

Leonard Gomes. *The Economics and Ideology of Free Trade*. Cheltenham, UK, and Northampton, MA, USA: Edward Elgar. 2003. ISBN 1 84376 131 9. Pp. 360. £75.00.

Graham Dunkley*

Billed as a former Reader in International Economics at Middlesex University, Leonard Gomes is a niche scholar par excellence, his previous books mostly being about the historical aspects of international trade theory. This book is in the same vein, but with an impressive grand sweep of post-mercantilist thought which brings the debates more or less up to date. In the process he traverses much of the ground covered in his earlier book, *Foreign Trade and the National Economy*, but the result is a valuably integrated historical analysis of trade thinking from early ‘absolute advantage’ to contemporary ‘new international trade’ theorists who have finally acknowledged the importance of increasing returns and imperfect competition.

The very title of Gomes’s book may puzzle, even dismay, many economists and all Free Trade ideologues who believe that the benefits of Free Trade are now scientifically proven fact, so that the Free Trade idea is ‘truth’ not ideology. But one of the main merits of this book is that, though a largely mainstream economic historian, Gomes clearly acknowledges the ideological side of the debate and analyses it accordingly. His approach is, therefore, admirably even-handed while also endeavouring to reach conclusions where possible.

Gomes’s acknowledgement of ideology determines the structure of his book, which is in two parts, the first analysing debates about the economics of free trade and the second covering what he lists as ‘rhetoric, events, policies and ideology’, beginning with the Corn Law repeal debate in Britain. The latter part will be the more interesting for the layperson, to whom the whole book is nevertheless reasonably accessible.

However, both parts of the book are broadly historical and sequential, with Keynesian views, for instance, slotting into chapter 8 on the first era of globalisation. The final chapter looks broadly at contemporary globalisation debates and particular issues such as gains from trade and inequality issues. He concludes, analytically but mildly, that free trade probably has overall benefits along with some inequality and other costs.

Gomes’s scholarly survey will satisfy the critical academic and even most Free Traders, who will probably say he merely tends to overstate the criticisms of their doctrine. But it will not satisfy more radical critics or anti-globalisation activists, and indeed Gomes could have gone further.

There is gradually accumulating evidence that free trade is not what it is cracked up to be. Much documentary evidence now suggests, for instance, that trade liberalisation was not a late nineteenth century boon, that the Great Depression caused protectionism rather than the reverse (as many bullish globalists still insist) and that global free trade would have mixed and modest benefits at best.

Gomes picks up some of this evidence but not all. He does cite work such as that of McCloskey and Bairoch, which showed nineteenth century free trade to be apparently inimical to growth, though he also quotes critics who deny that this means that *protection* caused growth. But he does not analyse this debate adequately, for Bairoch gives reasons why free trade clearly hurt European agriculture and protection stimulated industry, as well as showing, remarkably, that

protectionist periods saw *increased* trade. This possibly confirms Keynes's (heretical) view that protection can boost employment, income and trade, thus improving the world economy in a catalytic way.

Also, Gomes's theoretical survey focuses largely on mainstream schools, whereas some heterodox schools are now having some interesting things to say. Post Keynesians and others, for instance, are exploring the far-reaching notion that with capital mobility trade occurs on a traditional Smithian 'absolute advantage' basis after all, not 'comparative advantage', and if true this could greatly reduce the importance of trade. Nor does Gomes appear to grasp the extent to which Krugmanite 'new trade theorists' draw on Post Keynesians such as Kaldor or Joan Robinson for their 'imperfect competition' theories, the latter pair reaching much more free-trade-unfriendly conclusions.

I have expanded some of these further issues in my *Free Trade: Myth, Reality and Alternatives* (Zed 2004), which I hope will be a handy supplement to Gomes's very informative book.

* 76 Hazeldene Road, Gladysdale Vic 3795, Australia.

<p>James E. Alvey. <i>Adam Smith: Optimist or Pessimist</i>. Aldershot, UK: Ashgate. ISBN 1 84014 901 9. Pp. 323. US \$89.95; UK £51.50.</p>

John F. Henry*

The subtitle of this work is 'A New Problem Concerning the Teleological Basis of Commercial Society'. While I do not think that James Alvey is raising a *fundamentally* new question in the ongoing debates surrounding the work of Adam Smith, it is most certainly correct that teleology and Smith are both treated to a very good workout in this account.

