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VIRGIL MADGEARU AT THE CROSSROADS OF AN ANTICAPITALISTIC TRINITY: GERMAN HISTORICISM, POPULISM AND MARXISM

Abstract: The aim of the present paper is a critical evaluation of Virgil Madgearu’s economic ideas from the perspective of classical liberalism. As the paper emphasizes, in the light of the classical liberal tradition, Madgearu’s ideas appear as having an obvious anticapitalistic blend, although without embracing the socialist perspective. Madgearu advocates a middle of the road policy or government intervention in the market economy, in the middle of an age with splendid scientific contributions in favor of the free market.

Keywords: capitalism, classical liberalism, Virgil Madgearu, interventionism, peasantism, Marxism

1. Introduction

Virgil Madgearu (1887-1940) is through the lens of his biographers, one of the leading Romanian economists of the interwar period.¹ The purpose of the present research is to critically expose the formation and implication of his economic thought.² By critical we understand less a perfectly equal representation of all lines of contemporary thought and more an assessment of his ideas from the perspective of classical economic science, as formulated by the British³ and French classical liberals. The motivation of choosing the classical liberal framework is based on empirical evidence⁴ which proves its too easy, uncritical disavowal by Romanian authors. In a word, along with the economic writers, historians too decided the non-debatable character of the oddness of liberalism, as reflected in 18th and 19th century England and France, through the pen
of Adam Smith, David Ricardo, Jean Baptiste Say, Frederic Bastiat and many others. Madgearu’s own words confirm the above statement, as he is certain that „social experience has proved the fallacy of absolute economic liberty’s principle” (1915a, p. 13), or „old liberalism died” (1922, p. 112). To what extent are these solid theoretical convictions or just historical overviews, the present paper should also clarify.

Although not coming from a peasants’ family, Madgearu was the main supporter and ideologue of the Peasants’ doctrine. From a political perspective, the ideology of peasantism had as purpose the creation of a rural democracy. It considered peasants as an important class, especially in Romania. From an economic point of view peasantism meant government intervention in the peasant-landowner relation, in the form of price controls (fixing the rents that the peasant had to pay to the landowner), expropriation of landowners (‘big’ ones) in favor of peasants. As a matter of fact, 19th century Romania was dominated by the ‘rural problem’ (cheștiunea agrară or cheștiunea țărănească) as permanent conflict between peasant and landowner reflected in a bad economic state of the Romanian peasant. As Eidelberg argues, the 1907 revolt “ranks as one of the most important peasants revolt in East European history” (1974, p. 2). From a philosophical and cultural point of view, the ‘rural problem’ draws its origins in an „anticapitalistic mentality” (Ornea, 1971, p. 131-132) while the repeated land reforms (1864, 1921, 1945, 1991) enforced by the governments which succeeded to power only replaced winners (landowners) with losers (peasants) and vice versa. State intervention was the common feature of this pathology of reform, which in almost a century (around 1930) showed its real dramatic implications:

Food was representing the most important article in the family’s budget: in households under 3 hectares it represented 6/7 of total spending; in those of 10 hectares, 2/3. It remained almost nothing to ‘misspend’ on clothes and other luxury objects…Variety was lacking…corn was the main food…corn was consumed especially as polenta (mămăligă)…The poor health status of the rural population was becoming a chronic phenomenon, due to the inadequate nutrition, poor living conditions and lack of knowledge of elementary hygiene norms…The characteristic disease of poverty, pellagra had a serious incidence, being after tuberculosis and cancer, the main cause of death. (Hitchins, 2013, pp. 380-381)
Adding to this situation the catastrophic effects of the two World Wars and Romania’s engagement in both of them, one could hardly find a better soil than Romania for revolutionary socialist ideas. The socialist plague took its share, and for more than fifty years (1945 - 1989), the red curtain with its soviet-style socialism isolated Romania from the capitalist international economies. In a way it could be argued – although it remains a debatable issue – that the popular economic ideas before 1945 (state planning in agriculture, industry and money, minimum wage laws, legal monopolies) were the preparation for socialism. To be sure, socialism as an economic system cannot be judged independent of its previous popular ideas. Speculating even more, 1945 could be avoided if among elites a sound liberal-based doctrine would have survived.

Although true classical liberal ideas never had the chance of a real competition in Romania, as compared to fascist-style policies (‘neoliberal’ in Marxist terms) before 1945 and after 1990, paradoxically many people today display a certain suspicion and fear whenever one broadcasts ideas such as capitalism, private property, profit, competition etc. This resembles to a certain extent the ‘straw man fallacy’, an error of argumentation when one criticizes an argument which was never advanced by the opponent. ‘Straw man fallacy’ results in confusions of capitalism with state capitalism/crony capitalism, free trade with zero-sum game, competition with extinction, foreign capital with imperialist exploitation etc. Whatever definition of capitalism and private property circulated in the modern, post 1848 Romania it was certainly not the classical liberal one:

The program of liberalism...if condensed into a single word would have to read: private property of the means of production. (Mises, 1985, p. 19)

As an extension, the pretense of classical liberalism is that society (in particular economic society) is governed by natural laws such as private property, division of labor, competition, prices and so on. Moreover, these laws are responsible for the peaceful cooperation between people and the future preservation of society. If positive law (state law) is the reflection of natural law, cooperation works smoothly with the state as a protector of private property rights. Whenever positive law contradicts natural law, social cooperation is in danger, since the state assumes a significantly broader role than it naturally has. If Madgearu was using this meaning of liberalism or other, we shall also see in the next pages.
2. German Historicism: A Decisive Step for Madgearu’s Skepticism Towards Economic Theory

It is commonly accepted\(^9\) that Virgil Madgearu’s ideas were the product of three main schools of thought: the German historical school (in particular the second generation of historicists), the populist school (‘poporanism’, with origins in Russian *narodnicism*), and the Marxist school. There is no doubt here. What should be doubtful from a theoretical perspective is the nexus of ideas which have put in motion all of the three perspectives and Madgearu’s quite small susceptibility towards it.

The influence of the German historical school upon Virgil Madgearu obviously starts with his doctoral research in Leipzig, under the coordination of Karl Bücher (1847 - 1930). However it should be noted that Bücher, was part of the second generation of German historicism (Gustav von Schmoller being the most popular voice of it), about which it is generally held that it deviated the line of the first generation, through a *metamorphosis* of the “authority of tradition and wisdom of ages gone by” into regarding “capitalism and free trade – both domestic and international as the foremost evil, and joined hands with the “radical” or “leftist” foes of the market economy, aggressive nationalism on the one hand and revolutionary socialism on the other” (Mises, 2007, p. 198).

