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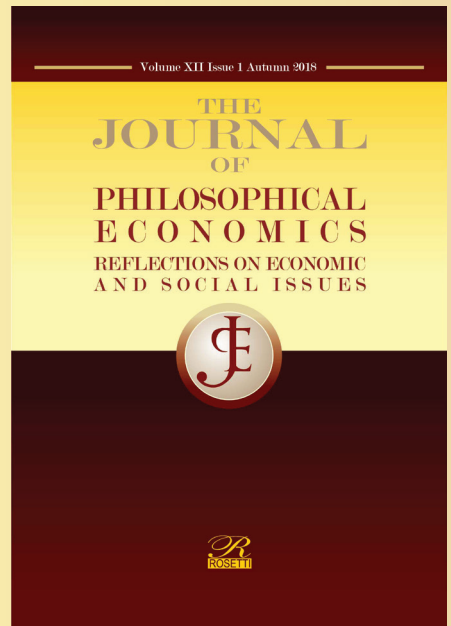
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# Classical economics must not become history

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**Abstract:** This paper is meant as a clear statement that things can no longer continue the way they have gone so far. If analyzed critically, the classical heritage, enshrined in fundamental rules and theories, the result of a massive abstraction effort, has not always been consolidated and developed properly in modern times. Therefore, compared to other sciences, economics has been losing ground, exactly where it should have been reinforced by those who serve it –, the economists. Its main core, the classical heritage, has been enriched, but the additions, knowingly or not, have in fact weakened and transformed it into a loose collection of feeble causalities and verbosity. It is imperative that such deviations be stopped. We suggest a two-step solution: a) an inventory of the elements that define the hard core of Economics; b) a review of the circumstances that show what happened with said hard core. The conclusions point to a necessary return to classical ideas.

**Keywords:** economic laws, hard core, classical legacy, scientism, objectivity, Say's law

## Introduction

Economics has always been a science. As it has already passed through the unavoidable classicization phase, it has now earned a well-established place in the world of scientific knowledge. The fact that Nobel prizes have also been awarded for special achievements since 1968 underlines its importance once again. But the simple assertion that Economics is a science does not suffice, it does not fill us with confidence and it does not send us to the territory of eternal certainty. This means that accepting its scientific nature is, from this point of view, a problem. It arises from the specificity of the complicated, mixed, and extremely dynamic worksite of scientific practice, in which economic scholars toil. A worksite where

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one always needs to make extra demonstrations to be convincing, unlike in the case of exact sciences where the mere job description condemns them to rationalism and objectivity. This is not the case with Economics. A science which by its object, method and final goals is equally present in the areas of arithmomorphism and dialectics (Georgescu-Roegen, 1971), it faces serious problems when establishing or at least approximately drawing the delineation between science and non-science. Such a problem does not exist in Physics or Biology. In social sciences, and especially in Economics, it exists, and its mere presence tells us that we are faced with something that is not science, like bad cholesterol that holds it back on its way to affirmation.

First, Economics has problems of segregation, of delimitating its territory from social, political, cultural, historical, etc. sciences and of cleaning up, as much as necessary, its own territory to treat and analyze it in terms of well-deserved scientific rigor (Polanyi, 1957). As a reward for this annoying condition, transposable to the impossibility of completely isolating economic reality, Economics is bound to a holistic approach, with its pluses and minuses (Sapir, 2005, p. 20-23). On the other hand, the invasive everyday life, often present beyond the limits of the natural, does not clarify, but muddles the waters of economics, allowing for common areas to masquerade as scientific ground. For similar reasons it suffocates under contradictory realities and faces great oppositions: micro-macro, static-dynamic, nominal-real, equilibrium-non-equilibrium, etc. Time, as well as space, often render its conclusions useless. Since it has no choice, it operates both with rational concepts and with human, non-economic and irrational concepts. It claims objectivity like other sciences but finds, as Mises pertinently puts it, that '(...) it is in this subjectivism that the objectivity of our science lies.' (Mises von, [1949] 1998, p. 21)

Second, Economics has serious validation issues. Its benchmarks, the reference systems it uses to validate its assumptions, are themselves relative. Not only are they influenced by human nature but bear the strong mark of ideology and interests. Economics is and forever will be doomed to be political, essentially checked against norms by those who give impetus at this level. Experience has shown that they are neither the most qualified nor what the economic profession claims to be representative of the trade. Gunnar Myrdal claims and reality confirms:

There can never be, and has never been, a «disinterested» research in the social field. [...] We say about an author or statesman that, of course, he was «a product of the age

in which he lived». [...] No less ordinarily these ideas are founded upon what they feel to be their interests. (Myrdal, [1973] 2015, p. 148, 71, 155).

Let us add to what we have already said, that the economic world is revealed to us mainly by descriptions. In other words, not only that what we know today is not everything, but what we pretend to know, we know from others. Tony Lawson is very clear about this:

[...] I have allowed that things exist and act independently of their description, this stance is complemented not by an absolutist or foundationalist position in knowledge but by an epistemological relativism, by the thesis that we can only know these things under particular (historically and socially relative), and potentially transformable, descriptions. (Lawson, 1997, p. 58).

