L. Tvede. *Business Cycles from John Law to the Internet Crash*. London and New York: Routledge. 2001. Pp. x + 350. ISBN 0 415 27050 2. £65.00.

Daniele Besomi*

Lars Tvede, an engineer with a BA in economics who has worked in investment banking and in the high-tech and communications industries, has added a worthy contribution to the already long list of publications on business cycle theories.[1] This is one in the handful of post-Haberler single-handed book-length attempts to survey and classify trade cycle theories, and is notable for not following the customary approach consisting in pigeon-holing theories according to the actual cause evoked to explain cycles and crises. Most of the existing surveys (a number of which take the form of appendices to books whose authors attempted to place their own theories in context) tend in fact to reproduce and update the scheme used by Haberler in *Prosperity and Depression*, which distinguishes monetary theories, over-investment theories, under-consumption, changes in costs, maladjustments, psychological theories, and harvest theories.[2]

Tvede's approach reflects his education and professional background, and here we find both the merits and the shortcomings of this book. Business cycle theories, as well as the older explanations of crises, are read and classified according to the mechanics of the feedback mechanisms required to explain the cumulative divergence from equilibrium and the turning points, with a special attention to the phenomena connected to credit and financial markets. In a way, this perspective is very basic; yet here lies its strength. Any explanation of a crisis must in fact, logically speaking, take into account some factor capable of explaining why the system remains (for a time at least) far from equilibrium: there must be some kind of positive feed-back between an effect and its cause so that the cause is reinforced instead of exhausting itself; this may be coupled to a mode-locking mechanism, that is, something coordinating and synchronising the behaviour of different parts of the system. And any explanation of turning points must include some negative feed-back mechanism slowing down and eventually reversing the operation of the positive feed-backs. Some of these mechanisms are endogenous while others are exogenous; some are linear and others non-linear; some deterministic and others stochastic; some operate on intrinsically stable systems and others on unstable ones. Tvede translates trade cycle theories in terms of the logical-mechanical components of each explanation, and is therefore able to supply simple schemes for classifying these models (a task which the reader will largely have to accomplish him- or herself).

Three such schemes are worth mentioning, for their intrinsic interest and as they give a fairly good idea of Tvede's approach. The first concerns positive feed-backs, of which five typologies are listed (p. 165): positive feedback loops ('vicious circles, in which a given event stimulated another, which in turn stimulated the first. Early theories such as those of Mill and Marshall, which suggested that people accelerated spending when they saw prices go up, belonged to this category'); echoes ('clusters of investments in durable capital goods … or consumers goods'); cascade-reactions ('chain reactions with a built-in amplifier effect. This was typical in "mass-psychology" theories'); lags (examples of which are cobwebs and accelerators); and disinhibitors ('phenomena in which potential negative feedback

processes were temporarily blocked by positive feedback processes. Many psychological theories incorporating tendencies towards conventional behavior could be described as such').

The second scheme regards the upper turning point, which for the economy is characterised by negative feedback loops (bottlenecks, business expenditure and profitability, critical lengthening of investment periods), re-investment echoes and lags (accelerator and cobweb phenomena, and lagged inventory adjustments), while in the case of equities they are characterised by negative feedbacks (valuations falling behind actual prices, rising cost of money, drain of liquidity to the real sector, new issues), echoes (waves of profit-taking) and cascades (p. 258).

The third scheme provides an 'overview over different approaches to business cycle modelling at the end of the millennium', which are classified in a four-box grid according to whether they are deterministic or stochastic and endogenous or exogenous (pp. 289-94). The separating line for the deterministic-stochastic division is whether economic behaviour is relatively predictable and orderly or relatively complex and unpredictable: the exogenous-endogenous division, besides its obvious economic meaningfulness, is based on the awareness that 'modeling inherent instability meant use of non-linear functions'. Most classical and neoclassical models belong to the endogenous deterministic category. The endogenous and stochastic group includes some strange bedfellows such as Keynes and Minsky on the one hand, for their emphasis on financial instability, and Jevons's sunspots together with rational expectations models. Jevons, however, is also seen as the first example of the exogenous and deterministic models, which possibly include political cycle theories. Finally, the real business cycle theories of the 1980s are exogenous and stochastic, as they 'typically suggest a dynamic behavior where the amplitude of fluctuations was determined mainly by the size and frequency of the shocks, and where the length and sequence of cyclical events was determined by the inherent nature of the propagation mechanism'.

Although the partitioning is blurred and there can be overlapping, this kind of approach is promising as it points to some essential features of cycle theories and in particular to the fundamental problem they have to tackle: the relationship between crisis and equilibrium. Whether implicit or explicit, the reflection on what brings and keeps the system far from equilibrium is at the heart of business cycle and crisis theories; it is not just a matter of identifying *the* destabilising factor or factors, but of realising that in order to provide a valid explanation of crisis, the *possibility* of crisis has to be contemplated at the outset. The problem is not mainly one of mechanical causation, but an epistemic one. Although relatively rarely, some cycle and crises theorists explicitly discussed this problem. Marx, for instance, examined the possibility of crises *before* discussing their necessity. Keynes insisted that there is a neat dividing line between those (the orthodox) who believe that the system is self-adjusting in the end, and therefore rely in their explanation on exogenous causes or on frictions and maladjustments, and those (the heretics) who reject this idea, thereby supplying endogenous explanation of crises ('Poverty in Plenty: Is the Economic System Self-Adjusting', November 1934, in *Collected Writings* vol. XIII). Harrod, although not relying on Keynes's orthodox/heretic distinction, expressed the same concept by way of criticism of Pigou's psychological theory and by considering the instability of equilibrium as the *vera causa* of the cycle. But the most explicit statement to such an effect was given by Adolph Löwe in 1926, who clearly affirmed that no business cycle theory is

possible at all if equilibrium is supposed to be stable. Hayek acknowledged the importance of Löwe's problem (although he tried to bypass it), and drew the only possible consequence for the historian of thought: 'the only classification [of business cycle theories] which could be really unobjectionable would be one which proceeded according to the manner in which such theories explain the absence of the "normal course" of economic events, as presented by static theory' (Hayek, *Monetary Theory and the Trade Cycle*, London: Cape, 1933, pp. 53-54).

Normality *versus* abnormality of equilibrium and crisis, orthodoxy *versus* heresy, stability *versus* instability: these are the conceptual couples recurrent in the economic debate which lay behind the classification propounded by Tvede. In spite of being conducted more in engineering than in economic terms, Tvede's approach – by showing how the problems of equilibrium, instability and cycles are intrinsically related – is enlightening and likely to be a suitable accompaniment (and possibly a guideline) to a history of crises and cycles theories developing Hayek's hint.

The engineering approach is at the same time the strength and the weakness of this book. The theories Tvede discusses are rarely placed in their context, some interpretations are rather hazardous (Say's Law, for instance, is taken to mean that production *stimulates* demand: p. 94), there is hardly a broad outline of what unites and divides the main schools of thought, there are many imprecisions (which are however compensated by a number of penetrating judgements, often thrown out almost parenthetically), credit and financial instability are overemphasised, there are some relevant omissions (the list of names missing from the index includes people such as Spiethoff, Tugan-Baranovsky, Kalecki, Harrod, Aftalion, Malthus, Sismondi, Moore, Haberler and the Swedes; one of the most surprising exclusions is Richard Goodwin, whose pioneering contributions in non-linear dynamics surely deserve a reference, especially considering that the chapters dealing with chaos theory hardly mention an economist), and the book could have been improved by a good deal of copy-editing (several names are misspelt, hardly any reference indicates page numbers, the index is not complete and the list of references misses a number of items cited in the text).

Nevertheless, this enterprise was obviously not meant to be a scholarly treatise on the history of business cycle theories. Tvede's book is rather an interpretation of the complex developments of the theoretical reflections on a problem which, willy-nilly, accompanied most of the history of economic thought and still is with us. Again, this has the advantage of offering a clear perspective which is missing from other accounts, but is subject to the risk of narrating the events in teleological terms as leading, along with progress in the analytical toolbox, towards a more complete and rich kind of explanation. Tvede occasionally succumbs to this temptation, as for instance when reconstructing the 'archaeology' of trade cycle theories (chapter 6), beginning from a Cambridge connection (Marshall, Pigou and Robertson, complemented with a reference to Hawtrey), gradually realising that more data were needed, data which were supplied first by Mitchell and then by Kuznets, who also realised that along with the 'Juglar' cycle there was a longer one, which coexisted with a range of cycles of different periods (Kondratieff's, Kitchin's, and Metzler's inventory cycles) and are actually incorporated in a unifying theory by Schumpeter. The upshot of such a narration becomes clear a few chapters later, when a model coupling cycles of different wavelengths is discussed, showing the emergence of various kinds of loops and feedbacks leading to the identification of chaotic motion (chapter 18; to honour the

truth, however, it should be pointed out that Tvede acknowledges that contemporary model-makers are not always aware, as the 'classicals' were, that several explanations of cycles are possible and necessary and should be allowed to co-exist).