The 19\(^\text{th}\) century is the age of the great transformations produced by the capital accumulation which made possible the Industrial Revolution. Nevertheless it is also the age of its bad reputation to the contribution of which Marxism played the key role.

The pretense of extracting economic laws from historical experience (which is more than the plain study of economic history) evolved during the second half of the 19\(^\text{th}\) century into one of the most interesting epistemological debates (*Metodenstreit*) between German historicist school and Austrian economics school. The debate still has echoes today, among the epistemologists. At stake within the *Metodenstreit* was if social sciences, in particular economic science can derive general, universal laws to explain human action. Austrians took the affirmative position while the historicists the negative one. (Raico, 2012, pp. 4-5)

The main point of Schmoller’s concept of historic relativity and the emphasis on development, was to show that there are no stable economic laws like natural laws in physics. (Kozlowski et al., 1997, p. 80)
...the phenomena of economic life, like those of nature, are ordered strictly in accordance with definite laws. (Menger, 2007)

The problem is a crucial one. The implication of a relativized concept of theory would bring economic science into a position of an empirical science, which can produce laws only to the extent they confront experience. But without a general economic theory, the evaluation of pure economic historical facts would be impossible. Economic history has presuppositions while their understanding must be made in the light of an economic theory.

Every historical report, no matter whether its theme is the conditions and events of a remote past or those of yesterday, is inevitably based on a definite kind of economic theory (Mises, 2007, p. 208).

Time passed by and the Metodenstreit literally fell into oblivion, under the more powerful positivist school. Madgearu presents the debate on few pages in his political economy course. It dedicated no separate work to this debate\(^{10}\), although the Austrian side offers valuable insights which are crucial for public policy. One of these is that if economic laws have the epistemological status of universal laws, government intervention through positive law is free to act only as a recognition and preservation of these laws.

Historicism, as discussed, is the pretense of extracting from historical experience \textit{a posteriori} laws. ‘Learning from experience’ tells the slogan. The historicist method is dividing the applicability of economic law according to different historical periods. Each period has its own economic laws. That Madgearu was believing in this idea is a fact.

The scientifically treatment of an economic issue is based on status quo’s research, of its transformations and evolution trend, so that after these findings can reveal the economic policy criteria. In considering the craftsmen’s issue, we will try to apply the method of Leipzig’ economist Karl Bücher (1911a, p. 3).

Or, when emphasizing that \textit{pure theory} is only a tool in the hands of \textit{historical theory}:
Historical theory has two means: pure theory which determines what is fundamental, important and historical reality which proves in fact the existence of various phenomena. Pure theory and historical theory are integrated, on a reciprocal basis, the first delivering through its categories the ability to study the latter, while the latter facilitates discovering new categories (1936, p. 78).

However, there is a subtle circularity here. If history itself is a producer of pure theoretical categories, how is the scientist able to detect and understand them, since understanding is based already on an existent body of pure theory? Or, to put it another way, to historically establish the categorical character of ‘new categories’ one must already have used a *categorial criteria*, which must be a-historical, otherwise the argument is circular. Madgearu only seems not to be on an *extreme historicist* position, since it leaves space for *pure theory*, but this, as should be seen remains *just* a theory.

The theories on the economic evolution advanced by Western economists – whatever their value – cannot be applied to Eastern and Southern European countries (1936, p. 79).

As a matter of fact, none of these theories pretends universal validity (1936, p. 80).

Realist economic science studies people as they are in reality, motivated by all kinds of reasons, and belonging to a certain people, state or epoch (1936, p. 80).

For Madgearu, historicism was the first, perfect ally (consciously or not) for advancing a pseudo economic science of the *peasantry*. Historically, it was the perfect moment. The Romanian peasantry, this beaten-by-fate ‘class’, enduring a ‘neoserfdom’ relation with the landowners and victim of so many failed rural reforms, was becoming more and more important from a political point of view. And an *economic theory* of the peasantry would have been virtually impossible if Madgearu would have clung of odd, universal theories such as classical “invisible hand” of Adam Smith, or “the less seen consequences of an economic policy” of Frédéric Bastiat. Thus he proceed to find sources that could legitimize, from a scientific (historicist) point of view, a differentiation between the *rural, agrarian*
economy and the capitalist economy. Russian populist (poporanist) authors are quoted, such as Nicolai-On, who argues that capitalism needs markets and these markets (in Russia’s peasant economy) are absent, therefore capitalism is impossible.

The fundamental argument of these theories is the following: to develop capitalism requires the existence of an external market; colonies being under the rule of Western European countries there can be no important markets for the capitalist products, and as a result capitalist production is impossible (1940, p. 9).

He calls them ‘scientific’ – although he considers them “not universal” (1940, p. 11) – but they’re just describing the institutional factors which impede the development of capitalism in these states. This is true as much as it is true that free trade is impossible because of the protectionist tariffs.

Madgearu brings a counter-argument to this one, quoting Lenin who understood that “capitalism creates its own markets” (1940, p. 14), and those markets would be composed, as Madgearu describes, of the means of production transferred from the hands of small entrepreneurs to the ones of new capitalists, and of the means of existence – nota bene – of those “expropriated”, which in capitalism becomes a “commodity”. Lenin thus – horribile dictum – puts an end to this “odd” narodnicist ideas that capitalism can’t develop in the eastern, rural countries. True, it can develop, but the problem is how to stop it. Having reviewed the narodnicist, Marxist and Bolshevik thesis Madgearu ends with:

The research of economic evolution in Eastern Europe countries...if it doesn’t neglect the impossibility of capitalist economy, it reveals certain features and limitations (1940, p. 14).