Lawson wants to tell us that everything is in motion. The rationality of economic agents and the objectivities with which we operate in the process of knowledge are also relative. The embellishment of the reality that we submit to knowledge by means of linguistic acrobatics (Foucault, [1966] 1994), can, in a nutshell, end the series of circumstances that deny Economics a carved in stone status. On the contrary, we support the hypothesis of an eternal worksite.

To conclude the series of these examples, we ask: why do we review circumstances which prove that it is not simple for Economics to find clear truths? And the answer is in three reasons.

First, we want to argue in an extremely synthetic manner, that economic analysis is not exempt from difficulties. Conflicting realities, nonlinear causalities, interference of social, political, cultural, etc. aspects, invasion of everyday life, validation through politics, difficult dynamics, and unconfirmed truths are not easily embedded in logical structures. From this point of view, Economics appears as an eternal worksite, without the privilege of finished products.

Second, we would like to emphasize that Economics, although it looks well in the position of a living exercise, destined for flexibility, should not be assimilated to a 'scientific practice' in the sense suggested by Renato di Ruzza (Di Ruzza, 1988, p.17).

Third, we want to prove, as the main objective of the paper, that the status of worksite and the failures of Economics are linked to the relativization, or even the neglect, of profound truths and objective laws that were definitory in the classical period of the discipline. We inherited a hard core of knowledge from the classics. Bearing this in mind, we will create a minimal inventory that will help us point

out what happened with this precious starting dowry. Finally, we will proceed to map out the main beacons of the road that Economics must follow if it is to regain prestige and status.

## What deserves to be used from the Classics

Every science has a hard core. It amounts to a sum of posteriori truths and fundamental postulates, which create apriorities. As a reflection on some possible experiments, to use Kant's words (Kant, [1781,1787] 1999), experienced and verified by consumed factual exercises, they allow the following assumption: we do not start from scratch. In the beginning, there were others who conveyed established beliefs to us, as objective laws. If there is something to be done, it amounts to two things: a) To preserve the classicized heritage, the fruit of tutelary minds who laid the foundations; b) To gravitate on the protective belt (Lakatos, [1968] 1970), by updating, refreshing, developing or operating the necessary adjustments (Mill, [1984] 2007), by undemocratically conversing with the statues, and by doing consolidation work.

Do economists do that? Yes and No, is our answer. Let us explain.

### a. *First, what is the hard core?*

Despite its relative 'youth', Economic Science has already enjoyed the profitable exercise of classicization. The classics have been generous in all regards.

First, they clearly defined the object. The Aurora of the classical school, A. Smith, clearly states in the title of his masterpiece that the great theme of Economic Science is the increase of wealth (Smith, [1776] 2007). In other words, the entire labor of its servants, regardless of their specializations, is economic growth and development. Smith explains what the epistemic construction of wealth consists of: which techniques to apply, which tools to use, which goals to aim at, and what institutional framework to adopt. By providing explanatory registers that stood the test of time, they formulated judgments that have come to be considered theorems. Thus, according to Smith, the two fundamental economic facts one should rely on when explaining and understanding the anatomy and physiology of economic and social dynamics are the natural division of labor and, implicitly, human cooperation. Men are not born equal into this world, they do not stay equal, neither are they self-sufficient, and as such they are destined to trade and cooperate. And

cooperation takes all shapes: the myriad of relationships, visible and invisible, through which producers meet consumers and form the market. Nobody besides Smith has argued more convincingly how the market as an institution appears and operates; the market as a game with actors, rules, and referees. The ultimate referee, Smith's invisible hand, or J.S. Mill's earthly hand, sets the rules (formal institutions) and penalizes their violation. Once one has effectively entered the market, finds out that he is doomed to efficiency. If one is not careful and lets the counterweight gain too much mass, the objective law of bankruptcy ruthlessly punishes him for not having used his hands or mind in the most profitable manner. Under its reign, one is forced to admit that resources are limited, and the community cannot afford to allow them to be exploited by anyone.

Through the competition it implies, the market remains the safest and most natural means to efficiency. This is the place where one is forced to realize that 'to secure the greatest amount of pleasure with the least possible outlay should be the aim of all economic effort.' (*apud* Gide, Rist, 1915, p. 10-11) In other words, the market forces one to obey the imperatives of the objective law of increasing labor productivity. By building on the philosophical framework of natural physiocratic order, Smith describes the mechanism of social order and harmony. This mechanism starts from individual and personal interest and also satisfies the general interest. Economic and social peace bring about balance and harmony. The environment described by Smith and the other classics is populated by individuals with different physical and intellectual potentials. Their position on the wealth ladder and within the social hierarchy is also different. A dynamic ladder, with ups and downs; with tensions between the employee and the employer, between the wage-earner and the entrepreneur. The latter plays the key role in creating wealth. It has to be respected and supported because 'upon this disposition of mankind, to go along with all the passions of the rich and the powerful, is founded the distinction of ranks and the order of society.' (Smith, [1759] 2002, p. 63). In other words, social order as conceived by the classics is naturally stratified and constantly changing. An order in which individualism, freedom, the pursuit of personal interest under the guidance of the invisible hand, the minimum state, and the backing of private property and competitive market, call the shots and set the method of creating wealth. All of this is possible provided that the state respects its job description. A job description borrowed from physiocrats, comprising three main duties: to defend natural order and its natural corollary - private property; to train the population to form an enlightened political opinion; intrinsically public works.