The central question raised here, as the title suggests, is this: was Smith essentially an optimist or a pessimist regarding the prospects for the human condition in the long run? The case for optimism is based on a supposed teleology in 'both the construction of the human constitution and in human history' (p. 1) in which the five (sometimes six) ends of nature – self-preservation, procreation of the species, order, happiness, and perfection – are 'hard-wired' into our very makeup. A free-trade, commercial society is best suited for the realisation of these ends, as it is this form of economic and social organisation that is the object of nature's design.

Smith's pessimism as to the ability of humans to achieve the above ends is based on his own arguments that commercial society is neither inevitable nor, if achieved, permanent. And even if permanent, it contains significant, insoluble problems that render nature's ends unachievable.

The short answer to the question posed is that Smith is contradictory. *Both* arguments are found in his works and there is no possibility of uncovering a synthesis that allows one to make Smith consistent. Along the sometimes tortuous path to this conclusion, Alvey criticises, in a serious way, recent work on this topic, particularly that of Jeffrey Young's *Economics as a Moral Science* (1997), and

Richard Kleer's articles of the last decade. Heilbroner's 1973 essay, 'The Paradox of Progress: Decline and Decay in *The Wealth of Nations*' is also used as a point of departure (though this somewhat seminal essay is given short shrift).

The book grew out of the author's University of Toronto Ph.D. dissertation, written under one of the most prominent names in the history of economic thought, Samuel Hollander. And much of the current work still shows the mark of a dissertation. Smith scholars will appreciate Alvey's efforts; others of an HET bent will find it a bit laborious. For the latter, I suggest going first to the concluding chapter, then turning to the opening and closing sections of each of the main chapters. The author provides very nice statements as to the issues addressed and the conclusions reached in these brief passages.

What is the book's main innovative feature? Most critiques of Smith focus on the differences between the arguments found in *The Theory of Moral Sentiments* and those of *The Wealth of Nations*. Alvey demonstrates that the contradictions run through all of Smith's writings, including the previously unpublished *Lectures on Jurisprudence* and *Lectures on Belles Lettres*. So, the 'Smith Problem' is considerably more complicated than previously argued, and the contradictory positions taken by Smith simply do not, according to Alvey, allow one to make a definitive statement as to the 'real' Adam Smith.

Turning to a truncated account of Alvey's argument, the first main point made is that the (teleological) optimistic case is based on an evolutionary argument where human development is not the consequence of reason, but of a God-determined set of 'passions' (instincts) through which the five ends above are brought to fruition. While freedom or natural liberty is not specified as an explicit end, there is certainly enough argument in Smith to include this as an implied sixth end.

In this view, the *telos* (or end of history) is that of commercial society, and this is the result of an inherent passion – that of persuading (pp. 66ff.). Exchange is originally based on gift-giving, and, as gift-giving is designed to persuade the recipient to exist in harmony with the giver, exchange should be as unconstrained as possible. Hence Mercantilism, though clearly of a commercial nature, is criticised as it represents restrictions on free trade. In this optimistic case, the emergence of commercial society is inevitable and, once established, permanent. And a good thing, too, for such a form of social organisation is more 'humane, wealthier, and freer than "barbarian" organizations' (p. 88). (One wonders what modifications Smith would have made to his argument had he lived into the twentieth century!)

Alvey is careful to specify that for Smith the grand purpose of history (and of nature) can be subverted or 'frustrated' by human institutions, though nature gradually overcomes such distortions: teleology in Smith is a 'crooked', not a straight path (p. 89). (In this connection, Alvey seems to argue that the famed 'invisible hand' is, indeed, a metaphor for God. As there's a long-standing debate on this point, I would have liked a better-developed position here.)

As he develops this case, Alvey raises the issue of Greek and Roman societies that were clearly of a commercial nature and which caused Smith some difficulties in the construction of his teleological history (pp. 93-103), raising the question of whether Smith engages in some hand-waving when he introduces the 'wise ruler' who seems necessary to get Smith out of a teleological pickle at various points (p. 94). After all, if history is driven by a divinely-inspired nature toward an inevitable end, why is it necessary to introduce a *deus ex machina* to

impose a solution to the particular problem? But this is Smith, and Alvey is always careful to confine his own argument to contextual evidence provided by the great one himself.