Once one is aware of the aim and of the shortcomings of this book, it makes very valuable reading. The peculiar style of narration supplies an additional bonus: it is packed full of anecdotes, each chapter has a secondary story to tell (often illustrated with pictures of the main characters), the main concepts are expounded in boxes or bullet-listed. The result is a very clear and entertaining account of a potentially boring subject.

---

* C.p. 7, 6950 Gola di Lago, Switzerland. Email: dbesomi@cscs.ch.

Notes

1 This is a second edition; the first was published in 1997 by Harwood Academic Publishers, and bore the subtitle: *From John Law to Chaos Theory*. The new edition has about 70 additional pages, most of which update the final part with reflections induced by the internet bubble; there are two new appendices, one listing the American leading, coincidental and lagging indicators and one depicting a typical sequence of events in a business cycle.

2 A relevant exception is Mirowski's *Birth of the Business Cycle* (New York and London: Garland, 1985), where the organising principle is found in the logical 'stages' (not necessarily chronologically developed in the same order) necessary to construct a theory of instability.

Tim Rowse. *Nugget Coombs. A Reforming Life*. Cambridge: Cambridge University Press. 2002. Pp. x + 419. ISBN 0 521 81783 8. $A59.95.

Herbert Cole (Nugget) Coombs is generally regarded as one of the most distinguished Australians of the twentieth century. This is attested to by the lists of great Australians compiled by newspapers and prominent individuals at the time of the bicentenary of European occupation in 1988 and the arrival of the new millennium in 2000. Coombs figured in everyone's top 50 or 100. Sometimes he was placed at the head of the list, even ahead of Sir Donald Bradman. Usually he was the only economist included in these lists.

Coombs, of course, was much more than an economist. He was a prominent public figure, a former Head of a Commonwealth Government department and Governor of Australia's central bank, one of the founders of Australia's national university, patron of the arts, promoter of the welfare of Indigenous Australians, advocate for the advancement of women, and champion of sustainable development. All these dimensions of Coombs's life are covered in this justly acclaimed biography by the ANU historian, Tim Rowse, who is soon to take up the chair of Australian Studies at Harvard University. While Coombs's public life is the central focus of the biography, there is very little said about his private

life, the author steadfastly abiding by an agreement that Coombs would cooperate with the author on the understanding that his private life would not be explored in the book.

What do we learn about Coombs, the economist, from Dr Rowse's book? He studied economics as an undergraduate at the University of Western Australia (UWA) in the late 1920s under E.O.G. Shann, initially by correspondence as an external student. Earlier he had completed a teaching certificate and had commenced to teach in country schools. It was while a probationary teacher that he decided that his career as a teacher would be enhanced if he were to enrol for a university degree. After completing a B.A., with first-class honours in economics, he undertook research for the M.A. on the subject of the development of central banking in Australia. One of his examiners was Shann, the other was the Commonwealth Bank's Economist, Leslie Melville. Coombs then won a Hackett Fellowship to the LSE, where he wrote a thesis on central bank policy during the early 1930s in four British Dominions; his supervisor was Professor John Coatman, an expert on Commonwealth affairs. At the LSE he moved in the circle of Harold Laski, finding the senior economists at the School – Robbins and Hayek, among others – considerably to the Right of his own inclinations. Given his interest in monetary policy, his preference would have been Cambridge, but the income from the Hackett Fellowship was inadequate to meet his costs and those of his wife; he realised that he would have to obtain some casual work as a school teacher and was advised that it would be easier to secure teaching jobs in London than in Cambridge. There, in London, he observed at first hand the social consequences of the Depression and the inability of public policy to cope with it, which left indelible marks on his mind and outlook.

With the completion of his doctorate, he returned to Perth, where he resumed school teaching for a while and was invited by Shann to give occasional lectures at the University. The turning point in his career came in 1935 when Melville offered him the position of Assistant Economist at the Commonwealth Bank in Sydney. He came to admire Melville's thoroughness and his razor-sharp mind. And while his views were often at odds with Melville's, he welcomed Melville's tolerance and willingness to debate issues freely with his younger colleagues. It was Melville who trained him in the practices of central banking, and who introduced him to the economists at the Bank of New South Wales and Sydney University. Coombs was often invited to lecture at the University, taking John La Nauze's History of Economic Thought course on one occasion, when La Nauze was on leave.

At the outbreak of war, Coombs was seconded to the Treasury as Economist, and shortly afterwards was appointed to the influential Financial and Economic Committee (the F&E), which played a principal role in advising the Menzies, Fadden and Curtin governments on war finance and postwar international economic policy. When Labor came to power late in 1941, Coombs was appointed Director of Rationing, and when the Department of Post-War Reconstruction was established towards the end of 1942, he was appointed its first Director-General. Most of the second half of the 1940s saw him representing Australia at international conferences in the United States, London, Geneva and Havana. At the beginning of 1949 he was appointed Governor of the Commonwealth Bank and succeeded to the Governorship of the Reserve Bank when it acquired the central banking functions of the Commonwealth Bank in 1959. He retired from the Reserve Bank in 1968.

Thereafter, except for the three years of the Whitlam government, when he served as an economic adviser to the Prime Minister and headed the Royal Commission on Australian Government Administration, Coombs devoted his time to the arts, Indigenous Australians and the environment.

These are the essential facts of Coombs's career. What details do we learn from Dr Rowse's book? One is the crucial importance of Coombs's education. He was never the top student at any stage of his educational progression, unlike his Treasury adversary, Roland Wilson, or his boss at the Commonwealth Bank, Leslie Melville. But he set his sights firmly on educational achievement, winning scholarships to Perth's Modern School, Claremont Teachers' College, and the LSE. He worked assiduously as a student and was always dedicated and committed to his studies, learning much from his teachers, among whom was the Professor of English at UWA, Professor Walter Murdoch. Rowse highlights the fact that Coombs learnt from Murdoch the importance of clear expression, both in spoken and written forms. Clarity of communication became a notable feature of Coombs's character and contributed to his success as a policy adviser and public figure. What Coombs learnt from Shann or Coatman is unclear.

In his autobiography, *Trial Balance*, Coombs emphasised the importance of Keynes's *General Theory* in the development of his own ideas and approach to economics and public policy. But, as Rowse pointed out in an article published in this *Review* (No. 30, Summer, 1999, pp. 108-25), and which he repeats in the biography, it appears that Coombs was initially antagonistic to some key aspects of the *General Theory*. Perhaps one should not make too much of this; Melville himself, though generally adhering to Keynes's major arguments, was critical, too, of some elements of Keynes's thought. For economists, it is a pity that Rowse does not examine in more detail the evolution of Coombs's position on economic theory during the decade of the 1930s, including his changing attitude to the *General Theory*. In his M.A. and Ph.D. he appears to have supported the role of central banks in adopting monetary policies designed to stabilise the level of economic activity. But Rowse does not explain what Coombs's attitude was to the dominant thinking at the LSE when he was a research student there in the early 1930s. Nor do we learn much about the work Coombs was doing in the Economic Department of the Commonwealth Bank between 1935 and 1939, or about the precise nature of the relationship between Coombs and Melville. Given the close working relationship between the two men over a period of thirty years (including the years between 1953 and 1960, when Melville was Vice-Chancellor of the ANU and Coombs was effectively the Chancellor), Rowse might have provided us with more detail about their interpersonal dynamics, both before and after Coombs was appointed Governor of the Commonwealth Bank over Melville. Coombs appears to have been very sensitive to Melville's disappointment, quickly appointing him Assistant Governor, recommending his appointment to the IMF and World Bank as Australia's Executive Director, and supporting him for the position as ANU's second Vice-Chancellor (Coombs, in fact, had wanted Melville to be the foundation Vice-Chancellor, but the Interim Council preferred Copland).

Whatever Coombs's initial reaction was to the *General Theory*, he later became a Keynesian, *par excellence*. He supported the approach to war finance which the F&E devised along somewhat similar lines to those which Keynes had promoted in his *How to Pay for the War*. He supported, too, the view which the F&E had taken in response to Article V11 of the Mutual Aid Agreement. And, as

Rowse explains at length, Coombs was the principal architect of Australia's entry into international economic diplomacy in the 1940s, developing as he did the so-called 'Full Employment' or 'Positive Approach'. This policy proposed that the signatories to major international agreements, including Bretton Woods, the International Labour Organisation, the Food and Agriculture Organisation, the United Nations and the International Trade Organisation, should pledge themselves to the pursuit of policies aimed at maintaining full employment. In return, Australia would commit itself to non-discriminatory policies in international trade and finance. It is important here to make the distinction between the development of the initial response to Article V11, for which the major credit probably belongs to Giblin, and the 'Full Employment Approach', for which Coombs was largely responsible. Rowse appears to give too much credit to Coombs for developing the initial response. This, in fact, is a particular example of a more general criticism that can be made of the entire book, namely, that the author is inclined to attribute far too much to his subject.