Wealth is built through labor. The praise of labor, of mercantile and physiocratic origin, is extended. At the same time, labor is the source and measure of value for Ricardo and Marx. All the classics agree with the origin of value in labor. Notable differences occur when measuring value. Note that Say offers the subjective variant of value and price. The tense supply-demand relation has something to say about that and thanks to Mill and Malthus, the lawlike nature of this relationship is revealed. It is also worth mentioning the message conveyed by Smith's dogma, as Marx called Smith's theory of value, formed as the sum of these three incomes (Marx, [1885] 1956). We have here, in an incipient form, an explanation of the lawlike way in which each economic actor transfers a share of the net income to the price of the product in line with the position it occupies in a functioning market economy; an economy, a battle territory between many relatively equal individuals without monopolies.

Say claims, although from a different perspective, that the supply-demand relation is objective and lawlike in nature. Say's law, as objective as a law of physics, states that, '[...] it is production which opens a demand for products' (Say, [1821] 1971, p. 133). When setting up a business, any entrepreneur hires workforce. From a lawlike, objective point of view, one cannot conceive an employment policy before thinking about a business. Wages paid mean potential demand. The primacy of production, as an objective law, occurs simultaneously in relation to employment but also in relation to the other components of the causal chain, namely repartition, exchange, and consumption. Production has a primary place not from a temporal perspective - the four phases taking place concurrently - but as a starting point in a sequence without which the others cannot simply exist. The same author also claims that the passage of production result through distribution and consumption is mandatory for the cycle to be resumed. The consumer is therefore objectively sovereign because their feedback is a signal that becomes an order for the producer. There is no need for a law to protect him; he can protect himself, accepting or declining the manufacturer's offer.

The classical lesson about money is valuable, even more so as it is not held in high regard. With seed and points of support in the Aristotelian logic in this matter, the classics and a part of the neoclassic economists, have said about money what was objective to say. In its most polished form, lessons about money can be found in the writings of Marx (Marx, [1867] 1887) and the neoclassical Menger (Menger, 1892). When stripped of their ideological coat, in Marx's case, the historical and logical arguments of the two converge to the same theorem: money was created to



measure value. In this sense and with this major role, money appears and becomes an institution, a religion; the other functions, namely, medium of exchange, store of value, standard of deferred payment, etc. appear as derived functions. The internal logic of the quantitative theory of money was precisely outlined in David Ricardo's work (Ricardo, [1810] 2015). The inflation phenomenon, the origin of the bank as an institution that handles the money with coverage in the real economy, the role of the government in fiscal-monetary policies etc., do not find a more logical, but also objectively legal support than the one based on money as a standard unit of account.

There is still more truth to be found in the legacy of lawlike, objective truths inherited from the classics. The comparative cost theorem, which analyzes efficiency in international trade, is an example. Even today, its strict logic remains reliable, even with further developments or attempts at updating it. Then, thanks to Malthus' *Essay on the Principle of Population*, the number and quality of the population are recognized as important factors of the process of economic growth.

The classical episteme of the culture of wealth is also generous in other ways. The social institutional framework (rules and practices) in which the reproduction process takes place is found in Smith, Mill, and Marx. Friedric Bastiat's economic harmonies (Bastiat, [1850] 1997) mean, in addition to an unequalled hymn dedicated to freedom, a logical scheme of institutional arrangement outside of which no modern production is to be conceived.

To sum up, there are a few things that we have to remember:

- 1) The division of labor and human cooperation are fundamental economic facts and are the main premise in economic analysis;
- 2) we are not equal and do not stay equal in the process of production and distribution, and consequently, the social order is a stratified one;
- 3) the market is an institution rooted in the reality that we are not self-sufficient and, thus, we are forced to trade;
- 4) private property is, in turn, a key institution of the modern world, arisen from the need to reduce transaction costs;
- 5) hedonism, individual interest, and bankruptcy in case of inefficiency occur objectively;

- 6) the most normal order is the natural one, under the guiding wand of the minimal state, which is also the fruit of our failures and is meant to make our cohabitation possible;
- 7) the entrepreneur is a key figure, as the dynamics of the whole society depends on his activity and success;
- 8) for now, labor is the only normal, natural source of wealth;
- 9) there is a supply and demand law with four sequences: the primacy of production, the sovereignty of the consumer, employment derived from the interest in the business, the demanded and offered quantities that inversely influence the level of the equilibrium prices;
- 10) we have a standard enlightening lesson about money and its functions and derived from it, the truths about the role of banks and the state in its management;
- 11) in the field of international trade, the classical theory of comparative costs still has something to say;
- 12) in the process of economic growth, not only the resources matter (the productive trinity: labor, nature, capital), but also the institutional framework, the rules of the game;
- 13) thanks to Mill we also learn how science is created, based on observation and intuition or on logical deductions (Mill, [1843] 1858).

All the above amounts to a minimal inventory of the legacy, the core classical inventions on which any field of knowledge that strives to gain the status of science must rely. A science which may admit that its study is a worksite, but which does not under any circumstances, admit that it has itself the characteristics of a worksite.

