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Article

The cultural foundations of economic categories: finance and class in the marginalist revolution

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Abstract

Economic categories are part of the everyday concepts people use to apprehend social reality. While scholars recognize their importance for social and economic processes, it is not clear how these categories develop when reality itself changes. I address this issue with a framework that incorporates a cultural emphasis on meaning-making with a macro-structural analysis of the conditions in which they take place. I apply this framework to the marginalist revolution of the late 19th century, which marks the birth of neoclassical economics and focus on the new understanding of 'value' that emerged during this period. I trace it to the rise of finance and the problem of price fluctuations, and show how its class standpoint helps explain the different outcomes of the marginalist revolution in England, Austria and France. The analysis provides insights into the power of economic ideas and the cultural dimension of structural changes.

Key words: economic categories, culture, finance, value, neoclassical economics, economic sociology

JEL classification: B History of Economic Thought, N2 History of Financial Markets and Institutions, N1 Macroeconomic and Monetary History

1. Introduction

The basic categories of economics appear as self-evident and are hardly in need of explanation. However, scholars have long recognized that they are neither universal nor 'natural'. As Marx (1993) was never tired of emphasizing, economic categories are temporal products that show 'the historic foundation from which they are abstracted' (p. 776). What remains less clear is how these categories 'show' their historical foundations, and how they change when these foundations are transformed.

The importance of these questions goes beyond the history of economics. A long-standing scholarship in political science and sociology has explored the power of economic ideas to shape public policies and promote institutional change (Hall, 1989; Campbell 1998; Blyth, 2002, 2013; Schmidt, 2008; Block and Somers, 2014; Campbell and Pedersen, 2015; Ban, 2016; Kemmerling, 2017). Economic categories are an important element in this unique efficacy, since 'the ability to name and define economic reality is inseparable from the ability to act upon this reality' (Fourcade, 2003, p. 33). A more recent literature examines these categories through cultural lenses to show how shared meanings contribute to various social and economic processes (Steensland, 2006; Bandelj, 2008; Lamont *et al.*, 2014; Bandelj *et al.*, 2015). Yet, there is a lack of research on how these categories and shared meanings come into being and change over time. Specifically, we need a better understanding of how macrostructural developments shape economic categories 'on-the-ground', at the level of individuals.

To address this issue, I outline a framework that incorporates insights from the cultural turn within a macrostructural analysis. This cultural-materialist framework acknowledges the importance of meaning-making processes at the level of individuals, but situates them within their historical context to explore the economic and social conditions that provide the material basis of these categories. However, it also recognizes that economic categories are not mechanically deduced from macro-level conditions. Rather, these categories reflect a particular social *standpoint*, a term that reminds us that representations of social reality are always from a distinct location within this reality (Hartsock, 1983; Smith 1987).

I apply this framework to examine an important episode in the history of economics: the *marginalist revolution* of the late 19th century. This period, when the idea of 'diminishing marginal utility' was first introduced, marks the birth of neoclassical economics (Mirowski, 1989; Bockman, 2011). The analysis focuses mainly on the transformation in the category of value, which during this period came to be identified with market price. While today this definition is almost taken for granted, it stood in sharp contrast to classical political economy, which used the category of value to go beyond market prices and discover the objective factors that regulated economic activities (Dillard, 1984; Myrdal, 1990).

The marginalist revolution also presents an interesting example of a 'multiple discovery'. It started in the early 1870s with the close publications of three economists: William Jevons in England, Carl Menger in Austria and Leon Walras in France. Although they know nothing of each other's work,[1] all three argued that the value of any good is determined by the utility it provides the consumer, and that this utility diminished as the quantity of the good increases. The actual value of the good is determined by the utility of the last unit consumed (later labeled 'marginal utility'), and is reflected in its price. Jevons, Menger and Walras (hereafter, JMW) used this idea to criticize classical theories of value and offer a new theory based on consumers' subjective preferences. This new meaning also prescribed a change in the category of market, which came to be understood as an abstract 'resource allocation' or 'price discovery' mechanism (Swedberg, 2003).

How should we understand this 'multiple discovery' and the subsequent transformation in the category of value? In what follows I argue that this shift in economic thought was related

1 Walras actually discovered Jevons' book (1871) 1 month before publishing his own book (1873). In the mid-1880s Walras also discovered Menger's work, announcing him to be another independent inventor of marginal utility.

to structural changes in European economies, specifically the growth of finance and the problem of price fluctuations. At the same time, the class background of the marginalist economists strongly shaped the way these phenomena were understood 'on-the-ground'. Before turning to the analysis, I review the relevant literature and further develop the framework I employ.

2. Where do economic categories come from?

Economic categories are not simply theoretical tools. They are also part of everyday concepts through which people perceive and make sense of social reality. Recent studies of these categories are mainly informed by the 'cultural turn' in the social sciences, which emphasize the importance of shared meanings, symbols and representations in the constitution of social life. Following Swidler (1986), scholars often conceptualize culture as a type of 'toolkit' that people use for various purposes. Along these lines, scholars have explored the role of cognitive categories in the development of welfare policies (Steensland, 2006; Mohr, 2007), neo-liberalism (Hall and Lamont, 2013), inequality (Massey, 2007; Lamont *et al.*, 2014), globalization (Bandelj, 2008), stratification (Massey, 2007; Fourcade and Healy, 2016) and gender and racial inequality (Correll and Ridgeway, 2006; Ridgeway, 2011).