What of Coombs's years as Governor of the Commonwealth and Reserve Banks? Here a number of matters are highlighted in the book. One is Coombs's high sensitivity to inflation and its propensity to destabilise market economies and heighten social tension and conflict. Coombs had been highly critical, and rightly so, of the Chifley Government's failure to rein in inflation. Reluctance to deal with excess demand owed much to the government's obsession, and that of many of its advisers, with the possible return of mass unemployment at the end of the postwar boom. Coombs believed that the failure to maintain non-inflationary levels of aggregate demand was a betrayal of the policy position which had been adopted in the famous White Paper of 1945 on full employment, of which Coombs had himself been a principal author. And throughout the 1950s it was Coombs and the central bank, rather than the Treasury under Wilson, who articulated the need to dampen excess demand by calling for tighter fiscal policy and higher interest rates. This invariably led to conflict between Coombs and Wilson, and invariably it was Wilson who won the battles, much to the growing frustration of Coombs and his colleagues at the Bank. In response, Coombs sought to encourage alternative sources of policy information and advice to the government, which further contributed to ill-feeling between the two men and their respective institutions. This disagreement between Wilson and Coombs, though it is mentioned by Rowse, is another issue that perhaps deserved somewhat fuller treatment than it was given.

Coombs's final work as an economist was advising Prime Minister Whitlam from 1973 to 1975. As was the case during the Chifley years, it proved difficult for Coombs, notwithstanding all his gifts as a communicator, and the great trust placed in him by the government, to persuade the government that its economic policy was inappropriate, given the collapse of world economic growth. The book provides in some detail Coombs's attempts to influence the government's wages, tax and welfare policies. But an opportunity was missed here to examine in a more general way the nature of the relationship between governments and their professional economic advisers.

These are criticisms by an economist of a biography of a man who, though he was trained as an economist, and while he worked for a significant part of his life as an economist, was much more than simply an economist. Had the book been written by an economist, a more detailed and informed examination of Coombs's work as an economist would have been expected, even at the expense of other

aspects of Coombs's public life. Be that as it may, this is a book that should be read by everyone with an interest in the development of Australian economic policy from the 1930s to the 1970s, and in the biography of economists. Those with an interest in the development of economics in Australia, and who are curious to know why economists commanded such great respect in Australia at the middle of the last century, will also profit from a reading of this book. A life of Coombs was certainly overdue, and Dr Rowse deserves great credit for devoting many years to the research and writing of the book. It will not be the definitive biography of H.C. Coombs. There are too many gaps for that, not the least of which is the silence on Coombs's private life. But until a fuller life is written, this biography will be a very worthy substitute.

* School of Economics, Australian National University, Canberra ACT Australia 0200. Email: Selwyn.Cornish@anu.edu.au.

Phillip Anthony O'Hara (ed.) *Encyclopaedia of Political Economy*. London and New York: Routledge. 2001. Volume 1 (A-K), Volume 2 (L-Z). Pp. xxxiv + 1302 (PB). ISBN 0 415 241888 X (set); ISBN 0 415 24186 3 (v.1); ISBN 0 415 24187 1 (v.2). Price: £50.00.

The hardcover edition of this *Encyclopaedia* appeared in 1999; its paperback edition (here under review) was published two years later, with a considerable reduction in price which will probably generate sales beyond the library market for such works. The work was designed, as the editor informs us, as an aid to communication between the various sub-groups into which economics is now divided and who find it hard to understand what some of their colleagues are on about in pontificating about a particular problem. The editor, Phil O'Hara, will be known to readers of this journal as an occasional contributor on aspects of Marxist economics. It is a tribute to his energy that the work was initially planned and organised by him, with the assistance of four associate editors (all from North America) and an editorial board of ten. Among the last, readers of this journal should recognise the name of Douglas Vickers, author of an interesting *Studies in the Theory of Money 1690-1776* (London: Peter Owen Limited, 1960) and a book of continuing value despite its age. In addition, there were seven editorial advisers (among whom were Geoff Harcourt, Allan Oakley and Gabrielle Meagher), and a committee of referees comprising close to fifty members drawn from four continents (only Africa is absent) and including six Australians (Harry Bloch, Robert Dixon, Evan Jones, Prue Kerr, John Lodewijks and Marie-Claire Thornton as well as Barry Gosh – the sole representative from Asia and an 'Australian' expatriate). Moreover, assistance was provided by no less than 21 subject committees covering institutional spheres, schools of political economy and specified topics (subjects) of which history of political economy (and general themes) forms one. The personnel of the last comprises George Argyrous, Hassan

Bougrine, Robert Dimand, Peter Kriesler, John Lodewijks and Steven Pressman – of whom a precise fifty per cent gained their first insights into history of economic thought at the University of Sydney. Fortunately, the book provides a subdivision of contents in terms of these subject groups, hence enabling a relatively easy assessment of the space given them individually. Construction of such a classification by topic is, however, rather difficult and likely to be controversial. To give some examples: is Post Keynesian economics now part of the *history* of economics or can it still be treated as a separate school of political economy as this book does? Similar problems of classification are relevant to the entries on Marxist political economy, Sraffian political economy (what happened to the neo-Ricardians?) and Schumpeterian themes, though all of these groups continue to have sizeable numbers of adherents. I was interested to see that the entry on Pasinetti's analysis of structural dynamics and growth was included with Schumpeterian themes; it would have been better to have included it with the Sraffian sub-group or that of Post Keynesian political economy. The classification of the contents thereby in itself stimulates thought of both an historical and an analytical nature.

Given the nature of the journal in which this review appears, the remainder of its contents largely focus on the entries included under 'history of political economy'. Given the type of classification problems briefly mentioned above, reference has also to be made to other entries where relevant. Skimming the index to the two volumes, covering names and subjects, indicates that Marx and Keynes are the undoubted gurus of political economy in this volume from the number of index entries they both receive. However, there are 36 entries devoted to the subject category of 'history of political economy and general themes' in the *Encyclopaedia*. The addition to this category title of 'and general themes' may be interpreted as a clever editorial ploy to prevent easy identification of which schools of thought have been relegated to the 'dustbin of history' and which fall under the living (or at least, surviving) heading of 'general themes'. Six of the entries are devoted to specific people: Galbraith, Heilbroner, Keynes (two entries), Myrdal and [Joan] Robinson. Fourteen entries are devoted to schools – among which are Austrian, classical, historical, Japanese (why only Austrian and Japanese schools, and not Italian, French, British, Australian ones?), Keynesian revolution, Marxist political economy, medieval Arab-Islamic, neoclassical (two entries, one explicitly critical), Physiocracy, Mercantilism, monetarism, surplus approach and a generic 'political economy (history, schools of)'. The final 16 entries deal with themes ranging from circular and cumulative causation and equilibrium/disequilibrium economics to the traverse and the value-theoretic foundations of price theory. Some puzzles immediately suggest themselves from this classification. Why, for example, are Gandhian, Schumpeterian and Sraffian political economy specifically classified as schools while Keynesian, neoclassical, classical and Austrian political economy are relegated to history of political economy? Why are Myrdal's, Robinson's and (some of) Galbraith's economics discussed as historical topics, while Veblen, Commons and (other parts of) Galbraith were included with (a presumably thriving) institutional school?

Some of these entries are also very disappointing. Classical political economy is defined by its two French authors (Duménil and Lévy) in terms of the Industrial Revolution, with Adam Smith and David Ricardo as the leading members of the school. Identifying the beginning of classical political economy with the

Physiocrats and its close with the work of Karl Max (as done by Denis O'Brien in his 1975 book, *The Classical Economists*) is another approach to defining this group of economists. Marx's definition of 'classical political economy', nomenclature which Marx incidentally had himself introduced to the language of the subject, is not mentioned. Not surprisingly, therefore, neither is its distinctive approach to periodisation from Petty/Boisguilbert (circa 1650) to Ricardo/Sismondi (1820) with its emphasis on Britain and France and, more importantly, his rationale for making it. The article, 'Classical Political Economy' in this *Encyclopaedia* is therefore a very disturbing entry to a historian of economics who regards periodisation issues as crucial to the practice of the subject. The article on 'Political Economy (history)' by Riccardo Realfonzo treats classical political economy in the orthodox, non-Marxist manner as falling within the years 1776 to 1848 (p. 857) and finds room for 'Mercantilism' and 'Physiocracy' before, and for Marx, Veblen, Wicksell and Schumpeter, Keynes and Sraffa thereafter. The article 'Physiocracy' (by Marcil and Pressman) is likewise peculiar. It treats it simply as a theory of reproduction, thereby ignoring all the political elements. The Physiocrats themselves, and critical contemporaries like Hume and Smith, saw these political matters as a very important part of their doctrines, a point made strikingly in Fox-Genovese's book listed among the references. However, there are no references to original sources apart from one to Meek's 1963 selected Quesnay translations in his *The Economics of Physiocracy*. The fact that Quesnay was responsible for introducing the concept of capital to economics is also not mentioned. Hence one of Marx's reasons for praising the Physiocrats as the founders of modern political economy is completely ignored, that is, if the authors are even aware of them (the relevant segments from *Capital* and *Theories of Surplus Value* are not included among the references).