#### *b. How copies stray from the original*

From the times of the classics to the present day, Economics has undoubtedly taken a long and arduous path peppered with real and acknowledged achievements. What we are concerned with here is not just the inventory of breakthroughs, many of which were awarded the Nobel prize, we are interested in something else: what would have happened if we had valued the theoretical core more and actually built

on the inherited foundation? Our interrogation hints at the fact that we did not do the right thing. The obsession with beginning today is a common occurrence nowadays, forgetting, belittling, or abandoning the path of the illustrious predecessors in whose books one finds the explanation and deep-meaning of even the hottest topics of the day in favor of the present, up-to-date economic literature, hot immediacy. To put it simply, it is no longer fashionable to quote the classics. At the end of the day, we have the neoclassical economists closer to us. There would be nothing wrong with this if, by virtue of the well-known cumulative principle, economic neoclassicism had naturally positioned itself in the wake of classicism. Instead, it only embraced the doctrine. Yet it revolutionized the object and the method by infecting them with formalism, building on the prototype of homo economicus perfect rationalis, by modelling where there was nothing to be modeled and applying Cartesian logic under the pretense of objectivity. In doing so, Neoclassical Economics paid serious tribute by moving away from the real world. The reaction of New Institutional Economics is precisely the reply needed in this situation, the attempt to humanize a theory and a science that has forgotten that the economy is constructed by people. Regarding the identified structural elements of the classical ideational legacy, the following circumstances can be invoked to account for what has been done, for better or worse, to use and develop the classical heritage.

First, the objective of economic science has been reinterpreted relative to the direction set up by Smith, so much so that its meaning has been diluted to the point of expressing everything and saying nothing at the same time. 'A conflict of definitions' is the title of a chapter in Jacques Sapir's book *Quelle économie pour le XXI-ème siècle* (Sapir, 2005), that aims to provide a synthetic account of what economic science stands for today. The well-known epistemologist Serge Latouche (Latouche, 1988) even makes an inventory of the definitions that economic science has been given over the course of time. When considering the work of Antoine de Montchrestien, Stanley Jevons, Karl Marx, Lionel Robbins, Raymond Barre, Paul Samuelson, etc., in their attempts to streamline the theory, various definitions cover all directions except for the one pointed out by Adam Smith. He points out that the definition in fashion is the one proposed by Robbins, which describes economics as 'the science which studies human behavior as a relationship between ends and scarce means that have alternative uses' (Robbins, [1932] 1935, p. 15). The definition does not only fit economic science; it is erudite, but suffers, at the same time, from reductionism and excess of generalization. If Economics teachers find it fitting to follow in Robbins' footsteps and come up with their own definitions so

that they create a sense of originality, it is no wonder that the road to unjustified deviations and uninspiring escapes is wide open. And it is open wide, for example, to the engrossing Balkanization process of the economic science (Grellet, 1979). One, which by virtue of an internal, conceited universalism, urges secondary sciences derived from Economics to define their own research methods and status, forgetting the necessary and permanent reconnection to the whole. It is forgotten that we gave ideas names as we give names to drawers but that they exist and manifest themselves within and through the organic nature of the whole.

Under such an ideational dome and relativizing the theme of themes - growth and economic development - Economics has been invaded by psychological gimmicks and verbosity. It has been suffocated by everyday life and Robinsonian approaches, and by many aberrations deprived of the elitism and spirit in which the rulers of thought have passed on. Straying away from the Kantian theory that shaped its path, torn between the geometric, Cartesian, Descartes-type spirit and the Hume-type empiricism, Economics is looking for chimeras. Decrease is one of them; the Economics of happiness or Neuroeconomics are not too far away. When congratulating papers that turn animal spirits into the alpha and omega of the argumentation of great emerging crises, we prove the same lack of compass. The objectivity of the classics in explaining economic dynamics was based on entirely different arguments. They had no troubles conforming to scientific principles because they did not run away from objective economic laws. On the contrary, they inferred them and cast them into the field of analysis. They were not openly concerned with the delineation problem but certainly operated under the demarcation between science and non-science, dealing with real problems of science without compromise and in a knowledgeable manner.

*Second*, yet in close connection with the already highlighted aberrations, regarding the episteme of wealth creation, the deviations from the classical path are even more severe. Let us consider, for instance, the fate of the starting premises - the division of labor and human cooperation. This is the place where the most constructivist fatal infatuation has failed, to put it in Hayek's terms. Equality, not just at the starting point but also on route, was the premise of the gigantic and hideous Marxist-Roussonian construct. Legislated equality between people, corroborated with the destruction of the entrepreneurial spirit through the expulsion of the main character of classical analysis and bypassing the law of supply and demand, made communism a system against nature. But communism is not the only construction that has been sanctioned for neglecting the realism of starting hypotheses by relying

on inequality. Equality is also courted inside open society (Popper, [1945] 2013). This is because it is gentler and, especially in electoral campaigns, more efficient to exploit. Who would vote for you if you promise inequality, if you tell him that you will place him exactly where work and its quality place him in the social hierarchy?