The cultural turn takes a decisively micro-social stance, which excludes macro-level factors from its analysis. This perspective is not well-suited for exploring changes in economic categories, since these always involve presuppositions about the existing economic and social structures in which they arise. As Fourcade (2009) also notes, the historical development of economic knowledge is shaped by 'culturally situated conceptualizations for imagining the social order' (p. 15). Cultural studies also recognize that to understand how categories become available to actors, we must 'pay close attention to the broader historical and structural forces that shape cultural repertoires' (Bandelj, 2008, p. 686). This suggestion echoes DiMaggio (1997), who called on scholars to explore how macro-social processes create and transform cognitive schemes.

To answer these calls, I outline a framework that draws on Marxist variants of the cultural turn (e.g. Williams, 1977; Hall, 1986), critical feminist theory (e.g. Hartsock, 1983; Smith, 1987) and Bourdieu (1984, 1990). This framework traces cultural processes of meaning-making 'on the ground', but situates them within a broader historical context and the social and economic conditions in which they take place. Instead of a cultural 'toolkit' approach, it suggests that economic categories are always embedded in broader social and economic relations, from which they derive their meaning. There are no 'commodities' or 'capital' in nature. Things are assigned to these categories only within existing structures, outside of which they have no specific meaning. When these structures change, the meaning of these categories changes too.

From the history of economic thought, it is possible to identify at least three aspects of structural changes that are closely aligned with transformations of economic categories.: First, structural changes create new practical problems that render existing categories less useful. For example, Keynes' notion of 'aggregated demand' became popular following the failure of existing theories to explain the Great Depression and the continued recessions of the 1930s (Landreth and Colander, 2002). Similarly, its decline in the 1970 was related to its inability to account for the problem of stagflation (Hall, 1989).

Second, structural changes create the *conditions of possibility* for economic categories, by which I mean the level of economic development and social relations that provide the material basis for these categories. For example, 'labor' was not likely to be viewed as a commodity during the middle ages, when almost no one worked for a wage. This meaning only emerges with the transition to a liberal labor market, following the elimination of wage regulations and the separation of workers from their means of subsistence (Biernacki, 1995).

Third, structural changes render certain sectors and activities more central to the economy, and their increased visibility provides economists with new models or 'ideal types' for economic categories. For example, the mercantile notion of 'value' as consistent of precious metals is associated with the growth of commerce (Schumpeter, 1987), while the Physiocrats' conviction that only agriculture labor produces value is related to the centrality of this sector in the French economy (Blaug, 1985).

However, economic categories cannot be deduced from the existing conditions, since the effect of macro-structural changes is always mediated by real individuals who occupy a specific social location. The economic categories these individuals formulate are not objective representations of social reality, but representations of reality as it perceived from a particular *standpoint*, a term from critical feminist theory that reminds us that our social knowledge always reflects a specific perspective on society, and that certain relations and processes can appear differently from other positions (Hartsock, 1983; Smith, 1987). I use this term to indicate the class perspective implicit in economic categories, which is grounded in the lived experiences, social circles and sources of information shared by people from a similar class background.

This class perspective also suggests that debates over economic categories can be understood as conflicts between competing class standpoints. These debates are an example of what Bourdieu (1984) calls a *classification struggle*, through which categories are objectified and institutionalized. This means that the development of economic categories is also shaped by social and political conflicts, and in this sense provides another terrain of struggle between classes. As Bourdieu also notes, conflicts aimed at 'transforming the categories of perception and appreciation ... are indeed a forgotten dimension of the class struggle' (p. 483).

In what follows I apply this framework in three stages. First, I examine the changes in economic thought in the late 19th century, focusing on the category of value. Second, I review key developments during the period, showing how sharp price fluctuations led economists to reconsider the relation between value and prices, and how the rise of finance provided the conditions of possibility for a new category of value. The third part provides a historical comparison between England, Austria and France, which helps explain the similarities and differences in the ideas of JMW and the different outcomes of the marginalist revolution in each country.

3. Turning the category of value on its head

While historians of economic thought show discomfort with the label 'revolution' for a process that lasted at least 20 years, there is a consensus that the marginalist revolution was a clear break from classical economics (but see Hollander, 1991). This break included a shift of attention from production to distribution and consumption; a focus on resource allocation instead of economic growth; and a novel micro-level approach instead of the macro-level perspective that dominated classical economics (Howey, 1960; Blaug, 1985; Schumpeter, 1987). However, at the center of this sea-change was a transformation in the category of value, which has always played an important role in the very constitution of economic thought (Heilbroner, 1983).

For classical political economists, 'value' was determined by the amount of labor expanded in production (labor theory) or the cost of the production factors, i.e. labor, land and capital (production-cost theory). This meaning of 'value' reflected the concern of classical economists with questions of economic growth and productivity, which led them to draw a sharp distinction between value and price (Landreth and Colander, 2002). While prices can fluctuate according to supply and demand, classical economists regarded value as an objective quantity intrinsic to the good and determined during its production.