Part II presents the pessimistic case, where Alvey presents Smith's case *against* teleological constructions *and* commercial society itself. Regarding the latter issue, the problems are those of disharmonious relations in such societies, questions of distributive justice, the failure to satisfy the objectives of 'ambitious people', and the destruction of intellectual, social, and moral virtues (pp. 177-8).

One example of the above is that ordered society requires economic classes, but the supposed harmony within such societies (where the poor tend to *admire* the rich) is constantly disrupted by the poor's *envy* of the rich. Thus there is always a 'low-level class war in progress' (p. 191). It is in this context that Smith introduces his well-known passages on government being instituted to defend the rich against the poor.

Another illustration is that commercial life is based on the search for wealth, but, in the end, this must be 'dissatisfying' as one can never amass sufficient wealth to produce happiness (p. 200).

Smith also registers concerns about a teleological path itself. At points, he introduces geographical constraints to achieving the commercialised end of history to which God or nature is driving humanity. He also observes that slavery persists even under commercial forms of organisation though it should have been eliminated by free trade. Is the urge to dominate one of nature's 'passions'? If so, this runs counter to those passions initially proposed as leading to a beneficent end of history (pp. 218-9).

According to Alvey, Smith introduces enough criticism of and objections to commercial society and teleology itself that one can reasonably conclude that Smith was a pessimist with regard to the human prospect. And, if commercial society is not inevitable (and not so terrific if achieved), what of its permanence?

Here, Alvey takes up the issue of the stationary state conclusion found in *The Wealth of Nations* (pp. 221ff.). If the end of the accumulation process is an economy operating at low wages, etc., then surely commercial society cannot meet the standards of happiness, self-preservation, and an increase in population. And what of the human objective associated with bettering one's condition. Clearly, the stationary state – which in Smith is a necessary result of the accumulation process and accompanying falling rate of profit – is incompatible with most of nature's ends and, thus, it becomes doubtful that it could last.

Part III is given over to an attempt to develop a synthesis of Smith's positions. Did Smith change his position over time and, if so, could this account for the seemingly contradictory positions? While Alvey finds some support in Smith's writings for this possibility, it is not very strong (pp. 240-8). Does Smith's writing style (rhetoric) explain the contradiction? Again, some inconsistencies can be explained through Smith's flourishes designed to emphasise various points, but such an interpretation is rather limited in its ability to explain the majority of those inconsistencies (p. 253). Could his religious sentiments lie at the bottom of the explanation? Again, the answer is a qualified 'no' (pp. 257-68). (I found this section on Smith's religious views and the relation of those views to his general theory quite interesting.)

Alvey then turns to an examination of the arguments recently put forward by (mainly) Jeffrey Young and Richard Kleer. While he finds both attempts to reconcile Smith's positions of value, he finds neither can explain *all* the problems associated

with Smith's two views. In making a judgment as to who *best* addresses the problem, Alvey finds Kleer – a 'pessimistic (or sober) optimist' (p. 297) – more persuasive than Young, though in answering most (but not all) of the problems posed by Smith, Kleer 'massively' narrows Smith's vision and his project in general (p. 282).

Alvey then concludes with a whimper rather than a bang – a thorough examination of all Smith's writings coupled to an honest attempt at reconciliation leads one necessarily to the conclusion that Smith was simply contradictory. Even an effort to synthesise the optimistic and pessimistic views through narrowing Smith's vision (as per Kleer) fails to answer all the problems Smith left for his interpreters. So, we are stuck with a Smith who is simply inconsistent.

Smith scholars will, I believe, welcome the publication of the whole of Alvey's thesis (now allowing his full-fledged argument to appear rather than the parts of that argument previously published as essays). There is much to debate here, and, thus, much fodder for journal articles, conference presentations, and the like. I wonder, though, if Alvey, like many (most?) academics has become caught up in his own project, believing that it is actually important for actual people who live actual lives. Consider his closing remarks: 'Resolving these questions seems to matter if one puts one's energies, hopes, and longings into a lost cause. It matters whether Smith opts for the political life (the optimistic case) or the private life (pessimism). His choice seems to matter, as it suggests where we ought to place our hopes: in the political life or in the private life' (p. 298).

I suggest that the answer to this question does not depend at all on 'what Smith really said'. It is not Smith who determines the nature of human life: it is life itself.