That poporanist erred in their theories, Madgearu is certain. Why did they err is more interesting, and reveals once again his historicist blend when stating that the “poporanists wrote in 19th century Russia, a period of semi-feudal agricultural relations” and they “lived the extortion of the peasantry caused by the extinction of home industry” (1940, p. 11). Thus it emphasizes less a theoretical shortcoming in poporanists’ thought and more the simple fact of living and writing in a certain century.
3. The ‘Economics’ of Populism (Poporanism):
A Romantic Anticapitalistic Episode

According to Madgearu, as a philoagrarianist, agriculture cannot follow the same capitalist route as industry. He argued that agriculture was governed by different laws which could make the small agricultural household economically independent of the extended division of labor phenomenon, specific to the urban development. However, it can hardly be found in his work what should be the most important economic argument in favor of such an independency. Independency would certainly not mean avoiding the capitalist production, but just creating a balance between the capitalist economy and the rural economy. This middle of the road policy has its origins in the doctrine of poporanism, of which the Peasant Party is a “spiritual descendant…and which was to some extent derived from the Russian narodniki of the latter years of the nineteenth century” (Roberts, 1969, p. 142). Peasantism is basically the most pragmatic form of populism, with the agrarian state or the doctrine of an agrarian Romania at its core.

The most original contribution…was probably the systematically elaboration of the doctrine of an agrarian Romania, as a third world between the individualist capitalism of the West and the socialist collectivism of the East (Hitchins, 2013, p. 359).

The below account of the populist economic thought reflects the essence. Considering Romania an agricultural country with a high percentage from its population made of peasants, a proper form of production would be small and autarchic rather than profit-based rural households.

In agriculture the circulation of capital has a certain timing due to the fact that nature determines the length of the production process…While the economic advantages are definitely in favor of small household; small household does not run after the rent, neither after the capital’s interest, so thus it produces cheaper; small household disposes of the more intensive working power of the man who works for himself; this is what makes that every parcel of land is used according to its nature (Ornea, 1972, p. 220).

Assuming different laws for the development of agriculture, Madgeauru went further to a more practical level, proposing a system of economic
organization that would fit Romania’s agricultural situation, and promote the need for rural economic independency. It is the popular system of economic cooperation\textsuperscript{11}, which consisted of a nexus of grouped units of agricultural production and consumption coordinated by a National Government Office, which received funding from Rural State Banks,\textsuperscript{12} created for this specific purpose. But would such a system be an assurance for the cooperation’ independence in front of potential intrusions of the local, national state? Wouldn’t the benefits of protection against foreign capitalism be offset by the fact of being an appendix of the State? The whole system appears more like a clear intention of protectionism, with the government on top of it working as a national bureau for protecting the agricultural producers of the foreign capitalist ‘invasion’. In particular, protecting small producers.

The main arguments advanced by Stere (afterwards by Madgearu) to prove the impossibility of industrial development in Romania (the lack of foreign markets, the narrowness of the internal market) are to be found easily at all antiindustrialist and anticapitalist thinkers who were on the romantic positions of the small producer (Ornea, 1972, p. 214).

The economic system which lays behind populism and therefore peasantism – as would be further discussed in the next chapters of the paper – is nothing else than interventionism, which is a mixture of state planning with free market (capitalism). Thus, Gheorghe Zane, a popular populist - so to speak - writes that “Peasantism is a new social movement with the aim of creating a new type of state”, that “improving the peasants’ state of affairs is impossible within the capitalist state” or “between capitalism and communism we take the third exit” (apud Scurtu, 1994, pp. 242-243). Madgearu, in an effort of making explicit in what respects the cooperation idea differs the socialist idea:

We must reject those theories, either of pure liberals, or socialist theoreticians, according to which there would be an identity between cooperation and socialism...There is no such identity, for the cooperation is a proper combination of the individual and social idea as concerns labor. While socialism is based on revolutionizing this situation, by the transformation of individual property into collective property and socialization of the means of production (apud Scurtu, 1994, pp. 245-246).
There is of course a great deal of injustice to consider cooperation the same thing as socialism. But if cooperation is based neither exclusively on free market ideas, it means its organization borrows both from socialism and free market. For this reason it was baptized as interventionism or middle of the road policy. A detailed and powerful critique of interventionism – in the middle of his ‘success’, 1920s – was delivered by the Austrian economist Ludwig von Mises, who in 1929 writes Kritik des Interventionismus: Untersuchungen zur Wirtschaftspolitik und Wirtschaftsideologie der Gegenwart (Critique of interventionism: inquiries into present day economic policy and ideology). The main argument of Mises is that intervention in the economy, namely in the production relations, price system, wages etc., distorts the efficient allocation of resources, because it puts them on a different allocational track than would have otherwise been chosen by the owners. Thus instead of increasing – as it wishes – it is decreasing general welfare, while also posing an important incentive problem, since it determines owners to rely more on public interventions (based on political decisions) than on consumer satisfaction. Madgearu does not make any reference to Mises’ arguments. His main argument in favor of interventionism is historical and less theoretical. He states that, present economic conditions (1910s) are such that

Nobody – among people of name – question anymore the State’s right to regulate the conflicts between capital and labor. All our political parties admit State interventionism under the conceptual doctrine of social policy (1915a, p. 26).

Although it is true that the 1910s and the 1920s were the years of the rising ideologies of nationalism and interventionism, a look into the history of 19th century economic thought could hardly be read as a completely unity of thought as concerns the matter of state intervention. Leaving aside the Austrian school of economics, Germany was before the second generation of historicists (kathedersozialismus) a good soil for the scientific treatment of state intervention into the market through the works of Johann Heinrich von Thünen (1783 - 1850), Herman Heinrich Gossen (1810 - 1858), Friedrich von Hermann (1795 - 1868), Eugen Richter (1838 - 1906). United States too, where economic science rose through the voices of John Bates Clark (1847 - 1938), Frank William Taussig (1859 - 1940), Frank Fetter (1863 - 1949), Herbert Davenport (1861 - 1931), Allyn Young (1876 - 1929), E.R.A. Seligman (1861 - 1939). All these authors are
definitely good reasons to believe that, the matter of state intervention is anything but a case closed issue in economics.

State intervention, according to Madgearu, is also an alternative to the “reign of absolute economic liberalism” (1915a, p. 36), it has the power to restore workers’ dignity fighting against “extremely low and inadequate wages” (1915a, p. 39), to “encourage industry” (1913, p. 140), to “impose minimum wage laws” (1913, pp. 141-142), to conduct public enterprises “applying methods similar to private enterprises” (1925, p. 5), to “capitalize wealth for the general interest” (1925, pp. 40-41). The layman, unspecialized reader of the present paper could justly ask what would be wrong with all these so called powers of the State. In a nutshell, it could be argued that economic science is simply being ignored by claiming the superiority of historical context or of the political reality. Thus, science become only a historical option, not a matter of theoretical and practical constraints about what is possible and less possible within the economic realm.