For similar reasons, few are the economic schools that take the great risk of mentioning inequality as a premise resulting from the natural division of labor. Those who adhere to Mises' opinion give a singular example. Faithful to Smith, the author of the *Human Action* writes convincingly that 'the fundamental social phenomenon is the division of labor and its counterpart, human cooperation.' (Mises von, [1949] 1998, p. 157). How many follow his example? Hayek, when analyzing the mirage of social justice, can be counted as one. Convinced that only rules may be fair or not, he convincingly claims that 'in a continuous process this initial position of any person will always be a result of preceding phases' (Hayek, [1982] 2013, p. 130). In other terms, the difference on the social hierarchy scale reflects everyone's effectiveness in using their minds or hands, and there is no moral justification for an unequal distribution of income or wealth. Milton Friedman thought in similar terms. He argues that: 'A society that puts equality - in the sense of equality of outcome - ahead of freedom will end up with neither equality nor freedom.' (Friedman, [1973, 1979] 1980, p. 148), inspiring all the schools related to the Chicago School.

The fact that the classical school is likely to remain history is also proven by those who chastise the market and in times of great crises, turn to the state as an inexhaustible reservoir of rationality. It is forgotten or not known that the market is not the expression of a corpus of laws. It is also forgotten that it is inappropriate to talk of too much or too little market. The market exists objectively as the ground of the economic game. It is not perfect, but the other institutions of the civilized world are just as imperfect and unsound. Without them, without the free market and private property, development is impossible, as history clearly showed. If the engine of the prosperity-generating car backfires, you fix it and move on. In such circumstances you do not throw it away and replace it with the presence of a commanding state. And you do not do it because you love the market, but because it has no substitutes. Derived from the objective need for trade, it raises a rationality in relation to the rule because, in addition, it in itself is rational (Alchian, 1950). But what do you do if important figures, Nobel laureates like Krugman (Krugman, 2012) or Stiglitz who bet on the state in times of crisis, convinced that it 'has an

important role to play: it should not only prevent the exploitation of individual irrationalities but also help individuals make better decisions' [Stiglitz, 32, p. 399]?

What is the connection between the idea of this quote and our theme? It is true that the physiocratic state was supposed to act as a teacher close to its pupil, the citizen. Yet, its task was to send the citizen to school, to turn him into an enlightened spirit, which was vital if he was to understand his meaning. The safety of the citizen and running public affairs completed the portfolio of state duties. Smith's invisible hand operates in these terms. But it operates inside and within the limits of a civilized society. This is also the tiring leitmotif of classical analysis. It is clear that neither Stiglitz nor Krugman hold this position any longer. They are not following in Smith's or another classic's footsteps but choose to walk the path laid out by Keynes. And Keynes proves to be in gross violation of classical logic when he invites the rational state to massively intervene and eradicate unemployment through a program centered on the development of the public sector. There is no quote to rival that from the *General Theory*, where the praise of unproductive expenditures appears in all its elegance by inviting the Treasury to bury the money deep and cover it with the trash of the cities and suggesting that the banknotes be brought to the surface by private initiative, with the sole goal of reducing unemployment (Keynes, [1936] 2008). The well-known paraphrased lines must not be taken out of context to attempt a siege on the Keynesian fortress. They are invoked because they mean, at the same time, a bridgehead and an attack, not the only one, against the classical economic science. In one shot, Keynes picks Say's Law to pieces, by ridiculing the supply-demand mechanism, by tying private initiative behind the trailer of state initiative. He had the same effect on A.C. Pigou's unemployment law (Pigou, [1920] 2013).

Using economic arguments to attack the market and its mechanisms based on objective laws, Keynes calls for the state to replace it. The state liked the logic behind Keynes' analysis. Therefore, it came and never left. It remained after the crisis, waiting to act, alongside and aided by the Central Bank, as lenders and rescuers of the last resort for the next economic downfall. Logic calls for it. This is how it becomes a monstrosity, a Moloch, a Leviathan, whom we can escape only by catching it in the institutional girth, a girth made of rules. That is 1986 Nobel Laureate James Buchanan's (Buchanan, 1975) bitter observation. Philosopher Robert Nozick reaches the same conclusion in *Anarchy, State and Utopia* (Nozick, [1974] 2013). There is a tremendous difference between the ideal of a night watchman state, a product of our failures, and the current embodiment of the

master state, with its own reasons, which is in many geographical and economic places the main employer. This difference has unfortunately been largely exploited by economists of great scientific fame. How many of the economists who still have something to say in the field of Economics expect the state to assume the classical role of the enlightened educator engaged in the construction of the institutional framework in which economic and social life unfolds freely, and to sanction as an impartial arbitrator, if necessary, those who do not follow the rules? How many still follow in the footsteps of Arthur Laffer, George Gilder, or Norman Ture, disappointed with the obsessive preoccupation of today's economists with the issues of distribution and inequality? Disarmingly few.

The transformation of the state into a fiscal tyrant (Salin, 2014), entrusted with achieving economic and social peace, in control of both the movement of money and the life of the individual, is also responsible for other deviations from the classical line. For example, in addition to its standard text, Say's Law also refers to three other sub-laws: a) production is the starting point of the reproduction chain; b) employment stems from businesses; c) being at the end of the reproduction cycle and having the power to endorse what happens in the process beforehand, the consumer reigns supreme! What is left of this episteme that exhibits the attributes of classicism? Nothing or almost nothing. Let us explain in short.