* Department of Economics, California State University, Sacramento CA 95818-6082, USA, and University of Missouri, Kansas City.
Email: henryjf@saclink.csus.edu.

<p>Nicola Giocoli. <i>Modeling Rational Agents. From Interwar Economics to Early Modern Game Theory.</i> Cheltenham, UK, and Northampton, MA, USA: Edward Elgar. 2003. ISBN 1 84064 868 6. Pp. 480. £79.95.</p>
--

M.C. Howard*

Nicola Giocoli's book is a long and detailed account of the formalist transformation of neoclassical theory during the twentieth century. Not all the currents in this change are dealt with, on the ground that it is an alteration in the concept of rationality, from a psychological-behavioural idea to a requirement of logical consistency, that is at the heart of the transformation. The end result is represented best by the idea of a Nash equilibrium, although other embodiments, such as modern Walrasianism, expected utility theory and rational expectations theory, are also discussed. Throughout, the history of economic thought is dealt with as intellectual history, with different systems of concepts and understandings being modified, jettisoned and elevated without reference to those external events that

might illuminate why the changes occurred as they did. (The Great Depression and the Cold War are mentioned as important, but only in passing and with no elaboration as to how and why they were important.) And few concessions are made to the reader's possibly imperfect knowledge of modern axiomatised economic theory or the mathematical theories from which it arose. The author knows the material very well, and is also well-versed in the history of neoclassical thought, but his exposition is often quite heavy going.

The transformation in the concept of rationality is characterised in three different but related ways. First, as a move from concerns of a social science with intentional and reasoned choice on the basis of agents' self-interest to that of the purely logical consistency of choice. Second, as a shift in perspective from what Giocoli calls a 'system of forces' image of knowledge to a 'system of relations' image, in which the focus switches from specific types of human decision makers in historical time to relations of consistency between more abstractly defined entities. (And Giocoli makes it very clear that he favours a reswitching.) Third, as a result of attempts by economists in the twentieth century to 'escape from psychology' and to 'escape from perfect foresight'. Analysing these two streams of thought dominates the first part of the book, which is followed in the second by an analysis of the rise to dominance of modern game theory.

The 'escape from psychology' concerns the attempts to free choice theory from any reference to psychological variables, and especially those variables whose existence and operation were deemed to be scientifically unverifiable. The crucial steps here were made by Hicks and Allen in the formulation of ordinal utility theory, by Samuelson's invention of revealed preference analysis, by Debreu reformulating Walrasian economics, and by Nash in providing a game-theoretic representation of strategic rationality. But there are also many secondary figures, including Pareto, Fisher, Slutsky and Savage, and Giocoli analyses them all with great insight. Underpinning the process, and driving it forward, is the attempt to make rational choice fully scientific, with particular notions of mathematical formalism seen to be integral to that endeavour.

The 'escape from perfect foresight' ran in a contrary direction because it concentrated on the unreasonable assumptions that neoclassical economists made about the information agents had, as well as their information-processing capabilities. The debate was concentrated in the 1930s and the upshot was to elevate the importance of understanding those learning processes involved in the attainment, or non-attainment, of equilibrium. John Hicks's *Value and Capital* is a high point, but Giocoli gives more attention to the contributions of Hayek, and particularly his reformulation of the very demanding properties required of equilibria.

According to Giocoli, the confluence of these two attempted 'escapes' created a stalemate in postwar economics. One path sought to release economics from those variables and processes that the other path propelled to the forefront of analytic concern. And Giocoli makes a convincing case for believing that it was this, and not any limitation in the mathematical abilities of leading economists, which explains why game theory took so long to attain its present exalted position. Strategic analysis simply did not address the question of 'how and why' equilibrium was attained, and its depiction of equilibria in terms of agents' common knowledge of rationality of each other and their consistently aligned beliefs assumed exactly those knowledges and competences that most postwar economists believed to be the chief problem with their subject. Thus the culture of economics had to undergo a fundamental change before the axiomatic treatments of Walrasian

theory and game theory could be widely embraced. Giocoli treats this in the second half of the book, again with great insight. Inevitably, whatever was gained came at a very high price as the problems of learning and equilibration ceased to be concerns for most neoclassical theorists.