JMW used marginal utility to turn this category of value on its head. Instead of labor, land and capital determining value, they insisted that it is the value of a good—now equated with its price—that determines the value of labor, land and capital. For classical economists, the source of value was the production process. In the marginalist approach, value was determined in the market. This transformation also required a new understanding of the categories of labor, land and capital, which were now to be treated like any other commodity. It also meant a radical change in the category of the market, which for classical economists meant a specific marketplace or distinct area. It was only during the marginalist revolution that 'market' came to be understood as an abstract 'resource allocation' or 'price discovery' mechanism (Swedberg, 2003).

4. Value and the rise of the market economy

To understand why economists in the late 19th century came to view 'value' and 'market' as something very different from their classical predecessors, it is necessary to examine the problems these economists faced, which rendered classical theories less useful. In what follows I show that the initial concern with value was related to the problem of price fluctuations, which was exacerbated by the growth of international trade and gold discoveries in the mid-century. However, the category of value offered by marginalist economists was also shaped by the growing importance of finance and financial markets within the economy.

4.1 Confronting the problem of price determination

The period between the revolutions of 1848 and 1870 saw the global victory of capitalism (Hobsbawm, 1996). Beginning with the repeal of the English Corn Laws (1846), a series of trade agreements promoted the expansion of international commerce, which far exceeded previous decades (Persson, 2010). Technological innovations—the railway, steamer and telegraph—opened new markets and enabled communication between them, while gold discoveries in California (1848) and Australia (1851) led to an expansion in the means of payment. Together, these trends led to a sharp rise in prices, punctuated by occasional slumps (Kindleberger, 1984).

The concerns with price fluctuations are evident in the works of JMW. Jevons became interested in the topic already in the late 1850s, and his first two publications (1863, 1865) examined how changes in the value of currencies affect the level of prices. Menger ([1871] 2007) stated in the preface to his book that his goal is to establish 'a price theory based upon reality' (p. 49). Walras ([1874] 2014) argued that economic theory is 'essentially' the theory of price determination, and used marginal utility only for analyzing market prices (Jaffé, 1972).

Classical theories of value were suited for analyzing an economy in which international trade played a minor role if any. In such an isolated economy, the production-cost theory can give a reasonable approximation of the level of prices (assuming that competition equalizes costs and profitability). Such a theory becomes much less attainable with the growth of international commerce, which require considering the production costs in other countries and other factors such as foreign-exchange rates (Kindleberger, 1984). At the same time, with the expansion of the means of payment 'value' appears more independent from production, since increased liquidity enables continued production without relying on revenues from sales.

The complexity of this emergent global economy became clear in the early 1870s, when cheap grains from America and Russia flooded European markets. This led to the 'Long Depression', considered as the first truly global crisis, which undermined the support for free trade policies around Europe (O'Rourke, 2000). The economic recession also undermined the confidence in classical political economy, which was unable to account for these phenomena. The ground was set for a new economic approach.

4.2 Finance and the category of the market

The growth of international trade helps explain the decline of classical economics. However, to account for the direction taken by the marginalist economists and the content of their categories, it is necessary to examine another salient development during the period: the growing size and importance of financial sectors and markets. While the growth of finance in the 19th-century Europe is well documented (e.g. Knafo, 2013), its relation to the marginalist revolution and the rise of neoclassical economics remains mostly unexplored.

Throughout the history of economic thought, dominant modes of analysis have been associated with a specific kind of economic sector or activity. Thus, the spread of mercantile doctrines since the 16th century was driven by the growth of commerce, while the French Physiocrats of the mid-18th century were mainly interested in agricultural production (Blaug, 1985; Schumpeter, 1987). For Adam Smith, the central economic activity was found in manufacturing, in which the cost of production is of great importance (Preda, 2009).

Finance, in contrast, is far removed from the production processes, and its profits depend on fluctuations in securities' prices or the difference between interests paid and received. These concerns are reflected in the marginalist category of value, which locates its source in the market, in the process of buying and selling rather than producing.

This does not mean that that JMW were apologists of financial interests. Rather, it was the growing importance and visibility of finance within the economy that provided a new focal point for theorizing. This was a major shift compared to Adam Smith, who was highly suspicious of finance. As Preda (2009) shows, financial investments were only legitimized during the mid-19th century, through the proliferation of investment brochures, financial manuals, stock lists and newspapers articles. Through the imagery these practical instruments provided, 'investors could identify themselves as market actors in abstract markets' (p. 226).

The rise of finance also shed light on the meaning of 'market' as an abstract price discovery or resource allocation mechanism. This image was not pulled from thin air, but modeled on the daily operations of financial markets. Jevons ([1871] 1965) used the money market as an example of an abstract market, since it 'denotes no locality' (p. 85). Walras explicitly based his model of a market on the Paris Bourse (Daal and Jolink, 1993). Menger became interested in economics while working as a reporter in the Vienna Stock Exchange, and his theory of prices was influenced by these experiences (Vaggi and Groenewegen, 2003).

The rise of finance was supported by proliferation of new business forms—the joint-stock corporation and limited liability company—which went hand in hand with the growth of stock exchanges (Kindleberger, 1984). Smith could still defend the prohibition of joint-stock companies by stating that their managers are unlikely to guard investors' money with the same vigilance as their own. Such convictions held little sway in the late 19th century, when 'the specter of big banking, mining, and railroad companies ... demanded organizational and managerial expertise' (Berend, 2013, p. 164).