A book entitled *Capital in the Twenty-First Century* by Thomas Piketty (Piketty, [2014] 2017) was published in 2014. According to Paul Krugman, whose words were written in bold font on the cover, it would be 'a book that will change both the way we think about society and the way we do economics'. No more, no less! Its aggressive bestseller promotion and huge impact on readers recorded by Google Scholar could not have failed to attract attention. It drew our attention as well, awarding it with an embarrassingly negative review (Pohoată, 2016). At this point, we pause to say that Piketty's analysis, which aims to scourge any type of inequality, has an exciting starting point. In his blissful oblivion, he writes the following on page 20:

The economists of the nineteenth century deserve immense credit for placing the distributional question at the heart of economic analysis and for seeking to study long-term trends. Their answers were not always satisfactory, but at least they were asking the right questions.[...] It is long since past the time when we should have put the question of inequality back at the center of economic analysis and begun asking questions first raised in the nineteenth century. (Piketty, [2014] 2017, p. 20)

Making use of a crude fake, Piketty approaches a sensitive, fame-generating subject. At no point did the classics use repartition and inequality as the starting point of



their analyses. As Smith explicitly states, 'It is not the actual greatness of national wealth, but its continual increase, which occasions a rise in the wages of labour.' (Smith, [1776] 2007, p. 59) The preoccupation for the continuous growth of the cake takes precedence over its eventually equal partition. It is true that Piketty refers to a classic that regards distribution as the cornerstone of human action, to a special one, none other than Marx. His drift away from the other classics and his faithfulness to Marx can be observed through the entirety of the text. Animated by the same intention, Piketty relies on ideas from a handful of authors who, in their turn, either exploited the conflict-prone area of the zero-sum game à la Pareto (Pareto, 2014), or have lost themselves in the land of modern redistribution fantasies in search of the boundary between equality of opportunity and conditions à la John Rawls (Rawls, [1971] 2009).

On such a stage, built by economists of Piketty's type, could we talk of a sovereign consumer in the sense of Smith or more recently, Mises? Certainly not. He is content to be '...thankful to the great leader' (Mises von, [1979,1995] 2006, p. 36), who enabled his participation in the royal feast. An aggressive marketing that exploits the area of irrationality can get the job done. The consequence is that the consumer no longer feels safe, nowise a master, within any country of the civilized world, except within the action of a National Consumer Protection Institute. It is a show that has nothing to do with Bastiat's economic harmonies (Bastiat, [1850] 1997).

The logic of employment follows the same upside-down paradigm. This function is no longer primarily the responsibility of Piketty's fat entrepreneur. The state holds the wand, it sets the tone and establishes the method. After creating a Moloch public sector, which it relies on heavily, it gives the signal for wage increases. Wages that have no other basis than electoral promises. An increased wage in the public sector disrupts the wage policy in the private sector. The overall outcome is a permanent source of inflationary pressure. On the surface, the government can only be grateful for the science that confirms its lucidity. It validates those who speak its language and awards them Nobel prizes. No candidate promises during electoral campaigns that if he wins he will create businesses to provide employment to those in need. No, he simply promises jobs. Real or not, but this is the only way to win votes. Not according to Smith's logic, but to Piketty's!

Our consistent emphasis on Piketty's book is not a coincidence. His work is a representative piece of a sample that expresses the line and position of those who are configuring today's mainstream in the matter. Apart from the Austrian School and the daughters of the Chicago School, the economic theories in fashion



make distribution their cornerstone. Not to mention the need to underline the constructivist temptation, alien to the objective, classical spirit, through which Piketty and his kind encourage us to see ideas instead of facts, when the facts, after a Marx branded experiment that has lamentably failed in all respects, should have cured us definitively and irrevocably.

A strong attack, with multiple repercussions for the health of economic dynamics, is needed for the Classical lesson about money. It belongs to Menger and Marx. If we discard the ideological shell that Marx used to wrap his ideas, not only on this subject, his lesson about money is clear and logically formulated (Marx, [1867] 1978). The same lesson, using other terms but built on the same logical structure, comes from the neoclassical Austrian economist Carl Menger (Menger, 1892, [1976] 2007). Both demonstrate two fundamental truths using unquestionable arguments: a) first, money appeared and took the form of a social institution, an embraced faith in the Weberian sense, one that '... is not the product of an agreement... nor the product of legislative acts. No one invented it.' (Menger, [1976] 2007, p. 262); b) second, as consequence of the first statement, money was required to aid the process of exchange, to reduce transaction costs, and to measure the value of goods and services. In other terms, the first and most important function of money is that of a measure of value. Other functions (medium of exchange, store of value, etc.) are subsequent and subordinate. A few laws and strong causalities derive from such a lesson for both economic science and practice. First, if the economy expands, more money is needed; if it shrinks, quite the opposite is true. Then, money is not what the chairman of a national bank or supranational body wish for; money is what the economy objectively wants it to be. Third, institutional money handlers, banks and financial institutions, are compelled by the history of economic facts to properly manage the correlation between the nominal and real economy, as shown in the Economic Table of Quesnay and the works of Smith, Ricardo, and Marx. Their meaning is to make sure that money flowing into the economy through the two main channels, salary and credit, should be accounted for by the mass of value of the goods and services that need to be measured. So, they must do just that and nothing else.