Adam Smith as a major political economist is not given a separate entry, neither is David Ricardo, though Marx is. The entry for the last, by the editor, is rather weak. Its references, for example, fail to include Mehring's brilliant biography, which in many respects remains definitive. The three sources of Marxism as summarised by Lenin are misleadingly transformed: that is, 'neo-Hegelian philosophy' for 'German Philosophy', 'European socialism' for 'French socialism', and 'classical political economy' for 'British classical political economy', hence ignoring the distinctive national dimension to these categories, which gave Marxism its justifiably high cosmopolitan flavour. In this context, the absence of an article on 'Hegel's Political Economy' may also be noted. The French socialists, it can be added, do not even make it to the index (Proudhon is an exception, but Marx's very substantial indebtedness to ideas from his *Philosophy of Poverty* is not discussed). Historians of economics will therefore be doubly disappointed. First, there are very few entries of a history of economic thought nature and, secondly, what there is, is frequently either quite wrong or very incomplete. (Space constraints cannot be used as a defence here; it is a matter of poor use of the available space and of frequently unsatisfactory referencing as the essential supplement to brief encyclopaedia articles.)

What about the strengths of the work? There are indeed a number of useful and interesting articles. The following stand out for me: John Milios on 'the Asiatic mode of production' with its well-selected references, Hodgson's able survey of 'bio-economics', Lodewijks on 'orthodox development economics', Dimand on Gilman, Besomi on Harrod, Dimand's articles on Keynes and his economics, Dow

on 'liquidity preference', Forstater on Lowe, Sawyer on 'market structures', Howard and King on 'history of Marxist political economy', Booth on Mondragón, Roncaglia on Sraffa, Holt and Sullerfield on 'time'. Others browsing through this book, with different tastes, may easily produce a very different list of favourite articles. Last, my favourite misprint occurs on p. 1129: it substitutes *History views Equilibrium* for *History versus Equilibrium*. My major gripe: space could not be found for an article on 'taxation', the political economy of which is so central to many issues in the contemporary world. There are, however, five page entries on 'taxation' in the index, together with a cross-reference to fiscal policy (a completely United States-focussed article, as indeed many of the articles tend to be). With all its blemishes, this is a useful collection which will feature on the reading lists of many political economy courses and, hopefully as well, on the shelves of many research libraries in universities across the world.

---

* Department of Economics, University of Sydney, Sydney NSW 2006, Australia.

Noel Thompson. *Left in the Wilderness: the Political Economy of British Democratic Socialism Since 1979*. Chesham, Hertfordshire: Acumen. 2002. Pp. vii + 312. ISBN 1 902683 53 6 (HB); 1 902683 54 4 (PB). £45.00 (HB); £14.95 (PB).

Noel Thompson has written a great deal on the history of socialist economics in Britain from the early nineteenth century to the late 1970s (see especially Thompson 1988, 1996). In this lucid, persuasive, scholarly and deeply depressing book he brings the story right up to date. Beginning with the early reactions to Thatcherism and ending with the uncontrollable lurch towards neoliberalism of the first Blair government, he documents the birth, mutation and death of nine alternative attempts to resuscitate the democratic socialist project. Successive chapters dissect the corpses of the Alternative Economic Strategy, the new municipal socialism, post-Fordist socialism, producer cooperatives and labour-managed enterprises (to which two chapters are devoted), market socialism, revamped Keynesian social democracy, 'knowledge-driven, supply-side socialism', radical stakeholderism and multinational (that is, European Union) socialism. His obituary for the penultimate strand, Will Hutton's radical stakeholderism, neatly summarises the drift of his entire argument:

> Thus a concept that might have provided the basis for a centre-left, or democratic socialist, political economy was stripped of its radical content and connotations, reconfigured to harmonize with the principles and practice of Anglo-American capitalism, then jettisoned from the official discourse of New Labour before, finally, being appropriated by the purveyors of corporate pabulum [in this case British Telecom]. Nothing could so graphically symbolize the death of British democratic

> socialism and New Labour's embrace of an Anglo-American model fundamentally inimical to its resurrection. (p. 255)

As his title suggests, Thompson sees no hope for the future: 'it now seems clear', he writes at the very end of the book, 'that the Left, in Britain, has entered an ideological wilderness from which there seems little prospect of return' (p. 287).

As a judgement on the century-old *political project* to transform British society through the electoral success of the Labour Party, this is beyond dispute. The Australian parallels, too, are blindingly obvious. As an assessment of two decades of democratic socialist *ideas*, however, it is more questionable. The intellectual case for the revival of some form of Keynesian social democracy is stronger than Thompson concedes, as can be inferred from the sizeable Post Keynesian literature on national and international economic policy to which he makes only fleeting reference. The Tobin tax, for example, is dismissed in one brief footnote (on p. 224, though it is not indexed), and there are many other omissions. I would have liked to see a detailed critical analysis of the ideas of Wyn Godley's Cambridge Economic Policy Group, and I was surprised to find nothing on socialist environmental thinking, on Robin Blackburn's case for establishing social control over pension funds, on Mike Kitson's elaborate plan for massive public sector job creation, or on A.B. Atkinson's support for Basic (or Citizen's) Income.

Thompson draws very heavily on writings by Labour politicians and political activists, while more narrowly academic work receives very short shrift even when (as in the case of Nicholas Kaldor's relentless battle against monetarism) it has a very direct bearing on fundamental policy issues. An exception to this neglect of academic sources comes in the two chapters on producer cooperatives, where the scholarly literature is assessed at some length, and to a lesser extent in that on market socialism. This makes the book a little uneven, as if Thompson could never quite decide whether he was writing political history or a history of economic thought.

These reservations notwithstanding, *Left in the Wilderness* is essential reading for anyone interested in recent economic ideas, not to mention those of us who still hope that it may be possible to tame the capitalist tiger.

---

* Department of Economics and Finance, La Trobe University, Victoria 3086, Australia. Email: j.king@latrobe.edu.au.

References

Thompson, N. (1988) *The Market and Its Critics: Socialist Political Economy in Nineteenth Century Britain*, London: Routledge.

Thompson, N. (1996) *Political Economy and the Labour Party: the Economics of Democratic Socialism, 1884-1995*, London: UCL Press.

Michael Latzer and Stephan W. Schmitz (eds). *Carl Menger and the Evolution of Payments Systems: From Barter to Electronic Money*. Cheltenham, UK, and Northampton, MA, US: Edward Elgar. 2002. Pp. vii + 191. ISBN 1 84064 918 6 (HB). £49.95.

Why trade useful goods for completely useless ones? Carl Menger asked this question in his day and it applies equally well today. Menger's article 'Money' is a rational argument for a social institution – the historical development of an accepted medium of exchange from a state of barter.

Carl Menger and the Evolution of Payments Systems is divided into two parts. The first part consists of two papers. The first is by Erich Streissler and serves as an insight into Carl Menger's article 'Money' in the history of economic thought. The second is a translation of Menger's article 'Money' (*Geld*) by Leland Yeager and Monika Streissler.

The second part comprises three papers on the application of Menger's thesis to modern electronic money. The first is by Stefan Schmitz, 'Carl Menger's "Money" and the Current Neoclassical Models of Money'. The second, 'Mengerian Perspectives on the Future of Money', is by George Selgin and Lawrence White, and the last, 'The Institutional Character of Electronic Money Schemes: Redeemability and the Unit of Account', is by Stefan Schmitz.

Erich Streissler places Menger's approach clearly in the tradition of Adam Smith and Wilhelm Roscher. There is little marginalism here, more of an affiliation with the Older Historical School, but, mostly, a presentation of a 'comprehensive theory of development' (p. 12). Over against the Historical School, Menger's view is that the state is largely 'superfluous' but has a function in that it facilitates unhampered trade.

Streissler presents a logical connection between Menger and his intellectual forebears, and justifies 'Money's' place in the liberal and individualist tradition. He discusses Menger's treatment of the use of money in exchange and in price formation as a subjective value notion, and the demand for money and the influence of Menger's thought on later theory.

Carl Menger's article, 'Money' (*Geld*), first appeared first in 1892. This translation is based on the third edition of the *Handwörterbuch der Staatswissenschafen*, Vol. IV, Jena 1909 (also reprinted in *Carl Menger Gesammelte Werke*, edited by Friedrich Hayek, second edition, Tübingen 1970). Menger's article, 'On the Origin of Money' (*Economic Journal*, 1892) closely follows the first chapter of this longer article and was targetted for a wider audience, as it was printed in both German and English. A note on style: Menger's 'Money' comprises whole-sentence paragraphs and very long sentences, possibly to avoid being quoted out of context, according to the translator (p. 108). This complicated, verbose style, however, does not stifle the very clear ideas he pronounces.

