

## **Subject – History of Economic Thought - II**

### **Notes Unit 2 Part B**

**By -**

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#### **Economic ideas of Friedrich Von Wieser:**

Friedrich Von Wieser was the second member of the Austrian trio who contributed the Austrian School. He was the son-in-law of Karl Menger. He studied for two years in Germany under Knies, Roscher and Hildebrand. From 1903-1922 he served in the University of Vienna as Professor of Political Economy.

Wieser also served as Minister of Commerce in the last two cabinets of the Austro— Hungarian Empire. His main works are: *The Origin and Principal Laws of Economic Value* (1884); *Natural Value* (1889); and *The Theory of Social Economics* (1914).

Wieser was the disciple Of Menger and was much influenced by his ideas. The main contributions of Wieser have been in the field of exchange and distribution. Even though he elaborated many theories of Menger, he was independent in drawing conclusions.

#### **The following are the main economic ideas of Wieser:**

##### **1. Method of Study:**

Wieser adopted the same method of abstraction followed by Menger. But he questioned the methodological controversy between Menger and Schmoller. He came to the conclusion that Menger had wasted his time and energy over this problem. He suggested that a scientific investigation is the fittest method of study.

## **2. Natural Value:**

Wieser criticised the classical labour cost theory of value. Instead, he developed Marginal Utility Theory of Value. According to him value came from utility. It was derived from the want satisfying power of goods. He defined natural value as one which was found in a community at a high stage of development. He developed the concepts of subjective use value and subjective exchange value.

## **3. Law of Imputation of Value:**

Wieser discussed the law of imputation of value in his book “Natural Value”. According to this law, value was imputed to the different factors of production under different conditions of demand, supply and quality. He emphasised the fact that, in the case of production goods, the imputation of value followed the marginal law, i.e., the smallest contribution was imputed to every single quantity.

The theory of Imputation was really a theory of distribution because it explained how the different factors of production were paid. According to this theory, the value of factors of production reflected the value of consumption goods produced by them.

## **4. Rent and Wages:**

Wieser’s presentation of the theory of rent was not praise worthy. Because of his confused understanding of the Ricardian theory of rent, he pointed out certain basic errors in the theory. However, he was one of the great writers to explain how the rent theory could be used to explain the returns from other factors of production, other than land. Thus, Wieser raised the Ricardian theory of rent to a “universal law of differential imputation”.

As for as wages are concerned, Wieser criticised the Labour Theory of Value and Subsistence Theory of Wages. He treated the services of labour in the same way as he had treated the services of other factors of production.

## **5. Interest:**

**Wieser’s theory of capital and interest has three main postulates. He assumed that:**

(a) Capital consisted of perishable goods and was used in the process of production

(b) Capital reproduced a gross product, the value of which exceeded that of capital used in the process of production and

(c) Supply of capital was fixed.

Wieser maintained that the total return was large enough to replace the capital employed in production and to pay a net return to capital also. The net return paid to capital was known as interest. The payment of interest to capital was justified because capital co-operated in the process of production.

### **6. Doctrine of Cost:**

Wieser made a difference between cost goods and monopoly goods here. Cost goods like coal, wood, unskilled labour, metals etc. were abundant and their production could be increased very easily, whereas monopoly goods were comparatively very rare in supply.

Besides, the cost goods were the common, cosmopolitan and indispensable powers of production, and monopoly goods were the specific elements of individual industries. It was with the help of cost goods, the other goods were produced. So the cost goods should be used economically.

In short cost goods were production goods. Wieser made it clear that cost principle of valuation should be applied only to these goods where cost goods are used mainly. Cost goods are distributed in such a way as to yield the maximum utility.

### **7. Social Economy:**

In his book “Theory of Social Economics”. Wieser gave some new ideas. He tried to integrate pure economics with a theory of society. He pointed out that in the society there were often social conflicts. As a result there was domination of one class over other class.

In social economy, there were three types of goods—those used by everyone, luxury goods and intermediate goods. The first type of good was determined by the marginal utility of the poor, the second by the marginal utility of the rich and the third by the middle class.

He referred to growing urbanisation, increasing oppressiveness and harmful effects of inequalities in wealth as causes for social degeneration. He believed that trade unions could take efforts to improve the economic conditions of the workers. For this, Wieser suggested that the trade unions should avoid industrial conflicts and should deal with matters of collective bargaining and determination of wages.

Wieser was in favour of centralised control. To him, the aim of the State should be the protection and development of social production. He rejected the idea of progressive taxation and supported economic nationalism and protection.

### **Critical Estimate of Friedrich Von Wieser:**

Wieser was an original thinker. His position in the history of economic thought is important. His “Theory of Social Economics” was a magnum opus. Through this book, he made a bold attempt to integrate pure economics with a theory of society. In economic literature this book has the same place as Mill’s Political Economy’. While J.S Mill simply re-stated the classical ideas, Wieser contributed his original ideas.

Even though Wieser reproduced the theories of Menger, he gave completely different conclusions. He was the first Austrian Economist, who discussed the problem of resource allocation. He adopted the method of abstraction and felt that much time was wasted over the battle of methods.

### **References -**

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