This is the irrefutable conclusion of economics. He who undertakes to recommend a third social order of regulated private property must flatly deny the possibility of scientific knowledge in the field of economics (Mises, 2011, p. 18).

In a similar tone as Mises, Zigu Ornea observes the ignorant spirit of these romantic, anticapitalistic ideas towards the teachings of social sciences.

All this wishful thinking on the best and proper way of development in Romania, sincere hopes in this regard were based on arguments that, in fact, dissolve the evolution of social sciences (of sociology and political economy) in the 19th century, ignoring through naive Kantian rationalist motivations or narodnicist theses, the complexity of social reality, the real specificities, the determinations of social evolution (Ornea, 1972, p. 214).

4. Marxist Language and the ‘Exploitation’ Power of Capital

Was Virgil Madgearu a Marxist? For one reason or another Romanian historiography doesn’t focus on this particular problem. Foreign historians neither present him as a Marxist thinker. For instance, Henry L. Roberts
remembers *en passant* that Madgearu “on several occasions he quoted with approval Guizot’s remark, ‘The class struggle is not a hypothesis, not a theory, but purely and simply a reality’” (1969, p. 150). Indeed, in one of the most important pieces on *peasantism* of Madgearu (*The Peasantist Doctrine*, 1923) he is employing terms like “class conflict” or “bourgeoisie”, being nowhere on doubt with respect to their theoretical, scientifically meaning. “Class struggle had changed during history”, “Peasants do have a role in class struggle”, “(...) political leadership was left to the rising bourgeoisie”, “commercial bourgeoisie”, “bourgeoisie liberalism”, the historical sequence of ‘commercial capitalism, industrial capitalism and financial capitalism’ as being “a normal scheme of the bourgeoisie evolution” (1936) are few examples. Madgearu is certainly not against Marx’s theory of class struggle. He uncritically admits the existence of classes (bourgeoisie, workers, peasants), building on it a *schismatic* science of the agrarian economy or a pseudo-science of agricultural production.

The Romanian economist was convinced that such an analysis would not only determine a new course in the theory of peasant economy, but would create a ‘special scientific system of national-economy with the purpose of studying a non-wage national economy’ (Murgescu, 1987, p. 253).

Moreover, he pays lip service to Marx, arguing that nowhere it follows from Marx’s theory that class struggle should be understood as bloody revolutions or social unrest: “Nothing could be further from the truth”, he states. Letting himself completely absorbed by the Marxist language, he even pronounce the negative role of the same *bourgeoisie* for this misleading and unfortunate understanding of the class struggle. In an exegesis attempt of Marx, Madgearu points that “class struggle can run in the press, in the parliament, through strikes, lock-outs or boycotts, as it can run in the street, as rebellions, civil wars or social revolutions”. His attempt to save Marx, by introducing an alternative key of understanding class struggle, is in fact his own view of class struggle, the *Madgearian* understanding of Marx’s class struggle. A democratic political regime, would guarantee in Madgearu’s view that class struggle will be present only as a non-conflictual, but still ‘natural’ phenomenon. On the aggressive nature of the Marx’s inherent conflict between classes, the libertarian economist and philosopher, Murray Rothbard states that:
As Diocletian once declared the legitimate right to kill Christians when they are seen, so Marx envisioned such a world: “Indeed, in a speech in London in 1856, Marx was to give graphic and loving expression to this goal of his ‘praxis’. He mentioned that in Germany in the Middle Ages there existed a secret tribunal called the Vehmgericht. He then explained: ‘If a red cross was seen marked on a house, people knew that its owner was doomed by the Vehm. All the houses of Europe are now marked with the mysterious red cross. History is the judge – its executioner the proletarian’” (2006, p. 363).

However, Madgearu is also critical to Marx but only to the extent that Marx did not believe in the political and social power of the peasants, as an important class. In other words (our reading), Marx wasn’t sufficiently a Marxist – so to speak – since he attached only to the proletarians an important social role, leaving peasants aside the political action. Otherwise there is no critique of Marx’s economic and anticapitalistic views. On the contrary, Madgearu, again in an uncritically fashion assumes the existence of capital vs. labor conflict and the need of State action “to regulate it” (1915a, p. 26), adding an unfortunate understanding of the firm when explaining that

Protecting the wage has a three dimension purpose: a. to guarantee the worker’s wage, who loans the employer, for it receives the wage only after a certain time spent in working (1915a, p. 24).

Or, when evaluating the poor situation of the workers in the newly small house industries system, lacking any economic explanation, but still no less emotional:

One can imagine what is to be expected from a generation of people whose life is stuck in the sameness of 11-12 hours of sweatshop labor per day, one or two hours of lunch and eight hours of sleep! This would mean a dumbing down, which would result in a barbarian state of things (1915a).

Or, adopting the labor theory of value when explaining the evolution of capitalism:

The result of this evolutionist process is, on one hand, the existence of capitalists’ class, which accumulates wealth by the surplus value of labor (1923, p. 94).
An important problem could be highlighted here. In the above statement there is an implicitly (never explained) preference for operating with the socialist view on capital, the exploitationist view. Apart from the fact that there are other alternative explanations of the phenomenon of capital, it should be noted that the socialist view based on the labor theory of value has an unavoidable and fatal shortcoming: it cannot explain price formation. The main problems of considering labor as the only source of economic value, can be structured as follows:

(1) if one finds a diamond, this would not have any market value (...) (2) it erroneously considers that the worker should receive now the value that his product will have in the future and (3) the theory cannot explain why two given goods produced with the same quantity of labor have different values if the labor was bid at different moments. (E.g. wine sold earlier vs. later) (Pătruţi, 2016, pp. 91-92).

In his Doctrine of the Peasants, Madgearu also criticizes Karl Kautsky, “the Pope of Marxism”, for arguing that capitalism can turn peasant exploitation into its own appendix, with an accent on the domination power of capitalism. At a first glance, one could read in Madgearu a purely free market, non-dialectical thinker:

It is at least an exaggeration to speak of the fatal subordination of peasantism to the industrial agricultural capitalism and of the danger of peasantist exploitations becoming appendixes of capitalism (1923, p. 99).