Menger explains the origin of intermediaries of exchange. He attributes the emergence of money solely to economising individuals, who discover economical ways to trade. Direct exchange goods are cumbersome and are difficult to exchange. One could engage in multiple direct trades to obtain the chosen good but it might not result in the desired outcome. This process impedes trade, but if one exchanges goods of limited marketability for those that are more marketable, then the process to obtain the chosen good is less haphazard, more direct, and less costly.

One or more goods (noted for their high marketability, divisibility and fungibility) then serve as a social institution – the media of exchange. Individuals exchange a useful good for one that is useless to them, with the exception of its exchange value. This facilitates trade and more precise price formation on the

market. Over time it was self-interest that caused the precious metals to drive out others and become the dominant media of exchange.

Coining monetary metals makes government intervention inevitable but, Menger stresses, ‘money was not created by law; in its origin it is not a governmental but a social phenomenon’ (p. 45). Money, as he defines it, becomes money because in the ‘… historical development of a people’s trade in goods it actually acquires the function of … an object of trade mediating the exchange of goods’ (p. 74). He states that government is most effective when it establishes uniformity in the coinage system (weight and fineness) – a juridical function. The development of money also leads to efficiency in enterprise and trade, and accuracy in determining production costs, revenue and profits.

The declaration of ‘legal tender’ is not an attribute of money: ‘… a country’s monetary system is all the more perfect and sound, the less legal tender figures in it …’ (p. 82). The perfecting of the monetary system occurs the more readily the populace has (historically) agreed that certain goods mediate the exchange of all other goods. Legal tender is not rejected because it serves a juridical purpose, but it should not result in government compulsion, which Menger considers ‘an evil’.

Stefan Schmitz presents three neoclassical models of money and contrasts these with Menger’s. He states that the equilibrium concepts in these models imply rational expectations along with restrictive assumptions about information (i.e. perfect knowledge about preferences, expectations and strategies), including the assumption that all agents accept intrinsically worthless money in all future periods. It is therefore rational for an individual to accept money, and this allocation in a money economy Pareto-dominates allocation in an economy without money. However, how money came to be accepted, and the emergence of the social institution of money, are excluded from neoclassical monetary analysis.

Schmitz notes that Menger’s ‘process of learning about the different degrees of acceptability’ is crucial in the social development of money, and in the development of expectations concerning how other agents behave. Heterogeneous individuals slowly learn about the greater degree of acceptability of certain goods via the success of agents who recognise the role of indirect barter first, and then adapt until a special good(s) develops into a generally accepted medium of exchange.

Schmitz concludes that Menger’s agents must learn and adapt their own optimal strategies. This is contrasted to neoclassical analysis, whose agents possess perfect knowledge about each other’s preferences and expectations, resulting in symmetric equilibria and simultaneous decisions. The neoclassical models accept the social institution of money as exogenously given; with Menger, we see the development of a social institution of an accepted medium of exchange. Schmitz states that the rational acceptance of money cannot occur unless money is endogenised. Thus these models are of limited use in understanding electronics payments systems.

George Selgin and Lawrence White, noted for their work in the areas of money and free banking (*Economic Inquiry*, 1987, 1999) offer a view of a future payments system. Their proposal is one wherein it is difficult to accurately extrapolate historical banking trends into the future because it depends upon entrepreneurial ingenuity to exploit profitable activity, as well as a role for government.

They review the nationalisation of money since the nineteenth century and consider that the reasons why it may be waning are technological and ideological change. Is there a role for private money? No, or, at least not yet; certainly not while governmental legal restrictions on money and banking remain. Selgin and White provide some detail on the functioning of electronic payment systems and investigate the motivation to switch to them. With reduced costs in the use of electronic money, demand for government money decreases, but not to zero, because electronic money still represents claims on the liabilities of the central bank.

Selgin and White investigate the role of interbank settlements and wholesale payments systems, and assess the implications of future payments systems for monetary policy. They argue that a shrinking monetary base, due to an increased demand for private money, will not alter the effectiveness of monetary policy. They do not expect the demand for base money to be reduced to zero, even with improvements in payments systems. Thus there is no expectation that fiat money will be displaced.

In the last contribution to this volume, Schmitz argues that electronic payments systems need not be compelled by prudential supervision to redeem electronic money liabilities in central bank money at par. He argues that the dynamics of change within the payments system would result in the maintenance of a (national currency as a) unit of account function without government intervention requiring redeemability in central bank money.

An important question is whether electronic payments systems would enable private organisations (such as banks, on-line shopping sites, etc.) to issue media of exchange that are liquid enough compared to cash and coins, dominate their rate of return and exhibit a higher degree of price stability than current units of account managed by central banks.

Schmitz reviews the literature on currency competition and concludes that the competitive and parallel use of several units of account is not desirable, due to natural monopoly and public goods considerations of a uniform unit of account, nor possible among privately issued fiat-style currencies. The uniform nature of a national money, he argues, enhances the efficiency of a unit of account, because it minimises transaction and information costs related to price comparisons.

The demand for electronic money will increase if issuers ensure switching costs for users are low with the dominant medium of exchange. Legal barriers to currency competition may be reduced by technological innovation, but if a central bank cannot meet the expected rate of a competing currency it has an incentive to retain the barrier.

A central feature of any new electronic payments system is redeemability of the electronic money on demand in the dominant unit of account. Thus the role of central banks is not threatened by the emergence of electronic money.

This volume of essays contains a very original and important contribution to the theory of money (by Menger) and some real applications to the future of money, in particular the evolution of electronic money. It should appeal to those interested in the development of money and those interested in the withering away of fiat money and a return (or progress) to privately-issued money.

* Research Student, Department of Economics and Finance, La Trobe University, Victoria 3086, Australia. Email: t.lynch@latrobe.edu.au.

Luigino Bruni. *Vilfredo Pareto and the Birth of Modern Microeconomics*. Cheltenham, UK, and Northampton, MA, US: Edward Elgar. 2002. Pp. x + 166. ISBN 1 84064 531 6. £47.50.

The last five years have been a particularly interesting period for historians of economic thought with an interest in Vilfredo Pareto. In addition to the publication of three conference volumes celebrating the centennial of the *Cours d'Économie Politique*, the Banca Popolare di Sondrio established the 'fondo Vilfredo Pareto' (an important collection of Pareto's papers) and recently published *Vilfredo Pareto (1848-1923): L'uomo e Lo scienziato* (Manca 2002) which, among other things, reproduces many important papers from the 'fondo'. Furthermore, a number of articles in leading international journals have been published on Pareto's choice theory as well as a monograph on the synthetic relationship between Pareto's economics and sociology. The appearance of Bruni's book is the most recent significant work within the wave of renewed interest in Pareto.

The main theme which unites *Vilfredo Pareto and the Birth of Modern Microeconomics* is the paradox of Pareto's continued use of cardinally specified utility (ophelimity) after he had introduced preference indices (ordinal utility) to choice theory and general equilibrium analysis. Bruni challenges the received view that 'Pareto was confused', and rejects the existing minority views, such as the propositions that Pareto continued his use of cardinal utility for reasons of pedagogy, political expedience or laziness. His starting point is a contrast between the development of Pareto's early ideas on how to pose the economic problem with those of Maffeo Pantaleoni and Antonio de Viti de Marco, followed by an examination of Pareto's philosophy and methodology of science based on successive approximations. Prominent in this regard are the chapters on Pareto's exchanges with Giovanni Vailate and Benedetto Croce (two of Italy's leading philosophers) that commenced in 1896 when Pareto was starting to turn his mind to ordinal choice theory. The book also addresses Pareto's relationship with Edgeworth, Marshall and Wicksteed, demonstrating that the gap that separated Pareto from the English school was largely methodological, with Pareto's attempts to place the fact of choice ahead of the psychology of choice attracting little interest in England before Hicks. Bruni then attempts to reveal the logic of Pareto's introduction of ordinal preferences and continued use of cardinally defined utility functions. While his explanation is multifaceted, the main explanations rest on the proposition that, in spite of a focus on the fact of choice, Pareto retained a small and subtle role for psychology in his economics. Bruni suggests that, for Pareto, the link between the theoretical and the empirical determines the admissibility of theoretical concepts, with cardinal utility retained as an hypothesis that has some empirical support. In this context, Pareto's primary concern appeared to relate to uncertainty over the measurability of marginal utility, not necessarily the existence of marginal utility. In view of this, and also taking into account Pareto's

demonstration of the equivalence of equilibrium equations under both cardinal and ordinal utility, specification of indifference curves on either a cardinal or an ordinal basis is admissible in a pure economics. Contrary to the received view, Bruni's difficulty with the Paretian system does not concern the continued specification of utility on a cardinal basis, but Pareto's failure to specify a synthetic unification of the various analytical aspects of economics, which should be required under his successive approximations approach.