The attack on this law was perpetrated by the scientific Keynes. Trying to find a solution that would please politicians, he attempted and succeeded to sidestep the first function of money, that of measuring value, in favor of the medium of exchange function. Consequently, he writes the following text to justify the temptation of loose monetary policy, freed from the limitations imposed by the

measure of value function: 'the peculiarity of money that its utility is solely derived from its exchange-value' (Keynes, [1936] 2008, p. 209).

Intentionally or not, through the lines above he applies a finishing stroke to economic theory, policy, and practice. Everything and everyone nowadays speak his language. Economics or money and credit textbooks present the means of exchange function as being the first and most important function of money. Nominal economy drifts away from the real one, using its own language to build an analysis based on mechanisms that have more to do with those found in engineering textbooks than the real world. Therefore, the new science stands a pretty good chance of validating Midas. The simultaneity of supply and demand of Say's law remains a chimera. Politicians and scientists give speeches and implement policies based on either supply or demand. The Bank, as well as the government, do as they please with money (Rothbard, [1963] 2010) and it suits them politically to pose as lenders and rescuers of last resort. Credit can be created out of thin air, and without an equivalent in the real world it turns into balloons, floating over the surface of an economy ready to collapse, basking in the air of pretendedly scientific financial schemes.

Keynes is and will remain a notorious figure in the history of economic science. He deserves many pluses for contributions in this area. It remains to be seen whether all these pluses can compensate the gigantic minus he produced through his position on the functions of money. Condemning economic dynamics to recurrent devastating economic crises is a feat that is no longer strange, in terms of ideology and theoretical support, to the name of Keynes.

The hard core of economic science cannot be defined without referring to the theory of value. The subject is too broad to be discussed in detail in this article. We will focus only on a sequence of the concept. We are concerned with the current fate of Smith's dogma, an alleged minus of the author of *The Wealth of Nations* in Marx's opinion. Shortly, Marx accused Smith that '...instead of resolving exchange-value into wages, profit and rent, he declares these to be the elements forming exchange-value... Instead of having their source in value, they become the source of value' (Marx, [1968] 2016, p. 217). Facts have proven this accusation to be unfair. Practice proved that value is not a datum, a whole that is distributed, but a result, a sum of earnings, as Smith astutely observed, and as Pierro Sraffa also noted in the very title of his book, *Production of Commodities by Means of Commodities* (Sraffa, [1960] 1979). The same position is also defended by the Austrian School, which conceives the process of value creation as a sequence of a circuit that started

much earlier. In other words, prices determine costs and not vice versa. To see how this logic fares today, a reference to *The Wealth of Nations* excerpt regarding the difference between the natural and market price is in order. The first is defined in the following terms:

When the price of any commodity is neither more nor less than what is sufficient to pay the rent of the land, the wages of the labour, and the profits of the stock employed in raising, preparing, and bringing it to market, according to their natural rates, the commodity is then sold for what may be called its natural price (Smith, [1776] 2007, p. 47).

In fact, merchandise is sold at its market price. Both Smith and Mill explain the gravitation of the market price towards the natural price as a result of the well-known price formation mechanism based on the tensional relation between supply and demand. The main takeaway of Smith's analysis on the subject is that in order for the market prices to constantly tend towards the natural price and for each participant to obtain his rightful share according to natural levels, the supply-demand mechanism should be left to free competition. Keeping in mind that Smith does not count the state among the actors who deserve to take part in the formation of the price, his analysis is still a valid judgement standard. We cannot have natural prices if, in the realm of a very imperfect competition, under the arbitration of a state accustomed to seizing incomes, every actor assigns a new value of mythical nature to the price, which appears to have more in common with book-keeping than to what actually happens in the production process.

In other words, a non-competitive market determines serious mutations to the categories linked to value, thus presenting the very real threat of bringing into use distorted concepts that stray far away from the original form intended by Smith. It should be noted that careful attention to Smith's dogma and its *sine qua non* condition of free competition could have prevented the use of a hollow GDP form, which looks like a Swiss cheese. It could have generated a natural, healthy growth in real terms, one which is not rooted in consumption. Consumption cannot lead to growth. The classical meaning of the concept associates economic growth with savings and investment. When the share of GDP comprised of taxes and fees outweighs that pertaining to the profits of industries, Smith is no longer the guiding hand, nor are other classics. The same is true when the institution of insolvency cannot properly fulfill its function in an environment where one can be too big to fail. When competition as a struggle among many equal competitors that benefits the consumers remains merely a footnote, the classical economists have nothing else

to say. The political economy is left with just politics, and politics cannot afford to ask if there still exists a connection between the lesson about money and what actually happens in a tax heaven or an offshore company.

## **Instead of conclusion: what is to be done?**

It has been easy to show that economic science faces status problems. It is not closely acquainted to objectivity, truths, terminological purity, etc. There are abundant circumstances that induce the idea that we are dealing with a worksite whose realities are hard to turn into theorems. Do we accept this conclusion? We cannot, for reasons that pertain to both logic and honesty.