Many developments in neoclassical economics are ignored by Nicola Giocoli in the belief that they are peripheral. Thus, while Gary Becker's economics is mentioned as running against the grain of the move from the 'system of forces' image of knowledge to the 'systems of relations' image, there is no similar recognition extended to the work of other contrarian notables, such as Ronald Coase, Douglass North, Mancur Olson and Joseph Stiglitz. Thus it is suggested that Becker is more of a maverick than he actually is, and that there is more homogeneity in neoclassical economics than there actually is. Nonetheless, Giocoli cannot really be faulted here. While neoclassical economics is not a hierarchic unity, but rather a set of interrelated projects having strong family resemblances, insofar as there is a common keystone it is most certainly the concept of rational choice. Any alteration in the notion of rationality is much more significant than change elsewhere because it will reverberate throughout most of the subject. Thus the focus of Giocoli's book is wholly appropriate.

This said, though, there are two genuine criticisms that can be made. First, Giocoli makes no mention of Arrow's social choice theory, perhaps the first genuinely axiomatic formulation of economic theory in which a consistency notion of rationality is clearly present. This work set the standard of rigour in terms of which later neoclassical theorists would measure themselves, and it is this, rather than any novelty in his substantive conclusion as to the impossibility of democratic social choice, that constitutes the real significance of Arrow's work. Thus, one would have thought it to be important for the story that Giocoli tells, and it is surprising that it is left out. Second, only fleeting reference is made to a standard justification employed by neoclassicals to the charge of Giocoli that rigour has displaced realism in their discipline. This is the appeal to Friedman's 'as if' economics, in which a correspondence criterion of truth is replaced by an instrumentalist criterion of predictive accuracy. Such a methodology is a natural complement to fully axiomatised choice theory precisely because the concepts of such a theory are so abstract and therefore capable of many concrete applications. An extended discussion of this 'defence' could therefore have been reasonably expected from an author who is so critical of modern neoclassical theory.

However, these criticisms should not be given undue weight. Even if the omissions were repaired, Nicola Giocoli's thesis would, most likely, still stand firm. At the centre of the formalist revolution in economics is exactly that change in the concept of rationality on which the book focuses, and it treats many crucial steps in the process of change very well. Moreover, even if modern axiomatic economics were to validate itself along Friedmanite lines (which it so far has *not* done) the doubts and dissatisfactions expressed by Giocoli could still be given a rational voice.

* Department of Economics, University of Waterloo, Ontario, Canada N2L 3G1.
Email: mchoward@uwaterloo.ca.

Heinz D. Kurz and Neri Salvadori (eds). *The Legacy of Piero Sraffa*. Cheltenham, UK, and Northampton, MA, USA: Edward Elgar. 2003. Two volumes: pp. xlv, 686 and pp. xii, 661. ISBN 1 84064 439 7. £395.00.

J.E. King*

These two weighty volumes contain 75 articles, together with a 33-page introduction (nine pages of which are taken up by a substantial bibliography). The first of four parts in volume one deals with Sraffa's critique of the Marshallian theory of value. In addition to Sraffa's own well-known contributions (1925, 1926), there are critical articles by Pigou (1928) and Newman (1960), and eleven more recent pieces by Bharadwaj, Mongiovi, Roncaglia, Panico, Salvadori, Samuelson, Steedman and others. The second part is much shorter: Sraffa's early (1920, 1922) writings on money and banking are complemented by the work of De Cecco and Panico; no-one else seems to have taken any great interest in this topic. Part three focuses on Keynes, the Cambridge Circus and the controversy with Hayek. Contributions by Lachmann, Lawlor and Horn, Kurz, Marcuzzo and others are revealing, but I was surprised that neither Sraffa's own articles in the *Economic Journal* (1930, 1932) nor Hayek's reply (1932) were included; they amount in total to about thirty pages. If the Sraffa-Hayek controversy 'gave rise to an extended literature', as the editors claim (p. xx), it is odd that Lachmann is the only Austrian deemed worthy of inclusion. The first volume ends with 13 articles on Sraffa's edition of Ricardo. Most of the usual suspects can be found in this part of the book, among them Blaug, Garegnani, Hollander, Pasinetti, Pollitt and Stigler. Sraffa is represented, too, but by the short 'Mr.--- of the Bullion Report' from volume III, rather than the much more important 'Introduction' from volume I. This strange selection is not explained by the editors; I can only assume that they wanted to showcase Sraffa's scholarship rather than his exegetical or interpretative skills.