The importance of these developments lies in the separation of ownership from management, which was presupposed in the marginalist category of value. This was also noted by Bagehot (1885), the influential editor of *The Economist*, who pointed out that the assumption that capital can flow freely between sectors is a historical condition fulfilled only recently. Similarly, Veblen (1904) stated that such assumptions became reasonable only with the modern business organization.

In summary, the growth of finance provided both the conditions of possibility for a new category of value and a model for a new category of market. The exclusive focus on markets also helped conceal the power relations between labor and capital. As Marx (1981) noted, the market is the 'Eden of the innate rights of man ... the exclusive realm of Freedom, Equality, Property and Bentham' (p. 280). Here there are no workers or capitalists, but only buyers and sellers acting on their own free will. In reality, however, this period saw the escalation of class struggles across Europe, something that did not escape the eyes of JMW and their followers.

5. The marginalist revolution as a classification struggle

While the structural changes in European economies helped shape the ideas of JMW, the economic categories they employed are not simple representations of an objective social reality. Rather, they reflect this reality as it is perceived from a particular location within society. They express a particular class standpoint, which is grounded in the lived experiences of people who live under similar conditions, move in similar social circles and are likely to have similar attitudes and dispositions (Bourdieu, 1984).

The class standpoint expressed in the marginalist categories also explains why workers were more reluctant to adopt the ideas of JMW. English workers, for example, were not quick to accept the rhetoric of 'free markets', which they viewed 'not as freedom, but as 'foul imposition'' (Thompson, 1966, p. 549). Similarly, French weavers in the mid-19th century complained that 'free labor' actually feels more like something 'imposed by force' (Reddy, 1987).

The class standpoint of marginalism did not go unnoticed by most critical thinkers during the period. Hobson (1914), for example, observed that marginal utility allowed businessmen to deduce practical precepts which showed the futility of strikes and collective actions. The economist Cairnes (1874) also noted that in economic theory, 'the whole problem of industry is looked at exclusively from the capitalist's point of view ... so naturally the capitalists' remuneration is the only remuneration thought worth attending to' (pp. 58–59).

It is not hard to show that the categories offered by JMW were used as theoretical weapons in the class conflicts during the period. Although the failures in 1848 dealt a major blow to labor movements, after 1860 the proletariat was returning to the scene (Hobsbawm, 1996). In most countries trade unions grew quickly as restrictions on their activities were lifted (Moss, 1976; Breuilly, 1994). The first Working Class Party was established in Germany in 1863, and the First International was founded in London in 1864. In the early 1870s, the economic recession exacerbated these social conflicts, and led the European governments to reinstate restrictions on collective actions. Under these conditions, the marginalist category of value was mobilized as part of a classification struggle against the labor theory offered by Marx. Thus, the economists who adopted JMW's ideas in the following years used them first and foremost to reject the conclusions of *Capital* (Howey, 1960; Steedman, 1995).

While the mobilization of workers was common across Europe, these struggles took place under political conditions that varied between countries. In what follows I exploit the unique circumstances of the marginalist revolution, i.e. the multiple discovery of marginal utility, for a critical comparison between England, Austria and France. This comparison shows how the national context in which JMW worked sheds light on the differences in their ideas. Equally important, it helps explain the different outcomes of the marginalist revolution, which was only successful in England, where the bourgeois-liberals were in control, and to some extent in Austria, where bourgeois-liberals were on the rise. At the same time, it had little effect on the France of Napoleon III, or in newly united Germany, which was dominated by the Prussian rural nobility.

5.1 Jevons and the 'ignorance' of the English working class

In England, the bourgeois-liberals took the political reins early in the century, with the Reform Act of 1832. Among the working class, however, this reform was viewed as a liberal betrayal in what was thought to be a common struggle (Jones, 1983). Thus, when a renewed English labor movement emerged in the late 1850s, the lines of the class struggle were already drawn. It is not surprising, therefore, that Jevons devoted more attention to questions of labor than Menger or Walras. In fact, the English economists who adopted his ideas explicitly acknowledged the importance of this struggle. Sidgwick (1883) explained that the conflict between labor and capital was central to the decline of classic economics, and Foxwell (1887) noted that the growth of unions violated the 'scientific laws' of classical economics and contributed to discrediting its theories.

Jevons, the son of an iron merchant from Liverpool, originally planned to leave the university to become a businessman. However, financial distress in the family business led him to accept a position in the new mint in Sydney, Australia (Black and Könekamp, 1972). There he first became interested in economics, specifically in questions of value and money. As he developed his ideas, the class conflict in England was becoming a major source of concern, and the growing militancy of trade unions was viewed as a clear and present danger. In the mid-1860s, for example, a letter from his uncle urges Jevons to 'take up the subject of the labor question ... [since] the working classes are now fast becoming the controllers of our most important manufactures' (Black, 1977, p. 128).

