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**From Political Economy to
Economics**

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A decade of global economic crises has, alongside general thinking on alternatives to the contemporary global economic system, also brought forth many criticisms of the mainstream economic theories, which have not only been unable to predict the latest crisis, but are, more so, incapable of even retroactively explaining it. Consequently, the sensibility of academic institutions and intellectual public for different, alternative economic theories has increased and works from the field of political economy, utilizing often unjustly neglected concepts in the past such as social classes, relations of production, surplus value and commons, have begun to increasingly gain attention and importance.

From Political Economy to Economics is an account of the history of economic science from the classical era of political economy until today, driven by a critical stance towards economic science of today. The main emphasis of the book is on the history of ideas, concepts and methodological and thematic preferences of individual economists, as well as the

struggle between different schools of economic thought. Such history of ideas and concepts is carried out in a strictly immanent way – the authors are not interested in institutional contexts of economic theoretical production, academic statuses of individual economists or their relations with, or influence on, economic policy makers. They are mainly interested in the historical development of economic science as such and key polemics, which decided what concepts, methodologies and topics became commonly accepted and which became marginalized and forgotten. Even though they are focused exclusively on the struggle of ideas, the authors remain within the historical materialist approach – they do not present the history of the economic science as a linear succession of increasingly sophisticated and precise theories, but rather, as a dynamic and complex struggle among different theoretical and political perspectives, which still goes on today.

The book starts with Adam Smith and David Ricardo, the first classics and founders of political economy. The main aim of the early liberal political economy is a struggle against mercantilism and for free market and free trade, which also means an advocacy for economy as autonomous and separate from the state. Classical political economy is quite eclectic and utilizes concepts, arguments and research from many different fields: from political and legal philosophy when it discusses private property rights and tries to limit government's

sovereignty over the economy; from moral philosophy when it discusses the relations between private and public interests, troublesomeness of indolence and potential beneficial effects of poverty; from history, when it comes to a critique of aristocratic rentierism and feudal relations of productions in general; and, from social philosophy, when it discusses the development of institutions and human relations, compatible with free market and trade, where early economists used to combine social philosophy with emerging statistical science and colonial proto-anthropology. Adam Smith set the basic moral and philosophical pillars of the classical liberal political economy: the concepts of free market, the invisible hand, homo economicus and spontaneous transformation of private into public interest through individuals' actions on the market. Ricardo formalizes the early economic theory, systematically develops the labour theory of value and pioneers the abstract deductive method.

The next classics in the book are John Stuart Mill and Karl Marx. Mill attempts to combine the historical and eclectic aspects of Smith's method, which oscillates between methodological individualism and collectivism, inductivism and deductivism and between historical and logical manner of argumentation, with Ricardo's strict abstract formalism. Marx proceeds in the opposite manner and develops a harsh and systematic critique of both Smith's and Ricardo's political economy. Marx's critique of

political economy uses Hegel's dialectical method to balance the contradictory relations between inductive and deductive methods and between abstract/logical on one hand and concrete/historical on the other; re-furnishes the labour theory of value with concepts of labour force, constant and variable capital, surplus value, among others; and, introduces new views on classes, class struggle and exploitation, the social role of industrial machinery, global dynamics of the capitalist system and other issues. Marx's critique also means an overturn of the political perspective and therefore Marx spares no harsh words when criticizing liberal concepts such as private property, equivalent exchange and the free market. Regardless of their differences, all 19th century classics have historicism, explicit political motivations and social considerations in common.

The authors then proceed to the *Methodenstreit* between the German Historical School and Marginalist Neoclassical School, a polemic, which has largely determined the subsequent development of economic science with the marginalists' victory. The Historical School argued in favour of an empiricist approach, grounded in historical facts and research, and an inductive method, whereas the Marginalist School preferred deductive, abstract and formal methodology, based on a handful of basic axioms, and logical argumentation. Regarding the classics, marginalists took enthusiasm for *laissez-faire*

from Smith, but abandoned his historicism, whereas they took Ricardo's deductive method, but abandoned his labour theory of value, methodological collectivism and the concept of social classes. The political background of »marginalist revolution« is Marx's appropriation of labour theory of value and his concept of class struggle, which had, in the mid-to-late 19th century, become the cornerstones of communist political economy. Bourgeois economists abandoned both and introduced the concept of marginal utility (hence the name, Marginalist School), which paved the way for a new theory of value and prices, and methodological individualism, and shifted the emphasis from the research of economic relations between social collectives to the economic behaviour of the individual. Marginalists also switched the focus from the sphere of production (regarded as primary by both Ricardo and Marx) to a sphere of exchange, and thus bypassed the problem of exploitation.