The first of the five parts in volume II of *The Legacy* contains most of the published reviews of Sraffa's *Production of Commodities By Means of Commodities*, along with its author's reply to Roy Harrod and the 1962 Sraffa-Newman note on the number of switches between two production systems. The well-known Harcourt-Massaró review is not included, and Melvin Reder's 1961 notice in the *American Economic Review* is also missing. Reder's was certainly a very poor review, but the total incomprehension revealed by a prominent Chicago microeconomist was surely worth the space, for that reason alone. Part two reprints general assessments of Sraffa's masterpiece by Eatwell, Garegnani (two), Pasinetti, Roncaglia, Samuelson (two) and Schefold (two). Most of the big hitters are here. In part three various specific issues are discussed, including the Standard Commodity, prices, vertical integration, joint production and rent. The role of *Production of Commodities* in the capital controversy is the subject of part four, with eleven articles by leading authorities, most of them favourable to Sraffa's project – the only critic is Frank Hahn. The volume concludes with three descriptions, all from 1998, of Sraffa's unpublished papers, by Garegnani, Kurz and the Trinity College archivist, Jonathan Smith.

As expected from the two editors, whose academic lives have been largely devoted to Piero Sraffa, this is a very high quality production, with an excellent introduction and comprehensive bibliography. It covers all the principal aspects of the reclusive Italian's thought, and brings together many articles from obscure

journals that will not be readily found even in good university libraries (Dutch, French, Indian and Swiss sources are included, in addition to the inevitable Italian journals). There is even a new translation of Philippe Mongin's 1979 article on Ricardo's invariable standard of value, which was previously available only in French. I would, however, have liked to see more from Sraffa's critics, who are not confined to Mark Blaug, Frank Hahn and Ludwig Lachmann, as this collection might lead you to suppose. It is true that Sraffa did not receive the close critical attention that his work deserved, but there have been intelligent neoclassical theorists who have taken him seriously (e.g., Mandler 1997), and mathematical economists who have probed the logic of his analysis (e.g., Woods 1990), and their objections might have been given an airing here. East Anglian economists will be disappointed that so little is made of Sraffa's Cambridge connections. Only one of Geoff Harcourt's many papers on Sraffa is included, and there is only one short piece by Joan Robinson, which may be her earliest published assessment of Sraffa's work but is by no means her best. And this relates to a further deficiency, the complete lack of biographical material. There is nothing reflecting the human side of Sraffa: no memoirs, obituaries or tributes and (most unfortunate of all) none of Nerio Naldi's painstaking biographical research.

I suppose, though, that it is unrealistic to expect much more than 1400 pages on any dead white male economist. These two volumes do give a comprehensive overview of the work of one of the twentieth century's most important and most enigmatic social theorists. They are strongly recommended to any institution with a reasonable library budget.

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

References

- Mandler, M. 1999. 'Sraffian indeterminacy in general equilibrium', *Review of Economic Studies* 66(3), pp. 693-711.
- Reder, M.W. 1961. Review of *Production of Commodities By Means of Commodities*, *American Economic Review* 51(4), September, pp. 688-95.
- Woods, J.E. 1990. *The Production of Commodities: An Introduction to Sraffa*. London: Macmillan.

<p>David Stack. <i>The First Darwinian Left: Socialism and Darwinism 1859-1914</i>. Gretton, Cheltenham, UK: New Clarion Press. 2003. Pp. viii+149. ISBN 1 873797 38 9 (hb). ISBN 1 873797 37 0 (pb). £25.00 (hb), £12.95 (pb).</p>
--

John Laurent*

While the political labels 'Left' and 'Right' no longer convey a great deal of meaning, they are still commonly used by people wishing to identify themselves with one or the other broad ideological position. In the case of the Left, this is often associated with an objection to any kind of 'essentialism' in accounts of human

nature – as for instance in Darwinian accounts, which are seen as imposing limits on human potential. There are of course exceptions to this view, as in Peter Singer's (1999) *A Darwinian Left: Politics, Evolution and Co-operation*, which draws attention to the often neglected – by both Left and Right – element in Charles Darwin's writing which stresses the importance of co-operation and altruism in nature, alongside competition (see e.g. Darwin 1875).