A shortcoming of this book is that the chapters on the philosophy and methodology of science have not been structured with due regard to the main unifying theme of the study. Instead, they are quite broad methodological essays, with the consequence that the book is not a sequential treatment of methodological and theoretical developments related to Pareto and the birth of modern choice theory. Nevertheless, Bruni's broad treatment of the Italian intellectual context within which Pareto developed his approach to economics is very informative. In particular, considerable light is shed on Vailati's views on the 'paper world' of ideas and imagination, the deductive method and the role of 'words' in the history of science and culture and on Croce's differentiation between the science of economics and the philosophy of economics. The contrast between de Viti de Marco's and Maffeo Pantaleoni's emphasis on hedonism and Pareto's emphasis on the economic phenomenon is also insightful. For these contributions alone, Paretian scholars will welcome this book. Interestingly, Pareto's general intellectual isolation can also be inferred from the book, as neither Pantaleoni, de Viti de Marco, Croce, Marshall, Edgeworth nor Wicksteed appear to have had any notable influence on Pareto's philosophy of science, his methodology or his increased emphasis on the fact of choice ahead of the psychology of choice. Vailati, however, is a potential exception, and in view of this, a brief critique of Bruni's assessment of Vailati's influence on Pareto is warranted.

On the fundamental issue of Pareto's work on the fact of choice and introduction of ordinal preferences, Bruni highlights Pareto's 1901 letter to Vailati:

> Until now, the term 'final degree of utility' in science was only used to mean *dy/dx*, *dy* being the increase of utility *y* obtained from the consumption of *dx* which is in addition to *x*. … What you wish to take into consideration is the relationship between two quantities of goods *dz/dx*. If *x* and *z* are the coordinates of an indifference curve, *dz/dx* is the trigonometric tangent of the angle that the tangent to that curve makes. Therefore, this is something entirely different from the ratio between utility (ophelimity, pleasure, use value, etc) *dy* and the quantity of good *x*. Moreover, until now, this ratio has always been called the 'final degree of utility'. (Pareto, cited in Bruni 2002, p. 48)

Bruni interprets this letter as evidence in support of his proposition that Vailati requested Pareto to define the 'marginal rate of substitution' and that Pareto missed the theoretical challenge. However, as Pareto had discussed the relationship *dz/dx* a year earlier when he investigated the shape of ordinal indifference curves in the appendix to part 2 of the 'Sunto di alcuni capitoli di un nuovo trattato di economia pura' (Pareto [1900] 1982, pp. 409-19), it is difficult to see what theoretical challenge Pareto was actually missing. The likely explanation is that Pareto was advising Vailati to reserve the term 'final degree of utility' for discussions of *dy/dx* when *y* is utility, and not *dz/dx* when *x* and *z* are coordinates on an ordinal indifference curve.

In relation to longer-term influences, Bruni provides evidence that Vailati's ideas may have emerged in Pareto's sociology, particularly the *Trattato di Sociologia Generale*. While the *Trattato* is strictly beyond the scope of Bruni's book (both thematically and chronologically), it contains many references to the theory of logical and non-logical action and to the *Trattato*, including in the Chapter on Vailati. Having taken a broad approach and provided a glimpse of Vailati's influence on the *Trattato*, it is disappointing that adequate contextual information on the *Trattato* was not provided. Scholars with a good appreciation of Pareto's sociology can usually fill in the gaps, but a more in-depth discussion of the matter would have provided general readers with a better appreciation of Vailati's more enduring influences on Pareto.

On the major thematic question of the book, that is, whether Pareto's use of cardinal and ordinal utility was confused or a reflection of complexity, Bruni's work has the merit of insisting that Pareto's approach to utility must be considered in the context of his philosophy and methodology of science, and not that of modern choice theory. This is a variation on John Chipman's earlier conclusion that the belief that Pareto was confused is a 'result from reading Pareto with Hicksian glasses' (Chipman [1976] 1999, p. 165). However, Bruni's arguments are limited to very general considerations and provide little insight into circumstances when Pareto would prefer cardinal or ordinal specification of utility, or when he would have been indifferent between the two specifications. Moreover, from Weber (2001), which would have been published after Bruni submitted his manuscript, it is clear that the 'Pareto was confused' thesis also concerns Pareto's specification of indifference curves on an ordinal basis while imposing cardinal restrictions over these same curves. To challenge the received view, Bruni's methodological and philosophical investigations would need to be complemented by an examination of Pareto's indifference curve analytics between the purely ordinal 'Sunto' and the French *Manuel d'Économie Politique* (the main reference cited by professors of the 'Pareto was confused' thesis). In particular, consideration of the change in indifference curve analytics outlined in the mathematical appendices of the 1906 Italian *Manuale* and the 1909 French *Manuel* would go some way to debunking the 'Pareto was confused' thesis.

The ending to the book, a lament for the unwritten second edition of the *Cours* on the basis that Pareto's synthetic economics was not realised, is somewhat romantic. Given the synthetic treatment of social equilibrium (of which economic equilibrium is a part) in the *Trattato*, it is difficult to share Bruni's disappointment over the lack of a second edition to the *Cours*. Nevertheless, his book has many elements that will be of interest to scholars who seek an appreciation of the Italian intellectual climate when Pareto was developing his methodology and insight into the implications of the balance between fact and psychology in Pareto's methodology. In regard to the fundamental issue of Pareto's cardinal and ordinal specification of indifference curves, Bruni provides some useful insights into Pareto's logic but his case is incomplete and the book is unlikely to overturn the 'Pareto was confused' thesis.

---

* Institute for Research into International Competitiveness, Curtin University of Technology, GPO Box U1987, Perth WA 6845, Australia. E-mail: mclurem@cbs.curtin.edu.au.

References

Chipman J. [1976] (1999) 'The Paretian Heritage' in *Vilfredo Pareto: Critical Assessments*, Volume II, Wood and McLure (eds), London: Routledge, pp. 157-257.

Manca, G. (2002) *Vilfredo Pareto (1848-1923): L'uomo e Lo scienziato,* Sondrio: Banca Populare di Sondrio/Libri Scheiwiller.

Pareto, V. [1900] (1982) 'Sunto di alcuni capitoli di un nuovo trattato di economia pura', Part 2, in *Ouvres Complètes: Écrites d'Économie Politique*, Tome XXVI, G. Busino (ed.), Geneva: Librairie Droz, pp. 385-423.

Weber C. (2001) 'Pareto and the 53 percent ordinal theory of utility', *History of Political Economy*, 33 (3), pp. 541-76.

Peter Earl (ed.). *The Legacy of Herbert Simon in Economic Analysis*. Two volumes. Cheltenham, UK, and Northhampton, MA, US: Edward Elgar. 2001. Pp. xxvi + 559; xx + 604. ISBN 1 85898 526 9. £280.00; $US400.00.

The two volumes consist of an introduction to each volume by the editor and 51 articles by, or about, Herbert Simon's contributions to economics. Unlike many multi-volume tribute collections, the editor has provided a substantial introduction to each volume, of 14 and 12 pages respectively. Nor have these essays been previously published. There is, therefore, a small unique element of 26 pages complementing the 1163 pages reproduced from learned journals and scholarly books. In addition, the editor has provided lists of references to Simon's work not cited completely in the reproduced pages of papers whose reference lists were omitted or incomplete. The two volumes are clearly signposted, with six Parts in the first and five Parts in the second, giving a coherence to the collection that is sometimes not so evident in such collections.

Volume I begins with Simon's Nobel citation, the commemorations by Baumol and Ando, and Simon's Nobel Lecture. This sets the topic of this first volume, Simon's contribution to our understanding of rationality. Part II is an overview of bounded rationality. Simon's classic 1972 paper in the Marschak *Festschrift* book is followed by Radner's 1975 article on satisficing, Selten's 1998 article in the *Journal of Mathematical Psychology*, and a previously unpublished version (subtitled 'The much too long version') of Conlisk's 1996 *Journal of Economic Literature* article, 'Why bounded rationality?'. Part III presents four papers on the significance of bounded rationality theory in neoclassical economics. Kay (1995), Lipman (1995), Aumann (1997) and Sent (1997) illustrate the contemporary significance of the concept for the mainstream of our discipline.

The largest Part, IV, has 11 articles examining how bounded rationality has influenced behavioural approaches to economics. None of these is by Simon, something which some may see as surprising given that Simon's own enthusiasm was for behavioural and psychological theory in economics. His own words must have much to contribute, especially given how many other researchers have been

influenced by them. The papers date from 1979 to 1999, but only three are earlier than 1990, one of those from 1989. Does this indicate increasing interest, or such growing sophistication that many earlier contributions are now irrelevant? The range of source journals is wide. Psychology, marketing, management, organisation, research policy and economics journals are represented. However, of the three papers from economics journals, all are from the one journal, the *Journal of Economic Behavior and Organization*. This may be a comment on economists and on editors of journals in the discipline. *The Journal of Economic Psychology* does not get an entry in this Part, where one might have expected contributions of substance to be found.

Part V has three papers sympathetically critical of Simon's concept. Papers by Loasby, Bianchi and Hodgson, all published in journals and books not often perused by the mainstream of North American economics, each seek to refine rather than destroy the concept. Mainstream critique is not evident in the earlier Part III, partially excepting Aumann's review of the concept, but does this mean there is no opposition to bounded rationality amongst those working within the orthodox neoclassical framework?