In any case, capitalism is not harmful for peasants because of some intrinsic virtues of it, that understood properly, could place the peasant on his most productive level in the production process. Capitalism is not harmful because peasants have the cooperation option (exit?), “cooperation which facilitates the peasant to get rid of the capitalist domination” (1923, p. 99), which as discussed, means hands on the state to pump public resources into the specific cooperation units.

Military analogies with regard to capitalism are neither excluded, such as “invading foreign capitalism”, “the leaning towards the rule over the State”, railroads “ruled” by the commercial and financial capitalism, the banking trusts which “rule the whole economic life”, the “fight to conquer the markets”, trusts and cartels which “destroy” competing industries and “rules” them in a monopoly-fashion. (1936, p. 145) However, it
is important to notice that Madgearu explains all these manifestations as being outcomes of an *economic imperialism*. In short, *economic imperialism* is defined as capitalist interests which tend to control the State through the mean of *financial capital*. The logic here is so close to the liberal point of view:

It is certain that protectionism by favoring the creation of cartels, forced export of goods – dumping – capital exports through industries establishment abroad and exaggerating the drive towards economic autarchy as a supreme guarantee in case of war, gives an impetus for an aggressive economic policy and as a result to an aggressive foreign policy which ends in wars of expansion. Protectionism, the struggle for markets, colonialism, the drive towards economic autarchy, the capital export or the formation of global empires are manifestations of the economic imperialism (1936, p. 146).

The consequences of *economic imperialism*, as Madgearu sees this phenomenon, are excellently described. Not the same thing can be said about its causes, which Madgearu doesn’t articulate very clearly. He is sure on the involvement of the State in this imperialism, but this is only because capitalists “command these imperialistic purposes”, while the State only “follows their interests” (1936, p. 147). For instance, commenting on the historical evolution of economic imperialism, Madgearu describes it as “the political force of the State consciously put to attend economic expansion” (1936, p. 149). It is a crucial question to decide whether Madgearu thought that *economic imperialism* is connected or not with government interferences in the market. Could the economic imperialism be the outcome of a *distortion of the natural laws that govern* economic activity? In simpler words, a firm which is protected by government tariffs, becomes a monopoly and eliminates its competitors, impose higher prices to local consumers, negociates privileges with foreign governments in the foreign markets, up to involving in financing of wars is the result of its own nature or of the significantly use of political means (tariffs) to acquire wealth? The lack of a systematically, theoretically treatment of capitalism and capital, and being less precautious with the use of Marxist judgements, entitles us to argue that Madgearu is not far away from operating with an unsound understanding of the nature of a firm, incidentally or not, so close to how Marxism understands it.\textsuperscript{15}
The liberal understanding of the “class struggle”

There are many conceivable classes in our human society. The class of shoe makers, the class of drinkers, the class of shepherds, examples can go on. A class is a group of individuals which have something in common. There is an infinitely number of classes. But they are not in any measure in conflict, but they live peacefully and cooperate within the society. Still, there is no case in which a conflict between classes can evolve? Yes there is.

Yes, there are such times, but only when some classes are privileged by state coercion, while other classes are restricted or burdened by state coercion. Ludwig von Mises perceptively used the term ‘caste’ to identify groups of either privileged or burdened by the state, as distinguished from ‘classes’, which are simply groups of people on the free market in no sense in inherent conflict (Rothbard, 2006, p. 380).

Here is how a conflict can start between two imaginable classes:

Suppose, for example, the state decrees a large subsidy for all people over 6 feet tall, or a special heavy tax on all those under 5 feet 5 inches. If special privileges were heaped on people named Smith, then this would be a privileged class at the expense of everyone else, and there would be an economic incentive to try to join the ‘ruling class’, people named Smith, as quickly as possible (Rothbard, 2006, p. 381).

Therefore, there is no conceivable conflict or “struggle” among various social classes other than that entailed by using political power to curtail the free exercise of other people’s private property rights.

5. The Economics of an ‘Eclectic’ Economist

Madgearu is considered an “eclectic economist” (Malinschi, 1975, p. 36). Eclecticism means adopting different theoretical frameworks with the aim of explaining economic and social reality. From a logical perspective, this is a sensitive method or paradigm, if each one of the frameworks holds opposite views. As mentioned, the case of Virgil Madgearu is a combination of three major intellectual influences: historicism, populism and Marxism. The common point of these schools is the more or less
anticapitalistic view, which would imply that Virgil Madgearu is also an anticapitalist economist. Few selected passages from his work will prove the falsity of this statement, but no less Madgearu’s obvious theoretical ambiguity.

*Capitalism, Socialism and Interventionism*

The agrarianist blend of Madgearu’s economic thinking made him pay less importance to the nature and role of economic systems. Agriculture shouldn’t ‘subscribe’ to the same economic laws that produced the welfare of Western capitalist countries, partly because Romania did not have a real bourgeoisie class, and partly because agriculture has a science of itself which can supposedly prove the superiority of small autarchic rural households (cooperation) to the capitalist production. Capitalism is preferred only to the extent it can offer – through urban industries – a market for agricultural goods. Two conditions should be met for capitalism to develop: first is “private property rights and economic liberty”, and second, “economic life enters the stage of production” (1936, p. 120).

A capitalist society is based on economic enterprises. The satisfaction of needs depends exclusively on the existence of economic enterprises.

Only then could we speak of a capitalist economic order, if by the elimination of economic enterprises we get the image of a total societal collapse due to the impossibility of satisfying human needs (1936, p. 121).

However why would anyone imagine the elimination of economic enterprises? Would this be the consequence of an economic crises? Then the causes of it should be studied. Finding the causes and preventing future crises by adopting sound economic policies would give the necessary strength to the capitalist economy. The accent is thus on crises not on economic enterprises. Would this be a natural phenomenon, people preferring autarchy to exchange? Then the transition is painless since people have substituted a less satisfactory state of affairs (capitalism) with a more rewarding one (autarchy). But the premise of this transition is the voluntary, non-coerced action. Would this be a pure imagination exercise? Fair enough, but the real, positive question still remains: is there a natural trend to more developed forms of society, voluntarily adopted by the people? If it is, arguing that people’s preferences for capitalism could lead to an inherent collapsing society is in no way different than arguing the collapse of an autarchic society because of labor shortages or natural
hazards. Adding insult to injury, the exercise is perfectly suitable for the socialist/communist utopia. An elimination of the socialist fabrics, of the socialist economic centralized plans would mean a societal collapse developing in shortages, wasted capital goods and the impossibility of satisfying human needs. Today these are facts. Therefore, why would capitalism be more ‘collapsing’ than socialism? A theory of these systems is required. Contrary to the spirit of some its biographers, there is no original theoretical contribution of Madgearu to neither of the main three economic systems: capitalism, socialism and interventionism. Although probably the most popular word of his works after peasants would be capitalism, it is difficult to find a coherent, systematic line of thought to explain one of these economic systems. There are of course his lectures at the Academy of Higher Commercial Studies which took the form of economic manuals, but the obvious purpose of them is more a pedagogical one.