The first half of the 20th century brought several attempts of the synthesis between deductivism and inductivism and between abstract and historical economic thinking – characteristic was the work of British Historical School, American Institutionalism, Veblen, Weber and Schumpeter. On the other hand, the same era also introduced the entrenchment of the marginalist theory and the marginalization of the classical political economy and its Marxist critique within the academic field. In the early 20th cen-

tury, the marginalist approach consolidated itself mainly through the work of Alfred Marshall.

After the *Methodenstreit*, the next big battle within economic science took place between the positivists of the Vienna Circle, which brought some fresh life into socialist economics, and Austrian liberal economists, a debate which culminated in the famous socialist calculation debate in the 1920s. During the debate, neo-classical socialist Oskar Lange developed the possibility, feasibility and basic principles of socialist economics using a marginalist theoretical framework and abstract logical argumentation. The reaction from Austrian liberal economists (especially Mises and Hayek) was to abandon certain basic postulates of marginalism. Although they retained methodological individualism (subjectivism) and the deductive method, they criticized positivists' mathematical formalization and transplantation of natural science methods into economics. Hayek thus strictly separated the domain of social from that of natural science and developed a theory of limited, subjective knowledge, which precluded any possibility of objective overview over a complex totality of economic processes – which also meant that, according to Hayek, centrally planned socialist economy is impossible. Appropriation of certain marginalist principles and concepts by socialist economists therefore triggers the shift of terrain of the discussion to that of epistemology. Second, indirect effect of the polemics about

positivism is the establishment of a separate discipline of sociology and its final separation from economics. The eclipse of the historical schools brings the dehistoricization, and the separation from sociology brings the desocialization of economics. Subsequently, previous thematic wideness and theoretical pluralism of the classical political economy is significantly reduced.

The next big break within economics, similar to the one caused by the marginalist revolution, was Keynesianism's rise to dominance after the Second World War and lasting until the mid seventies. Keynes again eclecticized and socialized the economic science and tied his theoretical work to the social and economic policies of the New Deal. The rise of Keynesianism temporarily put liberal economic doctrines on the defensive, and so far as the post-war economic lasted, even the frequent political denunciations of Keynesian economists as communists were not enough to overthrow the doctrine and policy of full employment, deficit spending and demand management, based on the rediscovered research of production, collective economic agents and macroeconomic processes. The decline of Keynesianism in the late seventies was caused by two main factors: in theory, Keynes' theory became increasingly mathematized and formalized after his death, which has brought it closer to neoclassicism; while in history, the oil

crisis, the end of the rapid post-war economic growth and rising inflation caused economic policy makers to begin to doubt the New Deal policies. Both factors have contributed to the vengeful return of economic liberalism: in theory in the form of monetarism of the Chicago School and in politics in the form of neoliberalism.

The book ends with the decline of Keynesianism and the triumphal march of neoliberalism in economic theory and practice in the eighties. The end of Keynesianism also meant the end of the last major attempt at resocialization, repolitization and rehistoricization of the economic science. Today's mainstream economic orthodoxy is formalist, mathematized, abstract, deductive and based on methodological individualism. As it draws to a close, the book breaks away from its previous impartial historical narrative and becomes more and more explicitly politically engaged. In the end, opens up an optimistic perspective: even though neoclassical economic orthodoxy is still dominant, historical circumstances today call for a new type of economic theory, which could potentially replace the morally and politically bankrupt liberal orthodoxy, and could once again politicize economic science in a socialist direction - and perhaps the next historical overview of the development of economic science will be called *From Political Economy to Economics ... and Back*.