling at this point over the content of these categories, as they will, although not always in the meaning entirely consistent with the original, be deployed in this work.

I.1.3. Historical School of Economics

Criticism of classical economics was also taken up by the historical school, the nature of which criticism should not be surprising in a country of creators of empirical and inductive methods such as Bacon and Macaulay. This kind of approach was bound to conflict with abstract theoretical constructions present in the work of Adam Smith, David Ricardo and John Stuart Mill.

Advocates of the historical school (which in its English version has a lot in common but is not identical to its mainland counterparts, especially in Germany and France) accused the school of classical political economists of an ahistorical understanding of economic laws, in particular. Their idiographism and empiricism led them to concentrate on historical and economic research, resulting especially in the birth of economic history, a very useful discipline for the sociology of the economy as providing the ample material for research.

Among the exponents of the English historical school are:

Richard Jones, 1790–1855. Jones attacked Ricardo's supporters, among others, for their theory of rent, lack of empirical content and the pretensions of scientific universalism; his views were characterized by inductionism, relativism, and evolutionism.

William Whewell, 1794–1866;

Walter Bagehot, 1826–1877;

Thomas E. Leslie, 1825–1882;

John Kells Ingram, 1823–1907. Ingram accused classical political economy of abstractionism, and at the same time scientism and ideologism. He himself was an advocate of the sociology of Auguste Comte from which he drew the principle of the need to recognise the historical and context of the economy.

Edwin Thorold Rogers, 1823–90. Author of the monumental, eight volume quantitative study of English prices in agriculture and works whose titles are cited to illustrate the usefulness of the achievements and direction of economic history in general for the sociology of the economy, such as: *Work and Wages in England*, *Six Centuries of Work and Wages in England*, and *Economic Interpretation of History*.

Arnold Toynbee, 1852–1883. Toynbee was the first researcher to name and study the industrial revolution. His works which deserve mention include the research on monopolies and oligopolies. He observed closely the induction method.

William Richard H. Tawney, 1880–1962. Economic historian, social critic and Fabian socialist, Tawney is famous for the work on the role of religion in the emergence of capitalism, explored also by Max Weber and the German historical school.

German and English historical streams had much in common, both in terms of their positive content and the type of debate with a powerful adversary in the form of classical political economy, although in both these respects they were far from being identical.

Classical political economy was based on the doctrinal and methodological assumptions of individualism, treating society as the sum of individuals and social welfare as the sum of the well-being of individuals. Meanwhile, the German social philosophy (from the late eighteenth and early nineteenth century) was grounded in opposite assumptions, namely holism. The focus was not an individual, but an independent public entity.

This idea was already evident in the notions of economists whose thought underpinned the development of German historicism. A.H. Müller stressed that the economy is aimed at obtaining the means to achieve ideal purposes of the existence of a society in the form of the state. Müller's idea, that sets him closer to the category of contemporary proponents of human capital, deserves citation, although not necessarily literal acceptance (see a critique of that notion later in this work). The idea highlights that having only three factors of production (land, capital and labour) is incomplete; he proposed to add a fourth factor, namely, the spiritual capital in the form of knowledge, talents, culture, civilization, and others, as he captured it, the perfect goods of human nature (Marciniak 2001). According to Müller, this type of capital is the most important factor of production. He believed, therefore, the distinction made by Smith, of productive labour creating the material means to meet needs and non-production labour producing intangible objects to meet needs, to be false. This latter type of work is, according to Müller, as productive as the former, and even more important. Apparent in this criticism is a fairly widespread confusion in identifying the distinction: productive–non-productive, with the opposition: useful–useless, or important–unimportant. Nevertheless, this remark points to the controversial character of the concept of productive labour, and since an attempt to solve this problem will be presented further in this work, we will not remain here any longer on this issue. Müller held also that the value of goods is determined not by the amount of work invested in it, but its importance for society, namely usefulness.

Müller's views had a great influence on Friedrich List (1789–1846) and the so-called older historical school. Like Müller, List condemned Smith for the individualistic approach to society and for cosmopolitanism. According to List, there is an interface (not taken into account by Smith) between the individual and humanity. However, in his opinion, each nation goes through five stages of development:

The period of savagery
The shepherd period