The more obvious consequences of Madgearu’s theoretical convictions could be seen in the rest of his writings where all the references to capitalism, socialism or interventionism are more or less contaminated by personal or borrowed, supposedly objective historical judgments. But, this is not a surprise since it was already stated his historicist legacy. The greatest part of Madgearu’s research carrier is dedicated more to a sociological (German methods) perspective of the economic reality and less to the study of economic laws, or economic science. His work at the Academy for Science and Social Reform (later the Romanian Social Institute) proves this fact. Thus, by Madgearu the researcher we understand his studies (materialized in various papers and books) on present social problems of the Romanian state, using the historical methodology in which economic theory has no special place.

The following is an instance of a fuzzy understanding of capitalism by a bizarre association between mercantilism and capitalism.

In general, mercantilism seems to be a partnership of the State with the capitalist interests. The State is considered as being composed exclusively of capitalists and entrepreneurs and the entire economic policy is directed by the impulses of capitalists’ interests“ (1936, p. 172).

First, Madgearu rightly argues that mercantilism is an institutional product of State interests and capitalist interests, which would perfectly fit the description of a fascism avant la lettre. Then, the bizarrely sets in, when mercantilism should be read as State interests serving the capitalist
interests. (1936, p. 129) Why not vice versa? And when capitalist interests are served by the State, the specific name given to this (a Marxist copyright) is *monopoly capitalism*. What about a possible *monopoly mercantilism*?

Or, as the Austrian economist Ludwig von Mises would propose, a name given to the system of government intervention in the economy: *monopoly interventionism* or *monopoly statism*. (1998, pp. 680-681) To what extent are State interests serving capitalist interests more than capitalists' interests serving State interests? And how would a possible exit from such an undesirable situation look? The presupposition is in favor of an institutional revival but more in the direction of regulating markets, and less to testing institutional/government compatibility with natural institutions (private property, division of labor, prices, competition etc.). The *social policy* idea, embraced by Madgearu as a new, fresh way of conducting the economic affairs, fully supports the thesis that *interventionism* into the market system was a strong conviction for the professor. Below, a proof of a ‘technocratic’, supposedly non-ideological air:

Nobody – among people of name – question anymore the State right to regulate the conflict between capital and labor. All our political parties admit State interventionism under the conceptual doctrine of *social policy* (1915a, p. 26).

The private economy along with the *science of businesses* will be historically acknowledged and will function as a support for *public intervention* of the State. In a sentence, this is the great task of social economy, to know the particular features of private businesses with the aim of regulating them. (1915b, p. 36-37) But government intervention in the economy is necessary to be under the democratic rule, it should be a ‘guided’ economy but not authoritarian, like in the cases of fascist Italy or national-socialistic Germany which substituted the ‘liberal’ economy. (1936b) Madgearu thus believed in an overall liberal economy, guided by the state everywhere markets fail to achieve their outcomes and in despite of “so many failures of public intervention” (1936b).

Socialism, by which today economists understand “public property on the means of production”, Madgearu understood it much in the same manner as interventionism. Arguing that it’s childish to judge socialism only through the Russian experiment, he defended various quasi-socialist (social democracy?) regimes based on “unionism” and the “elimination of profit as a main motivational factor”. As examples he offers Arsenal
industry from Austria and France’s substitution of profit-based principle to labor-based principle. While it would probably be far-fetched to consider Madgearu in favor of socialism it’s nevertheless in the spirit of truth to argue that 1) ‘liberal’ economy – Madgearu’s perspective – is a semantic trick, since liberalism is used only as a leg for interventionism (‘dirijism’); 2) Madgearu had no suspicion of the implication and further consequences of an interventionist regime, naively thinking that a constitutional democracy can temper the unavoidable distortions in the system of prices and production.

Last but not least, while admitting the benefits of capitalism in offering higher standards of living for the workers (1940, p. 6) Madgearu is against the Romanian liberal fascist-style polices, which captured the industries and slowed economic growth.

...wasn’t right when I said from the beginning that you don’t provide incentives for a mixed regime but you organize the assignment of State assets to the private capital, and specifically organized in your national trust? (1925, p. 64)

However, social policy or social economy is not fundamentally different than the bulk of liberal policies of the interwar period17. With few different accents put on the import of foreign capital and international trade issues, where liberals proved to be very protectionist in comparison with Madgearu and the peasantist doctrine, the two paradigms are pretty much the same, or at least they share the same unshakeable conviction: State intervention is necessary irrespective of how natural institutions set the stage.

Fiscal policy

Operating with the idea of redistributive justice, Madgearu considers that for the war’s material and human casualties, there is a responsibility of even those who rightfully became rich, through economic means.

Even the most honest capital accumulation – which is private savings – holds a responsibility, since while a great number of people were losing their lives on the battlefield, their homes, others enjoyed the quietness of their lives and saved money (1921).
He was against fiscal evasion, in the name of a *fiscal justice* – which is backgrounded in a more general idea of *social justice* – and proposed through legislation an intensification of State control and raising penalties for non-compliance. He did not believe in a so called excessive fiscal regime that would define Romania, and suggested comparisons with other countries. However, capital accumulation and purchasing power is different from country to country, thus being of little importance such comparisons. Ion N. Stan resumes in few propositions Madgearu’s fiscal intentions:

For the implementation of his reform Madgearu adopted the following financial methods: 1. the cut of certain taxes which founded it too burdensome, according to the ability-to-pay principle; 2. augmenting the fiscal base by introducing new taxable objects; 3. Corection and systematize of certain taxes; 4. improving the technique of disposition, levy and tracking of the taxes, in order to ensure a general and equal imposition; 5. Combating fiscal evasion and frauds; 6. Renewal and improvement of the administrative apparatus of the State (1945, p. 13).