Part VI concludes the first volume. Simon's famous (1962) 'Architecture of complexity' presents the systems perspective, developed in Radner's (1992) *Journal of Economic Literature* survey of hierarchy, and Sanchez's and Mahoney's (1996) exploration of modularity in the management context. Again, these contributions emphasise the significance of these ideas for those disciplines spun off from economics over the past century.

The second volume explores fields of economics that Simon has influenced, and contributed to, in a sense as applications of his fundamental insights dealt with in the first volume. Only one paper in this volume is by Simon, his (1951) *Econometrica* paper on the employment relationship. The five Parts are followed by a select bibliography of some eight and a half pages, not so large as to be of no use, but containing all the works a scholar might like to consult.

Part I comprises six papers on competition and market processes. The earliest is Nelson's and Winter's (1978) *Bell Journal* article that set out much of the substance of their (1982) *magnum opus*. The latest is Mirowski and Somefun (1998), 'Markets as evolving computational entities', from the *Journal of Evolutionary Economics*. An article that few economists might find is Krider's and Weinburg's (1997) article on spatial competition from *Geographical Analysis*. The behavioural basis of market processes is the connection that Simon created, a connection with which students of the work of Nelson and Winter are very familiar.

Part II, with nine papers, including that of Simon, show how Simon's organisational analysis has affected many aspects of theory now considered mainstream. Williamson's (1973) *American Economic Review* paper, 'Markets and hierarchies', begins the Part, a theme explored further. Other themes include the employment relationship and knowledge-based theories of the firm. Again, mainstream journals are not heavily represented, with only *AER*, *Econometrica*, the *Bell Journal* and *JEBO* counterbalanced by management and organisation journals.

A single paper makes up Part III on Law and Economics. This is Hanson's and Kysar's (1999) contribution to the *Harvard Law Review*, on market manipulation. By contrast, the final two Parts, on ecological economics and the public sector respectively, each have three papers. All these contributions are from the second half of the 1990s, emphasising Simon's continuing influence. It is,

perhaps, a pity that no very recent work of Simon could be found for these Parts, as he was working productively right up to his last gasp in 2001.

Given the recent origins of much of this collection, one must ask whether it will have a long-term significance as a definitive review of Simon's influence on economics. The answer is obviously that it will not. In another decade there will be much more work to be examined. How long this influence will continue directly to spur research in economics is anyone's guess. The time will come when other seminal minds will take over the task from Simon, but his legacy will doubtless continue long after this era. Next century the journals of the history of economics will still contain many papers examining the significance of Simon and his successors.

* School of Economics, University of New England, Armidale, NSW 2351, Australia. Email: jnightin@metz.une.edu.au.

Pierre Garrouste and Stavros Ioannides (eds). *Evolution and Path Dependence in Economic Ideas: Past and Present*. Cheltenham, UK, and Northampton, MA, US: Edward Elgar. 2001. Pp. 247. ISBN 1 84064 081 2 (HB). £55.00.

The ten papers of this book were presented at the 1997 European Association for Evolutionary Political Economy (EAEPE) annual conference in Athens. The editors have gathered together ten of the most interesting papers from the conference – suitably selected according to the theme of path dependency and evolution – and presented them to a wider audience along with an introductory essay of their own which summarises and examines the papers in some detail.

As a member of EAEPE who was at this conference, I think that the conference was a great success, and the venue perfect, with a combination of relaxed excitation characteristic of Athens. However, it was a somewhat sad affair since some young members of EAEPE who attended a summer school had recently been killed in a car accident among the chaotic traffic of the capital.

The papers from this volume are in general a fascinating analysis of the link between path dependency and evolution characteristic of the avant-garde of political economy.

Path dependency is the notion that history matters in the sense that past states affect the future direction of economic and scientific systems. The volume analyses the pros and cons of path dependency (Paul David), the path-dependent nature of economics (Albert Jolink and Jack Vromen), and various themes in evolutionary analysis. The latter include Austrian and institutional analyses of the market (Philippe Dulbecco and Veronique Dutraive), Veblen and Commons on private property (Philippe Broda), Austrian perspectives on evolution (Richard Arena and Sandye Gloria-Palermo), and metaphors in the work of Schumpeter and Frisch (Fransisco Louça). There are a few articles on an evolutionary analysis of

the firm, including Edith Penrose's theory of the firm (Margherita Turvani), an investigation of human effort in firms (Benedicte Berthe and Michel Renault), and an evolutionary study of competition (John Foster). Lastly, A.W. Coats examines the progress of heterodox economics.

A synthetic appraisal of the volume reveals that there is a large degree of continuity in the main themes examined. An evolutionary analysis of institutions seems, in fact, to be the main idea explored. In order to examine the book I shall briefly examine the thematic content of the papers.

A theme that runs through many papers is the importance of path dependency, for an examination of both economic and scientific systems. For instance, economic systems are critically affected by such dependency due to 'lock-in' processes that reduce the options available to individuals, institutions and groups in the economy. The classical example is the QWERTY keyboard that was introduced to slow down typing speed on mechanical machines where the keys became locked when used by fast typists. Such path-dependent processes involve positive feedback effects that magnify the results of change in a circular and cumulative fashion.

Paul David notes that evolutionary perspectives could have become dominant if certain strategic lock-ins did not happen in economics, but he recognises that lock-in does not always result in inefficient outcomes. Conventional neoclassical economics became a dominant paradigm because an early lock-in prevented a new, innovative and more efficient perspective from overtaking the Walrasian general equilibrium framework. Jolink and Vromen explore this theme in some detail, providing an example of competitive game theory (of the Nash variety) where more interesting, and heterodox, cooperative games could have become dominant were it not for certain conservative evolutionary forces at work.

Some interesting papers examine the firm and competition. Berthe and Renault present an innovative analysis of the process of work and effort, which neoclassical theory situates in a mechanistic view of labour shirking as much effort as possible. They compare this with the radical political economy analysis of the same phenomenon and conclude that the latter is an advance since it posits alternatives to shirking in the form of worker incentives and alternative forms of cooperative organisation.

The article by Turvani is an excellent celebration of the three editions (or reprints) of Penrose's book on the theory of the firm. Highlighting issues relevant to the present, this article weaves a compelling argument about the endogenous process of instability and change inherent in the growth process. Central to these is the evolutionary motion of knowledge acquired by managers and executives as a form of collective intangible wealth. Such a process involves both contradictory limits as well as potentialities to firm growth and transformation. The article by Foster complements this one through a critical view of the orthodox explanation of competition, which fails to recognise the importance of process, niche, variety, self-organisation and irreversibility. He brings us back to the innovative work of Adam Smith, Joseph Schumpeter, Karl Marx and Thorstein Veblen for future developments in the area.

Three articles in the book deal with critical relationships between evolutionary-institutional scholars. Dulbecco and Dutraive examine the relationship between institutional and Austrian views of institutions and the market. Reading this, one gets the distinct impression that there is much to complement Hayekian

and Veblenian views. Both are concerned with historical time, endogenous processes, positive feedback, human agency, uncertainty, ignorance and sequential causality.

This article is complemented by two others, one dealing with Veblen and Commons, and the other with Menger, Wieser and Schumpeter. Broda dissects the key differences between the desire for a reasonable society (Commons) and the desire for a more efficient society with less waste (Veblen). Commons is said to be more reformist since he 'recognizes' the inevitably of conflict and waste, whereas Veblen wants to reduce conflict and waste to a minimum. Hence Veblen's policy prescriptions are more radical and socialist, while Commons's are more social democratic and accepting of capitalism (once reforms have been made).

Arena and Gloria-Palermo show that there are critical strands of Austrian economics that are institutionalist in nature. First there is the recognition of both organic and directed institutions. Innovators may instil change, but the masses must legitimise the changes through acceptance (e.g., Menger). Secondly, key strands of Austrian economics (e.g., Wieser) involve realism, social class analysis and stratification. Individualism is supplemented in some of their work with social factors, given the nature of real economies. And, thirdly, the workings of uncertainty, intuition and the social environment are critical to capitalist organisation. Schumpeter, for instance, is said to be primarily concerned with the endogenous process of change and transformation. Louça shows how Schumpeter eschewed mechanical analogies in preference to a processual view of capitalism. Seen from this angle, there is much to complement institutional and Marxian economics.

Lastly, Bob Coats reflects on the progress made by heterodox economics, in particular Veblenian and evolutionary political economy, over recent decades. He recognises that orthodox economics is in some respects tending in the direction of increasing specialisation, which is dissuading students from studying economics. But there is also a trend in economics, on the margins and in the avant-garde, to be influenced positively by heterodox concerns and themes. This has led to many advances in orthodoxy (some at the innovative edges), including Nobel prizes, through incorporating heterodox themes and reducing the divide. This is particularly the case for evolutionary analysis (such as path dependence), bounded rationality, institutions, endogenous processes (economies of scale), and the importance of trust, ethics, development, equality, the environment and human action.