Singer's arguments are hardly new: they were eloquently put by one of the Left's greatest heroes in the decades following Darwin's death, Prince Peter Kropotkin in *Mutual Aid: A Factor in Evolution* (1902), and they have been reiterated by a number of writers (e.g. Montagu 1952) since that time. But it is probably true that such arguments have been in the minority among people on the Left in more recent years, and to that extent the author of this volume is justified in reminding us of them, and in showing us how influential they were in an earlier era. Hence the book's title: it is prompted by the title of Peter Singer's volume, and sets out to demonstrate that an earlier 'Darwinian Left' has already canvassed most of Singer's contentions, and, moreover, that there are problems with some of these, just as there are with Singer's book.

This latter point is underlined right from the beginning by Stack, and it is helpful to the reader that it is. In his Preface, Stack states emphatically (p. vii) that he sees as a primary purpose of his book that it may help 'forestall a growing movement to use Darwinism as the foundation for a new politics of the Left' and that he hopes that his account of the *first* Darwinian Left might provide 'some measure of warning about the folly of such a course of action'. Accordingly (and notwithstanding something of a retreat from this position in the book's concluding chapter – see below), Stack has little time for Singer's arguments which, he notes, are strongly influenced by the currently fashionable evolutionary psychology of Steven Pinker and others. Singer's search for 'scientific certainty' in social questions, and his denial of the validity of 'any argument that is not rooted in biology' (p. 5) is misguided and worrying, in Stack's view, and is at worst reminiscent of the regrettable efforts of earlier left-wing intellectuals such as H.G. Wells and G.B. Shaw to accommodate racist and eugenicist ideas into their philosophy.

Besides Wells and Shaw, Stack examines the writings of a number of other key figures in this earlier Darwinian Left and finds similarly worrying material. Thus Karl Pearson, first Galton Professor of Eugenics at London University, described himself as a socialist (see his 'Socialism and Natural Selection' in *The Chances of Death and Other Essays in Evolution*, 1897) and argued (Stack, p. 86) that eugenics was a 'collectivist doctrine', and that the 'notion of racial fitness demanded that natural selection be a group process'. Olive Schreiner, in *Woman and Labour* (1911), wrote of women's 'organic inferiority' brought about by destructive social arrangements, and from this argued for 'female emancipation in the name of evolution and eugenics' (pp. 94-5).

But Stack is also keen to absolve the Left of as much responsibility for these unfortunate sentiments as possible (he takes the view that people inevitably reflect the thought-forms of their time – Henry George, for example (p. 31), was 'imbued with the general evolutionary ethos of the age'), and he deplors the copious literature (e.g. Britain 1982) which seeks to distort our picture of the first Fabians, for example, who, it is alleged, 'fell under the beguiling spell of eugenics' (p. 88). Moreover, Stack is impressed with the scientific credentials of certain major figures on the Left such as Ramsay MacDonald. MacDonald, who declared

that ‘Socialism is naught but Darwinism’ (quoted p. 53), had trained in biology and chemistry (as had Annie Besant, another important figure discussed by Stack), and had planned to pursue these studies at a professional level had he not suffered a serious breakdown in health. Among the authors who strongly influenced MacDonald were Darwin (*Descent of Man*), and Kropotkin, from whom MacDonald learnt that ‘the law of mutual aid was a necessary balance to the struggle for existence’ (p. 55). Stack notes too, that Alfred Russel Wallace – the man who shares equal credit with Darwin for the discovery of the principle of natural selection – declared himself a socialist (in 1889), and later wrote books advocating socialism such as *The Revolt of Democracy* (1913) and *Social Environment and Moral Progress* (*ibid.*).