It is not fair to those, who left their mark on economic classicism. Did they not face the same list of issues, did they not have to deal with the worksite of scientific practice and its mix of logic and mythology, objectivity and subjectivity? We believe they did, and still, they developed theories and provided explanatory concepts validated by theories and laws. It is true that the economic world they examined was simpler, the economic geography was narrower and the ideational environment less turbulent. But it is also true that their world was neither static nor following a linear path of development. Nonetheless, they made science and generously passed it on. If we pretend to spend our energy in this area, it is logical that we should enrich what they passed on to us. A return to the classical perspective is not the same as reviving the dead. The cumulative character of thought is also the norm in economics: what has proved to be perennial in the classics' doctrine must be found in present theories. We have tried to present enough circumstances to prove that there is a problem here; as not everything that transcended time followed this path, or if it did, it happened by distortion and detachment from the original form. In this area we have work to do and as was mentioned in the abstract, this must stop. How do we do that?

First, we must consider the milestones of this approach. The efforts of some economists to argue that the economic science deserves its status should be appreciated and retained. For example, rooting the economy in its logical substrate has been the preoccupation of many representatives of the Austrian school. The science of economics does not consist of a bundle of material goods, but a few simple laws of human nature, 'the chief of which is that men strive to obtain the maximum of satisfaction with the minimum of sacrifice.' (Kirzner, 1976, p. 60); such a conclusion should unite us; warn and determine us to collaborate. We can

learn about the special status of economic theorems, few as they may be, by studying another Austrian economist, Mises. He says: 'What assigns economics its peculiar and unique position in the orbit both of pure knowledge and of the practical utilization of knowledge is the fact that its particular theorems are not open to any verification or falsification on the ground of experience' (Mises von, [1949] 1998, p. 858). After all, the two authors belong to the position described by Milton Friedman in *The Methodology of Positive Economics* (Friedman, [1953], 2008). He follows the same line of thought concerning the role of the scientist's knowledge in the construction of true science that enables him to observe and define '... It is at this point that the "amateur" is separated from the "professional" in all sciences and that the thin line is drawn which distinguishes the "crackpot" from the scientist' (Friedman, [1953], 2008, p. 25).

In short, being aware that Economics cannot operate with too many absolute truths, and it has many, almost too many, subjective and provisional areas, we should choose as guides those who believe in pure science, the likes of Walras, Kirzner, Mises, Friedman, etc. Even though the path they lead us on is idealized, it is thanks to them that we know where we should be headed.

Second, the attempt to conduct economic research in the manner set forth by the classical economists cannot do without an essential condition: unfortunately, the researcher's knowledge is not a neutral factor. The soul of this knowledge necessarily contaminates any scientific endeavor. Friedman pleads for resemblance between Economics and the physical sciences, by appealing to its positivistic aspect. He is aware that Economy is condemned to be political and validate its conjectures through its normative nature. In this regard, he appears to adopt an ethical, moral, and ideological point of view. In addition, those who enrich the normative aspect are not necessarily scientific. Mill's dream, followed by Walras, that economic policy be created with scientific tools, and thus become an art, remains a dream. It is still a dream for another reason. There are many influential economists who think and write according to who pays their bill. They are the ones who enable ideology, irrespective of its form, to acquire a rationality of its own. It receives a qualified baptism by enrolling emblematic minds that support and legitimize its scientific nature. The problem is that these people, under the cover of an idea's authority, may be mistaken for models of inspiration, expected to give illuminating clarifications. Until history puts them in their place, their democratic discourse may create many epistemological obstacles. What filters do we have in this context? The habit of far-reaching, equidistant culture may lead one to accept doubtful

truths as inventory. Also, we should remember as a judgement criterion that the return to classics as a means to conserve the hard core of economic science is, at the same time, a return towards its simultaneously logical and moral essence. With this background, we can judge the real value of state rationalism preached by the likes of Stiglitz or Krugman. Or, we should take the necessary precautions when reaching out to another Noble prize winner, Oliver Williamson, and discovering that he sees opportunism as 'a pursuit of personal interest that entails the notion of deceit' (Williamson, 1985, p. 47). Turning a blind eye to lies, theft or fraud and displaying a lack of embarrassment when it comes to moral connotations of opportunism is a huge departure from classical analysis.

What do we do with such statues and their monopoly status afforded by affiliation to the official language? We engage in dialogues exclusively on scientific ground, defending what must be defended, and refusing undemocratically what blemishes the moral and logical legacy. Otherwise, keeping them on the pedestal freezes scientific evolution.

The space of dialogue is important as it may itself be impregnated by ideology. The idea of «research programs» instead of «schools» seems positive. Schools place minds into systems and systems are fixed enclosures. Programs are beneficial mainly through their doctrinal eclecticism. The example of the New Institutional Economics is a good one, where ideas are centered around the initial research hypotheses – the institution.

It is also important to be aware that to create objective and elitist science today requires finding representative samples in a world complicated by globalization. None of the lawlike theorems of the classics seeks validation within national perimeters any longer. The needed adjustments suggested by Mill should therefore accompany the process of scientific production.

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