These trends are reflected in Jevons' *Theory of Political Economy* ([1871] 1965), which states that the main problem of economics is to determine the wages of labor. In its first page Jevons promises to show that value does not depend on labor, but 'entirely upon utility' (p. 1). Despite the escalating class struggle, Jevons denies any inherent conflict between workers and capitalists. He maintained this view throughout his career, and the last work published in his lifetime explicitly states that 'the supposed conflict of labor with capital is a delusion' (Jevons, 1882, p. 98). However, a few pages later, Jevons reminds his readers that 'our grandfathers and great grandfathers ... did their best to crush all societies of working men, and ignominious was their failure' (pp. 112–113).

The retreat from the 'wage-fund' doctrine provides a striking example of the class standpoint of marginalism and its relation to finance. Popularized by Mill in the mid-century, the wage-fund doctrine provided a 'scientific demonstration' for the futility of strikes and collective actions (Hobsbawm, 1996). It argued that the sum of wages in an economy should be viewed as a fixed fund, and thus increasing wages for some workers will necessarily come at the expense of others. This doctrine came under heavy criticism during the 1860s, and in 1869 Mill himself admitted its fallacy (Mirowski, 2004). Only 2 years later, Jevons provided a new 'scientific demonstration' for the futility of strikes, which rejected the wage-fund doctrine while reaching the very same conclusions. It was now argued that wages depend on the price of finished goods rather than the will of employers, and therefore there is no point in demanding they pay higher wages. In fact, Jevons argued, strikes are likely to have a negative impact on workers by driving away potential investments. He explained that the movement of capital is perfectly free, and 'it is only by attracting new capital to a trade that wages can be permanently and truly raised' (Black, 1977, p. 138). Such claims would have been unlikely 50 years earlier, when financial activity was still highly restricted. This free flow of capital, as Bagehot (1885) noted, requires an advanced financial industry. It also presupposes the separation of ownership from management, which allows the shift of funds from a declining industry to more promising opportunities. If the wage-fund doctrine denied the demands of workers from the perspective of industry, the marginalists rejected these demands from the point of view of finance. In this way, as Hobson (1914) noted, the marginalist approach 're-created the defenses against the attacks of the workers ... which were formerly supplied by the wage-fund theory' (p. 175).

Taking the ideas of Jeremy Bentham as his 'starting-point', Jevons insisted that people are motivated only by self-interest, which is the 'main-spring' of all human actions (Black and Könekamp, 1972). This view might have resonated with Jevon's social circles, but it was hardly descriptive of English workers, who joined in masses to trade unions, bringing their membership from 600 000 in the late 1850s to about 1.2 million in the early 1970s (Breuilly, 1994). This contrast between theory and reality did not go unnoticed by Jevons and other liberal thinkers during the period, who located the problem in the working class itself rather than their own theories.

For Jevons, the main obstacle was the ignorance of workers, who lacked knowledge of the 'natural' laws of economics. In one public lecture (1866), Jevons explained that the higher classes wish to expand voting rights to the working class, but they fear that such political power might be misused by workers. To overcome this problem, Jevons argued, workers 'must learn to see' that trade unions offer 'no true individual freedom', and leave each worker at the mercy of other workers (p. 12). For the Jevons, his goal as an economist is to 'to bring on the time when the natural laws which govern the relations of capital and labor ... will be obeyed' (p. 19).

The publications of Jevons' public lecture in the *Manchester Examiner and Times* attracted critical responses from workers and trade unionists. One worker accused Jevons of taking the side of capital by attacking unions while ignoring employers' use of 'lockouts', and wondered why Jevons failed to address the 'ignorance' of capitalists (Black, 1977, p. 130). Another trade unionist stated that Jevons might be an accomplished economist, 'but the character, wants and aspirations of that class from whose brain and muscles all that wealth springs out he does not so well understand' (Black, 1977, pp. 133–134).

The bewilderment regarding the actions of workers was not unique to Jevons. Similar statements were also made by English politicians, business leaders and fellow economists. Gladstone, four-time prime minister for the liberal party, once remarked that although trade unions are harmful to the country, 'by far their severest operation is against the laboring classes themselves; and it is even a sort of distinction that the vices of that class of men ... are less selfish and more excusable than the vices of other classes' (Political Economy Club and Gladstone, 1876, p. 47). This remark was made over dinner in the Political Economy Club in London, of which Jevons was an honorary member. Other members included 'enlightened businessmen, intellectuals, journalists, statesmen, and civil servants' (Fourcade, 2009, p. 132). Surrounded by like-minded gentlemen, there was hardly anything in this environment to challenge the social standpoint of Jevons and other economists.

5.2 Menger between Germany and Austria

Among the founders of marginalism, Menger is often considered the 'odd man out'. (Mirowski, 1984; Blaug, 1985). Unlike Jevons and Walras, he eschewed mathematical formulations, and devoted more space to historical accounts. His approach was possibly related to the specific historical development of the German-speaking countries, where there was never a liberal-bourgeois revolution, successful or not. For Marx (1981), this explained why political economy remained a 'foreign science' for Germans. When it finally emerged, it was not in Germany but in Austria, where bourgeois-liberals had more political sway.

Menger was among the Austro-German liberals who fought for a centralist state with a liberal constitution (Kwan, 2013). He was a devoted liberal long before becoming an economist: despite their aristocratic ancestry, Menger and his brothers gave up their title due to their political views. Max, the oldest brother, was a leading member of the Austrian Liberal Party (Yagi, 2011). In 1865, Menger founded a newspaper which supported German-style liberalism. A year later he sold it and started working for a government-owned paper with like-minded liberals (Yagi, 1992). He turned to the study of economics only after completing his law degree (1867). According to Whiteside (1962), Menger's economic theories should be viewed as part of 'the ascendancy of liberal ideas' promoted through schools and the popular press.