This is a really interesting selection of papers with a broadly common set of themes. It brings home the importance of evolution and path dependence to economic systems and economics itself; some degree of complementarity between Austrian and Veblenian institutional economics; the centrality of introducing time, organisation and collective processes into human agency; and a recognition of the extent to which heterodoxy has affected in a major way developments in economics more broadly considered. I recommend this volume for every university library, but especially think that every economist and historian of economic thought should explore the themes in the volume in some detail. The editors and the EAEPE should be congratulated for bringing together these ideas in one volume for the benefit of a wider audience.

* Global Political Economy Research Unit, Department of Economics, Curtin University, GPO Box U1987, Perth, WA, 6845 Australia. Email: philohara1@yahoo.com.

P.J. Cain. *Hobson and Imperialism: Radicalism, New Liberalism and Finance 1887-1938*. Oxford: Oxford University Press. 2002. Pp. ix + 320. ISBN 0 19 820390 X. £45.00.

The year 2002 marked the centenary of Hobson's classic *Imperialism: A Study*. To commemorate this occasion Oxford University Press has published Peter Cain's magnificent study of Hobson's *Study*. This centenary volume serves as a guide to Hobson's thinking not only on imperialism, for which he is best known, but also for his ideas on the political economy of capitalism. Peter Cain, with Anthony Hopkins, wrote the highly regarded *British Imperialism*, originally published in 1993. In *British Imperialism*, the two authors argued that the predominance of British finance capital after 1870 was a response to industrial failure rather than, as it has traditionally been viewed, an outcome of British industrial success. This latest publication by Peter Cain is no less scholarly or controversial. His scholarship is essential: Hobson published 53 books in 49 years (on Martin Bronfenbrenner's count), and the issues that he raised in his study of imperialism appear in most of them. Even those of us with an interest in Hobson are only ever likely to read a few of those books. This examination of Hobson's work will therefore be an indispensable source on those writings of Hobson that are still read, as well as those we are unlikely to read.

Peter Cain's study falls neatly into five sections. The first describes Hobson's intellectual journey to *Imperialism: A Study*, from a liberal imperialism which saw colonialism as spreading civilisation, free trade and markets, to the ardent anti-imperialism of his most famous book. The main ideas in that book are then discussed, noting its inconsistencies and the weak points in Hobson's argument. In the third section, Peter Cain describes the evolution of Hobson's thinking on imperialism up to his final years when, in the face of fascism and looming war in Europe, he republished his *Study* virtually unamended in its third, 1938, edition. The final section looks at the evidence on British capital exports before the First World War, the scramble for tropical African colonies, the Egyptian Crisis of 1882, the origins of the Boer War in the 1890s, and Britain's relations with China during the two decades before the First World War, to verify Hobson's analysis.

The conclusion at which Peter Cain arrives is critical and devastating. Hobson's catholic interests pulled him towards eclecticism. His journalism led him to adopt ephemeral positions. (In a recent radio interview, the distinguished economics editor of the London *Times*, Anatole Kaletsky, was asked to explain a comment which he had made a couple of years ago. He replied, 'you must never ask a journalist about anything he may have written even a week ago'.) Hobson never threw off his Cobdenite conviction in the virtues of industrial capitalism. Underlying his critique of imperialism was a belief that industrial progress was being undermined by an alliance of imperialist politicians and adventurers, led by

finance capital. But even in this Hobson turned out to be inconstant. A few years later, in *An Economic Interpretation of Investment*, Hobson was arguing in favour of foreign direct investment and imperial free trade as ways of disseminating the industrial arts throughout the world.

It turns out that the only elements in his view of imperialism to which he remained true throughout his life were those beliefs in industrial progress and free trade, and a conviction that this progress was thwarted by over-saving due to the unequal distribution of income. The supposition that economic stagnation was due to over-saving, or underconsumption, led him to adopt the critical view of finance that distinguishes *Imperialism: A Study* from other economic theories of imperialism, including that of Lenin, whose references to Hobson made the English liberal famous outside the English-speaking world. In *Imperialism* it is finance that directs what Cain calls a 'Gramscian' alliance of opportunist politicians, industrialists and academics, under-employed workers and the 'parasitic' rentier classes settled in the Home Counties. (The 'South of England' has its own entry in Peter Cain's excellent index, with the coda: '*see also* City of London; finance; parasitism; services'.) Peter Cain assesses Hobson's analysis by examining whether this was indeed how imperialism spread through Africa, Egypt and China before the First World War, and concludes that Hobson was wrong: imperialism was not a conspiracy led by finance to secure employment for excess savings. Rather it was the often unintended outcome of political, as well as commercial and business, intrigues.

Peter Cain suggests that the stronger parts of Hobson's classic are the social and political analyses of imperialism. This makes up the bulk of Hobson's book, even though its reputation is founded on the economic analysis in the first third of the book. The political and social analysis has a moral force which transcends Hobson's time. Its uncondescending discussion of how traditional societies can be fitted into the modern world is still relevant today. However, Cain rightly questions whether Hobson's strategy of introducing modernism through free trade is a sufficient condition for the respectful treatment of people living outside the so-called 'global' commodity system.

However, there is another aspect of Hobson's *Imperialism* that Peter Cain does not discuss. This is the consistency of his over-saving theory. Keynes was to argue that it is not possible to 'over-save' in an economy because any attempt to increase saving, by reducing expenditure, would result in reduced aggregate income with, at best, the same level of saving as before. However, since the 1970s we have become used to a revival of the classical economic orthodoxy that Hobson opposed throughout his life in various works, of which *Imperialism: A Study* is only the best known. This is the view that higher saving directs additional finance towards investment. Hobson's critique, inspired by A.F. Mummery, led him not only to criticise imperialism as a vent for excess saving. His attack in *Gold Prices and Wages* on the orthodox theory of interest, on the quantity theory of money and the loanable funds theory of investment, aroused Keynes to bluster: 'Mr. Hobson has given us the Mythology of Money - intellectualised, brought up to journalistic date, most suitably larded (and this is how it differs from the rest) with temporary concessions to reason' (Moggridge 1983, p. 394), after which he refused to review any more of Hobson's books.

But Hobson was not entirely wrong about finance. By the 1890s it had assumed a leading role in British capitalism, as Peter Cain has ably documented in

this and earlier works, and Hobson was right to associate Britain's industrial stagnation with the rise of finance capital. There was something wrong in the relationship between finance and industry that was seriously overlooked by the classical and neoclassical economists. But it was not over-saving. Nor was it the liquidity preference of rentiers that accounted for under-investment in Keynes's view. What Hobson saw as over-saving was in fact the financial inflation that kept the British financial system floating on the Gold Standard, until that system collapsed under the weight of its inflated financial liabilities during the interwar period.

There is another aspect of Hobson's *Imperialism* that Peter Cain discusses only cursorily. This is the intellectual antecedents of his anti-imperialism. Economic critiques of imperialism go back at least to Jeremy Bentham and his 1790 essay 'Colonies and Navy'. The remark that the colonies were 'a vast system of outdoor relief for the upper classes', which Hobson attributes to James Mill (p. 51 of the 1938 edition of *Imperialism: A Study*) is tracked down by Peter Cain to John Bright (p. 48), without pointing out Hobson's error. (In fact, the target of Bright's criticism, from which this remark comes, was European alliances, rather than imperial adventures.) Bright had in fact declared to his Birmingham audience on the 29 October 1858 that '…The more you examine this matter, the more you will come to the conclusion which I have arrived at, that this foreign policy, this regard for "the liberties of Europe", this care at one time for "the Protestant interests", this excessive love for "the balance of power", is neither more nor less than a gigantic system of out-door relief for the aristocracy of Great Britain' (Bright 1868, Vol. II, p. 382). In his anti-imperialism, Hobson had more in common with J.S. Mill than his attacks on the latter's views on saving would suggest. The younger Mill also saw free trade as a less costly and more humane alternative to conquest as a means of expanding markets.

Peter Cain's account of the complexities and inconsistencies of Hobson's thinking on imperialism is masterly. It is the perceptive outcome of thirty years of study and reflection. It will serve as an authoritative guide to the thought of one of the most curious political economists of the late nineteenth and early twentieth centuries, whose writings still retain their ability to provoke us into thinking more deeply about our world. And even those historians of economic thought who do not care for Hobson will readily recognise themselves in his dedication to his wife, Christine, 'with love and gratitude. It is not easy living with academics, especially one who is in constant communication with someone who died sixty years ago'.

---

* South Bank University Business School, 103 Borough Road, London SE1 0AA, UK. Email: toporoj@sbu.ac.uk.

References

Bright, J. (1868) *Speeches on Questions of Public Policy,* edited by James E. Thorold Rogers, London: Macmillan, second edition, in two volumes.

Moggridge, D.E. (1983) *The Collected Writings of John Maynard Keynes Volume XI Economic Articles and Correspondence Academic*, London: Macmillan and Cambridge University Press, for the Royal Economic Society.