In short, his reform meant a reduction of many taxes and impôts on agricultural goods, buildings, labor income, automobiles, which aim at favoring small craftsmen (the small bourgeoisie), but still promoted an “reserved attitude towards enterprises and capitalist creations” (1945, p. 13). This was due probably to the fact that Madgearu “was convinced that because of plutocratic interests, fiscal quotas applicable to the big economic actors were too small, and those applicable to the small ones were too burdensome” (1945, p. 14).

*International trade and foreign capital*

Madgearu advances a striking idea on mercantilism, that it didn’t mean a confusion of wealth with money. (1936, p. 127) However, how else could be explained the preference of the absolutist monarchs for the aﬄuence of money, in gold and silver coins at that time?

Free trade in international trade, one of the principles of the liberal doctrine (in the French and British sense of the word), is overall preferred to mercantilism. This stems out clearly from Madgearu’s writings and speeches. Free trade renders better outcomes than mercantilism which “had questionable effects”, created monopolies with a “harmful impact” on the economy (1936, pp. 172-173). However, as regards modern
mercantilism, or protectionism, Madgearu remains on the same eclectic positions. While protectionism - especially industrial protectionism – can lead to “chronic hunger” (1936, p. 179), there can be instances in which “imports can gain more feathers”, can become a “wild” import with results in the “congestion of the local stores with goods” (1936, p. 12). Jean Baptiste Say’s law of markets doesn’t seem to be a reliable judgment for Madgearu as he believes in this increased-imports scarecrow. For Madgearu, although there are “natural brakes” for increasing imports (e.g. currency depreciation), these can still go beyond a ‘reasonable’ limit.

Although in general in favor of a free international exchange regime, Madgearu wasn’t applying the same principle at home, where protectionist laws, such as the minimum wage law should ‘protect workers’ or laws regarding prices of industrial goods in the energy sector, where “it is unconceivable an absence of a price policy” (1925, p. 65).

On the problem of foreign capital imports, Madgearu was in favor of such imports. He recognized the lack of capital accumulation in Romania and urged to open the frontiers for foreign capital. “Putting barriers to foreign capital imports, in all cases and where there is no superior State interest, is a mistake” (1925, pp. 38-39). He was referring to the liberal protectionist attitude towards foreign capital. In the view of the liberal party leaders, foreign capital, once imported, it could offer political opportunities for foreign governments, which in times of crises or war is to be avoided (2013, p. 404). With all these risks, foreign capital could be the only option for a state in which “the normal source of capital creation, the economies of the productive class transformed into industrial investments, was completely absent” (1925, p. 40).

State (bureaucratic) management vs. Private (profit) management

Although Madgearu recognized the importance of capital and capitalism, when it comes to State assets his ideas follow the same interventionist route. He seems to argue in favor of a State which has no economic calculation or incentives problems:

…instead of giving State wealth for exploitation to favored individuals based on political considerations, one should give State wealth to be exploited according to the general interest and for the satisfaction and sanctification of the right that labor has on the wealth of the country (1925, p. 41).
And the solution envisioned for avoiding capitalist exploitationist schemes include the mixt cooperative regime, which according to Madgearu is “moral and social useful” because “it encourages organized labor in cooperatives, and, instead of giving public wealth to favored individuals, it would be exploited with Romanian labor organized in cooperatives which will accompany the State, counties and communes” (1925, pp. 57-58).

Madgearu is against the monopoly prices of some monopolist public enterprises but does not propose the eradication of the cause, a possible abolition of public monopolies. Instead, he is in favor of regulating their prices (1925, p. 66). Moreover, we discover that state monopolies can be more efficient if they are taken out of the bureaucratic system, which “impedes any rational organization, any accountability and calculation” (1925, p. 69). However, to take it out does not mean to privatize, but only to put it under that part of the State which has the managerial function. According to him, there is a so called managerial function of the State, which should not be confused with the authority function:

It is the crises of modern State. Modern State has not come to distinguish between its two functions: authoritative function and management function (1925, p. 3).

We also discover in Madgearu’s ideas that public enterprises can be conducted under the same methods as private enterprises. “…to apply to households and public enterprises a method of organization and management similar to that of modern private enterprises” is a task of the State, since “even Alexander Millerand, the president of the French Republic, speaking about these organizations said: ‘I do not admit a State managed by other laws and rules than those of an well managed industrial enterprise’” (1925, p. 5).

As regards the boards of privatized companies, Madgearu knows that more State delegated members in the board’s enterprises would have potential harmful effects, as in the case of State enterprises. Nevertheless, he considers that this issue “is not the most important” (1925, p. 51).
6. Conclusion

The present research was intended to be a travel into the history of ideas. Its leitmotif was that Virgil Madgearu – and probably other important figures of the Romania’s interwar period – need a new, fresh and subjective approach towards his/their ideas. The methodology used was in the tradition of classical liberalism, British and French schools, of 18th and 19th century. It is therefore a critical overview of Madgearu’s economic ideas from the perspective of a lost tradition, but nevertheless still producing echoes today. An example would be the recent planetary event of Great Britain’s referendum which decided in favor of leaving the European Union, which determined a commentator to say that “Great Britain is going back to the illusions of 19th century”, a suggestion to the liberalism of 19th century. Other example is the Marxist semantic trick called ‘neoliberalism’ which tends to be an outrageous attempt to undermine and damage the meaning of true liberalism. Properly understood in technical economic terms, neoliberalism is nothing more and nothing less than government intervention in the market economy. The bulk of synonyms include: fascism, crony capitalism, social market economy, state capitalism, ‘guided’ economy and others. A correct and historically fair approach to it would be neointerventionism. At any rate, there is thus a legitimate research task to search for the position of true liberal ideas in the Romanian space.

As the paper first emphasized, Madgearu’s eclecticism in theory – no less in practice – is the result of three main influences: German historicism, Russian narodnicism (poporanism) and Marxism. It was called anticapitalistic trinity because there are no doubts about its obvious skeptical positions towards the capitalist society. This eclecticism served well the political purpose: pleading in favor of the peasants’ class and for a rural, agrarianist state with small household production protected of the capitalist exploitation. But it nevertheless requires at least an explanation for its adoption, which Madgearu did not offer, probably also due to his early death in 1940 (age 53). And this would be the second major contribution of the paper, to stress on the problematic character of Madgearu’s theoretical eclecticism which went perfectly together with interventionism in the market economy.