Menger first became interested in economics while covering the Vienna Stock Exchange as a financial reporter, and his price theory was based on the movement of stock prices (Vaggi and Groenewegen, 2003). He explained to Wieser that he started to develop his ideas after noticing a contrast between existing theories of value and the views of investors and other market participants (Howey, 1960).

Menger ([1871] 2007) starts his discussion of value not with labor like Jevons, but with land, explaining that it 'occupies no exceptional place among goods' (p. 165). The emphasis on the commodity character of land is likely related to the political circumstances in Austria and Germany. In these countries land still had a special legal status, which reflected the political power of their nobility. Rather than the working class, Austrian liberals in the early 1870s still faced the representatives of the 'old order' as their main opponents. Within this struggle, the special status of land was viewed as another outdated privilege of the Austrian nobility (Wienfort, 2014).

While Jevons and Walras were highly critical of Adam Smith, Menger was strongly influenced by the Scottish economist (Schumpeter, 1987). This is not too surprising, given that the political situation in Austria resembled more the England of Smith than that of Jevons. Smith's influence is most evident in the lectures to the crown-prince Rudolf, who Menger tutored for several years (Streissler and Streissler, 1994). Menger was also able to enlist the crown-prince to the liberal cause: a pamphlet published in 1878 and attributed to the prince and his tutor blamed the Austrian nobility for the defeat of 1866, and accused them of 'unlimited laziness' (Dimand, 1995).

Comparing Menger's ideas to the works of his notable disciples, Friedrich von Wieser and Eugen Böhm von Bawerk, provides further evidence for the influence of the political developments in Austria. Although only 13 years separated his *Principles of Economic*s (1871) and their first publications, this was a period of fast economic development. Rapid industrialization led to a sharp increase in the numbers of Austrian workers, and the legalization of collective bargaining and strikes in 1870 helped drive up trade union membership (Whiteside, 1962). When Marx passed away in 1883, his work was already well known in Austria, and every workers' journal published a detailed obituary (Steenson, 1991). Wieser and Böhm-Bawerk were very much concerned about the growing power of the working class. According to Wieser, he and Böhm-Bawerk were deeply troubled by the implications of Marx's ideas. However, their 'intellectual distress' was instantly alleviated 'when they happened to discover Menger's Principles' (Raico, 2012, pp. 27–28).

Menger (2007) dedicated his book to the German Historical School of Economics. However, he received only criticism from Gustav von Schmoller, the dominant German economist at the time. Schmoller accused Menger of following Adam Smith, who was denounced for producing 'political recipes' suited for the taste of English liberals (Schumpeter, 1987). The German economists themselves were aligned with Bismarck's conservative government, a position which garnered them the epithet 'socialists of the chair'. von Mises (1969), Böhm-Bawerk's most notable pupil, rightly points out that Menger's book was rejected 'by all those whose privileges it attacked' (p. 7). However, Mises fails to notice that the hostility toward Menger was as much related to his own standpoint than to the standpoint of his conservative opponents.

5.3 Walras and the failures of the French liberals

In France, the July Revolution of 1830 brought the bourgeois-liberals to power early in the century. However, their reign did not last as long as in England. The collaboration between liberals and the working class early in the revolutions of 1848 ended abruptly after the elections, when a national assembly dominated by conservatives and liberals moved to suppress socialist demands (Magraw, 1986). Soon after the election, the tensions between the elected president and liberal representatives became apparent, eventually leading to a coup d'état that crowned Napoléon III as the Emperor of the Second French Empire. Following this usurpation of power, the French bourgeoisie 'ceased to be able to sail under its own, or even the Liberal flag' (Hobsbawm, 1996, p. 129). Their political representatives had to seek support from workers, only to retreat from their promises once elected. The dependency of liberals on support from the working-class provides the proper context for investigating the ideas of Leon Walras, who described himself as a 'liberal-socialist' and his economic approach as 'synthetic-socialism' (Wood, 1993).

According to Walras, his main intellectual influence was his father Auguste, a school administrator and amateur economist. Auguste Walras became interested in economics in the 1820s following the socialist attacks on the legitimacy of private property. He thought it was impossible to defend private property without the aid of a proper theory of value (Jaffé, 1984). It was Auguste who kept his son on the liberal path: when Leon became interested in the socialist ideas of Saint-Simon, his father persuaded him not to be misled by Saint-Simon's 'sweet talks' (Jolink, 1996, p. 50). Taking this advice, Walras started working on a new theory of value to defend *laissez faire* principles. His stated goal was to prove that free markets 'will bring about the greatest and best organized satisfaction' (Walras, [1896] 2010, p. 32).

Like Menger, Walras' close relationship to finance preceded his academic career. At the age of 25 he started working in the newspaper *La Presse*, and one of his first articles dealt with the role of the stock exchange in the economy ('La Bourse et le Développement du Capital', *La Presse*, 1860). After leaving the newspaper in 1862, he took a position as managing director in a mutual credit union, which he held until the institution collapsed in the late 1860s. He then served as a corresponding secretary for a large banking firm in Paris (Jaffé, 1935). For the Paris Guide of 1867, he was commissioned to write an article on the stock exchange and credit system (Walker, 2006).

Walras' interest in finance also shaped his economic ideas. As many have noted, Walras' model for a market was explicitly based on the stock exchange (Daal and Jolink, 1993). According to Jolink (1996), 'Walras first looked at the price mechanism in the Paris Stock Exchange in the anticipation that it would (to some extent) serve as a starting point for the type of market under consideration in his theory' (p. 77). To see how a market works, Walras ([1874] 2014) argued, one needs only to 'go into the stock exchange of a large capital market like Paris or London' (p. 43). For Walras, the stock exchange served not only as a model for markets, but also as a key institution for transforming savings into capital goods (Jolink, 1996).

Walras described himself as a liberal-socialist mainly because he thought that in a liberal world, anyone who supported social reforms should be regarded as a socialist of some sort (Cirillo, 1980). It is also noteworthy that his notion of social justice was based on the liberal principle of 'equality of conditions, inequality of positions' (Jaffé, 1975). In his lectures on the *General Theory of Society* ([1896] 2010), Walras argued that 'the role of the individual is to achieve freely his destiny ... to obtain a position justified by his efforts and merits' (pp. 104–105).

French workers—like their English counterparts—did not subscribe to this individualistic perspective. With the liberalization of the Empire in the 1860s, a revival of trade unionism was felt across France (Moss, 1976). By 1870 there were 60 000–70 000 union members in Paris alone, and a similar number in the provinces. Many unions were affiliated with the First International, which by 1870 had about 200 000 registered members (Lorwin, 1954).

Like Jevons, Walras also noticed that workers behave differently than his economic theories suggest. And like Jevons, Walras too argued that the problem was a lack of proper knowledge of economic principles. He explained that 'it is crucial above all that those who understand the truths teach them ... it is of capital importance that the masses soon come to understand them, to accept them, to be firmly convinced of their necessity' (Walras, [1896] 2010, p. 161). These economic 'truths' included, for example, the necessity of restricting strikes to maintain the level of prices. Instead of collective action, Walras ([1898] 2005) suggested that workers should leave sectors with low wages and find a job in sectors with increasing wages. He advised workers not to offer labor 'in too large quantities', but focus instead on 'work that is as useful as possible'. Rather than restricting child labor, he argued that working-class families should have fewer children. When workers will understand that 'it is not in their interest to have more children than capital if they do not want to reduce wages ... their instinct will be in entire agreement with science' (p. 227).

Walras' main program for social reform was a scheme for land nationalization. The end goal of the scheme, however, was to create a national leasing market for publicly owned land. The revenues from this market, Walras suggested, would allow the state to abolish all forms of taxation (Cirillo, 1980). He argued that the poor living conditions of the working class are caused by income taxes rather than any exploitation (Wood, 1993). At the same time, he objected to any taxation of existing capital, since 'the state should not systematically destroy the source of national wealth' (Walras, 2014, p. 457). A national market for land, he argued, would allow the elimination of income taxes, enabling workers to save part of their income. As Cirillo (1980) concludes, Walras thought that the solution to the social question was to turn everyone into a capitalist.

In contrast to England, where the marginalist approach was aligned with the interests of the political elite, the French government was highly suspicious of liberal economic ideas. This suspicion became open hostility following the crisis of 1873 and the retreat from free trade policies. It is no surprise, therefore, that Walras had little impact of the economic discourse in his homeland. He could not even secure an academic position in French universities, which 'long remained out of reach of liberal political economists' (Fourcade, 2009, p. 190). Walras moved to Switzerland in 1870 to become the chair of political economy in the University of Lausanne. He established what became the 'Lausanne School', which revolved around his work on general equilibrium and the contributions of his notable successor as chair of political economy, Vilfredo Pareto. In France, however, economists remained indifferent or hostile to the marginalist approach, and no recognition was extended to Walras during his lifetime (Schumpeter, 1987). As in England, Austria and Germany, the outcomes of the marginalist revolution in France were shaped by the specific social, economic and political circumstances in the late 19th century.

6. The overdetermination of economic categories

It would be impossible to provide a full account of the marginalist revolution in this short space. Instead, this article traces the influence of key developments in the 19th-century Europe on the basic categories of economic thought. It is important to note that these developments were closely related to one another, as well as other factors and processes that might have played a part in the transformation of economic categories. In this sense, the development of economic categories is an *overdetermined* process, which means that it is shaped by 'powerful pressures . . . expressed in political, economic, and cultural formations' (Williams, 1977, pp. 87–88).

The overdetermination of economic categories implies that they can be explored along several paths, each providing a relatively coherent account. Thus, historians of economics can trace the development of these categories from within the field, since economists always begin with categories inherited from past generations, even when they end up modifying them. But to be widely adopted by other economists, these categories must also correspond to the way they perceive social reality. This means it is possible to explain changes in economic thought by tracing the development of the social and economic conditions these economists face. Thus, the current analysis does not exclude other available accounts of the marginalist revolution. However, it does suggest that the social and political situation during the period constrained the development of economic categories in certain ways.