Questions regarding the philosophical, sociological or cultural feasibility of such a peasant’s society were outside of the paper’s purpose which was to expose as much as possible only Madgearu’s ideas as
an economist. There are of course other interesting adjacent areas that remained unexplored, and could take the form of future research concerning Virgil Madgearu. Of these we could mention a category of purely economic issues such as the clarification of two cloudy ideas, the relation of Madgearu with socialism and fascism, his ideas and public policies during the Great Depression, his monetary thought, his thoughts on the economy of war; and another category of purely biographical or historical issues, with Virgil Madgearu through the lens of his contemporaries, the conflict with the Iron Guard, his supposed relation with the Fabian Society of London, the trustiness of post-1945 biographies of Madgearu. All these can definitely constitute important steps for shedding light upon the life and personality of Virgil Madgearu.
NOTES

1 See Ion N. Stan, *Virgil Madgearu în finanțele publice românești*, Remus Cioflenc, Bucharest, 1945, where Madgearu is described as “one of the strongest, dynamic and original figure of all economists that Romania had” (Introduction); Ion Gh. Roșca & Ovidiu Nicolescu, *Mari personalități ale ASE. Virgil Madgearu*, Ed. ASE, Bucharest, 2011, note that “without any doubt, of the pantheon of great romanian economists... Virgil Madgearu cannot miss” (p. 7); “an coryphaeus of Romanian economic thinking” (p. 129) is the noble title attributed to Madgearu, by Maria Nicolai & Edit Lukacs, contributors of the same publication.

2 The author would like to address his gratitude to Jörg Guido Hülsmann, professor of economics at *Universite d’Angers*, for his kindness in offering precious advice in the elaboration of the present paper.

3 Although, because of the labor theory of value, British economic writers have done much harm to economic science. Because of this unfortunate fact, Paul Douglas places Adam Smith as a “precursor of Marx”, since Marx borrowed from the British classical economists the labor theory of value, adding it the ‘surplus’ theory. (via Rothbard (2006, p. xii)).

4 Romanian economic historiography is not so generous here. However, for an in-depth analysis of the liberal/free trade vs. statist/protectionism debate in 19th century Romania, see Eugen Demetrescu, *Influența Școalei Economice Liberale în România în Veacul al XIX-lea*, Editura Domino, Bucharest, 2005. Demetrescu explains how “the idea of free trade acquires a meaning before the independence, after this moment being replaced with the protectionist idea” (p. 91); In a recent work, Topan (2016) argues that “One of the things which can probably be safely – and sadly, in our opinion – said about the history of modern Romania is that it knew neither a coherent and consistent body of classical liberal ideas nor a genuinely classical liberal political and economic program.”; Also, Smirna & Topan (2015) conclude that „The rule in the Romanian economic literature from 19th and 20th century is to judge the matter (of foreign capital) based on mercantilist and protectionist ideas.”

5 As a matter of fact, the social base of the Peasants Party – as the promoter of peasantist ideology – was not based exclusively of peasantry members. “The social structure of the Party was extremely heterogeneous, a significant place being composed of small and medium bourgeoisie” (Scurtu, 1994, p. 69)

6 The first land reform of the National Peasants Party continues the expropriation policy of former liberal governments.

7 An interesting similar phenomenon is observed by Professor Costea Munteanu evaluating the number of post-communist governmental reforms. Professor Munteanu baptized it as pathological gradualism. (1995)
To say the least. According to a study, 55% of the Romanians think that “the communist idea is a good one but badly applied” (2012, p. 9).


We speculate, perhaps seeing that others before him already classified it as a “history of wasted energies which could have been put to better use” (Schumpeter, 2006, p. 782).

Two laws were enacted for this purpose: the law for the organization of cooperation (March 28, 1929) and the law for the organization of rural mortgages and agricultural credit (July 29, 1929).

State funding was not an option to private funding. Romania interwar period was lacking the necessary capital for such projects (Roberts, 1969, p. 159).

On the problem of capital accumulation in Romania, as the cause for workers’ poor situation see Hitchins (2013) and Roberts (1969).


“According to the Marxian doctrines of imperialism, there prevails within an unhampered market society a tendency toward the establishment of monopolies. Monopoly, according to these doctrines, is an evil originating from the operation of the forces working in an unhampered capitalism. It is, in the eyes of the reformers, the worst of all drawbacks of the laissez-faire system; its existence is the best justification of interventionism; it must be the foremost aim of government interference with business to fight it. One of the most serious consequences of monopoly is that it begets imperialism and war.” (Ludwig von Mises, *The Omnipotent Government. The Rise of the Total State and Total War*, Yale University Press, 1944, p. 70). The same Mises delivers a trenchant semantical solution to this problem: “They are not products of capitalism, but precisely of the endeavors to counteract the forces determining the height of the market prices. It is a distortion of fact to speak of monopoly capitalism. It would be more appropriate to speak of monopoly interventionism or of monopoly statism” (Ludwig von Mises, *Human Action. A Treatise on Economics*, Ludwig von Mises Institute, 1998, p. 677).

Whoever wishes to understand the phenomenon of capitalism in Romania, or in the eastern part of Europe, could be at pains reading Romanian sociology.
or economics. Socio-economic evolution is described with Marxist theories, as Virgil Madgearu confirms it:

In Romania a common practice is to apply Western theories with regard to capitalist evolution on the European eastern and south-eastern, without any qualification. Some of our sociologists do this relying only on Sombart’s theory of western capitalism’s evolution, and others endorse the Marxist evolutionist theory. (1936, p. 119)

Had been any other alternative theories in the epoch, we assume that, Madgearu should have known of their existence.

Keith Hitchins offers a delightful synthesis of how liberal governments understood ‘liberalism’. It was interventionism, and no trace of liberalism: “They had an authoritarian approach in economy. Without hesitation they organized cartels, imposed tariffs, granted subsidies and other financial favors to achieve their main purposes – industrialization and the creation of a modern infrastructure based on Western models. Such policies were benefits for the financial and industrial oligarchy, but costs for other groups and classes” (2013, p. 427).
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