Mirowski (1989), for example, provides what is probably the most-cited thesis regarding the marginalist revolution. He argues that the marginalist economists of the late 19th century were inspired by the scientific developments in the field of physics some 20 years earlier, mainly the formulation of the law of energy conservation. Neoclassical economics, according to this thesis, 'was appropriated wholesale from mid-nineteenth century physics', with utility redefined in mathematical terms similar to the concept of energy (p. 366).

Although Mirowski is probably right about the inspiration from physics, his thesis is hardly satisfactory. To explain the marginalist revolution without acknowledging the importance of the social and political conflicts of the period, implies that Jevons and Walras were just as likely to conclude that workers are being exploited, and it is only a coincidence that their ideas ended up confirming their liberal views. It fails to explain why Jevons and Walras modeled utility and not labor on the concept of energy. After all, the latter was already a central category in classical theories of value category. And as Mirowski himself notes, his thesis does not apply to Menger, who rejected the use of mathematics entirely. In short, although Mirowski is not wrong, his thesis does not explain the most important aspects of the marginalist revolution or its outcomes.

A more recent contribution from Bockman (2011) challenges any class interpretation of the marginalist revolution. In a study of the socialist roots of neoliberalism, she notes that marginal analysis was later used in models of a socialist economy, with the state central planner and collective ownership of the means of production. This echoes an earlier argument by Blaug (1985), who points to the more progressive use of marginal analysis at the turn of the 19th century.

However, such applications of marginal utility are not inconsistent with the current analysis, which stated from the outset that economic categories need to be examined in their historical context. After all, Marx also used Ricardo's labor theory to develop his own ideas, but this does not prove that it was 'class-neutral' in either case. It should also be noted that the economists who used marginal analysis to theorize a socialist state did so to describe a hypothesized economy, not to define and interpret the social reality in which they lived. For this purpose, they adopted the analytical technique of marginalism, not its economic categories.

I suspect that if JMW would have used marginal utility to justify socialist ends, their ideas would have been received with far less enthusiasm. The statements of economists who followed them give room for this suspicion, and the different outcomes of the marginalist revolution in England, Austria and France seem to confirm it. Key economic developments during the period, on the other hand, enabled rather than constrained the development of economic categories in certain directions. Thus, the rise of finance provided the conditions of possibility for a new meaning of value, which presupposes the free flow of capital between different investment opportunities, and the growing centrality of financial markets provided a model for a new category of market.

7. Conclusions

Economic categories are not simply theoretical tools constructed by economists. They are also part of the everyday concepts through which people make sense of social reality. When this reality changes, the categories used to understand it are likely to change with it. Specifically, the current analysis identifies three aspects of macro-structural developments that prompts changes in economic categories: (a) they create new problems that might require new tools of analysis; (b) they provide the conditions of possibility for economic categories, i.e. the material foundations these categories presuppose and (c) they make certain economic sectors and activities more visible, thus providing new models for economic theorizing. The analysis also shows that the way in which these changes will be interpreted 'on-the-ground' also depends on the social position and the specific *standpoint* of the people who seek to understand them. It further suggests that conflicts over economic categories can be understood as classification struggles, which are related to broader social and political conflicts.

The cultural-materialist framework I outline can be useful for exploring the cultural dimension of economic knowledge. It provides an alternative to the micro-level perspective of the cultural turn, allowing us to examine meaning-making processes 'on-the-ground', without losing sight of the broader conditions which feed into these processes. Recent studies point in a similar direction by treating economic categories as cultural resources that help shape various macro-level processes in the 'real-world' (e.g. Steensland, 2006; Bandelj, 2008; Lamont *et al*, 2014; Bandelj *et al*., 2015). I add complexity to this picture by showing how these 'real-world' processes also shape the categories through which people interpret reality. In this sense, economic categories are at the same time an outcome and a contributing factor to structural changes.

What can we learn from this analysis about the power of economic ideas? Scholars often locate this power in the institutional embeddedness of ideas (e.g. Campbell, 1998; Blyth, 2002, 2013; Schmidt, 2008; Béland and Cox, 2011; Ban, 2016) or the positions economists hold in national and international organizations (e.g. Dezalay and Garth, 2002; Prasad, 2006; Campbell and Pedersen, 2015). The current analysis suggests that this power must also be understood in relation to broader conflicts between classes and social groups. This does not mean that economic ideas can be reduced to class interests, but it does suggest that these ideas are not likely to be widely adopted unless they are aligned in some way with a dominant class standpoint, or have the support of powerful economic actors. Discarding this class content implies that economists are free to adopt ideas that support massive wealth redistribution or nationalizing capitalist property, and these will be as powerful as ideas supporting free-trade policies. This seems highly unlikely, and it is more reasonable that the same actors who influence the trajectory of economic ideas are also powerful enough to shape the institutions through which this power is exercised.

Future studies can benefit from paying greater attention to the cultural dimension of economic processes. While the current analysis shows how structural changes shape the development of economic categories, it also suggests that these changes are always registered in the categories people use to think and talk about them. These categories, therefore, can provide another vantage point from which to examine macro-level developments. I believe this is what Lamont *et al.* (2014) have in mind when they call on scholars to 'systematically compare cultural processes to demographic, economic and structural processes' (p. 598). If so, the framework and analysis presented in this article can be viewed as a modest contribution to this research program.

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