To some extent Stack wants to have things both ways: he is (surely justifiably) sceptical about Left-wing attempts to trace their social theories in biology, but when the theorists have scientific standing he is happy to cite them positively in just such a context. There is thus the potential for this book to lack coherence, but Stack manages to avoid this by skilfully concentrating on the distinctive features of *human* biology as argued by some of the writers he adduces. Of Henry George, for instance, Stack notes that, notwithstanding George’s enthusiasm for evolution, he is mainly interested in human *mental* evolution, which is largely dependent upon *cultural* rather than genetic transmission of techniques etc., a perspective that Stack suggests George probably gained from A.R. Wallace’s 1875 book, *Contributions to the Theory of Natural Selection*. Wallace, in turn, later acknowledged a considerable debt to George. (In 1881 Wallace wrote to Darwin of George’s *Progress and Poverty* that he had ‘never been so attracted by a book’, with its ‘brilliant discussion and refutation of some of the most widely accepted maxims of Political Economy’ (Wallace to Darwin, 9 July 1881, Darwin Archive, Cambridge University Library, cat. No. DAR 106/7 [ser. 2]: 154-5)). For Wallace, Stack argues, while ‘mental selection’ could be no less cruel or Malthusian than its genetic counterpart, and in humans ‘natural selection... occur[red]... though a struggle waged between social groups’, this process nevertheless ‘clearly favoured the evolution of ever more social characteristics’ (p. 23). Here, then, was a case pregnant with possibilities for the Left, and which avoided the pitfalls of eugenics. To this extent, Stack feels able, in his conclusion, to assert that ‘[t]he notion of a Darwinian [L]eft was *not* inherently flawed’ (p. 122, my italics), however mistaken the arguments of some of its apologists. With help from this book, readers will reach their own conclusions.

* Department of Economics and Resource Management, University of Southern Queensland, Toowoomba, Queensland 4350, Australia.

References

- Britain, I. 1982. *Fabianism and Culture*, Cambridge: Cambridge University Press.
- Darwin, C. 1875. *The Descent of Man and Selection In Relation to Sex*, London: John Murray.
- Montagu, A. 1952. *Darwin, Competition and Co-operation*, New York: Henry Schuman.

Richard M. Ebeling. *Austrian Economics and the Political Economy of Freedom*. Cheltenham: Edward Elgar. 2003. Pp. 296. ISBN 1 84064 940 2. £59.95.

Troy P. Lynch*

This book is a compilation of ten essays from the 1990s. The author, Richard Ebeling, was formerly the Ludwig von Mises Professor of Economics at Hillsdale College, Michigan, and is now the President of the Foundation for Economic Education in Irvington, New York. The essays explain Austrian economic theory and apply it to wider policy issues.

They embrace a range of topics, including the history of economic thought, economic calculation under socialism, the Gold Standard, classical liberalism, the welfare state, interventionism and public policy, the German Ordoliberal school, the global economy and the economist, Ludwig von Mises. Each paper addresses the topic from an Austrian perspective; each essay stands alone, but a number cover a similar theme.

Ebeling evaluates views other than Carlyle's in the essay, 'How economics became the dismal science: the classical economists and twentieth-century economics'. He considers the prospect of comparative advantage and the division of labour in trade as the means by which, through mutual, material interest, barriers to international harmony would be removed. The incentive to reap where one has sown, to benefit from one's own labours, is built on the freedom to own private property, of mind, body and possession. Ebeling asserts that twentieth century mainstream economics is dismal because it eliminates the human actor from the centre of economic analysis, and leaves us with Pareto's requirement: 'The individual can disappear, provided he leaves us this photograph of his tastes' (p. 27).

In 'The significance of Austrian economics in twentieth-century economic thought', Ebeling insists that social engineers were influential throughout the twentieth century because they were unwilling to accept the reality of scarcity, and emphasises the limits this places on wants and desires. The Austrians, however, argue that man as a purposive actor chooses among ends via the mechanisms of preferences, means and prices. The entrepreneur exploits imperfect knowledge and his competitive advantage in the quest for profit. Social institutions emerge spontaneously as individuals choose profitable ends. This essay summarises the main tenets of Austrian economics.

Ebeling considers Ludwig von Mises's contributions to economics in the paper entitled 'A rational economist in an irrational age: Ludwig von Mises'. Here he discusses Mises's: (1) *a priori* epistemology, and his arguments (2) that all men possess the same logical structure of thought; (3) that the social system of the division of labour evolved because of the institution of private property and peaceful competition in the market place; and (4) that socialist planning is irrational, and interventionism leads to distortions in the market economy.

In the essay, 'Economic calculation under socialism: Ludwig von Mises and his predecessors', Ebeling examines the predecessors to Mises who contributed to the debate concerning how a planned economy could allocate the scarce means of production to provide a fairer distribution than a market economy. He reviews the work of Albert Schäffle, Paul Leroy Beaulieu, William Graham, Victor Cathrein and Benedict Elder. These authors considered themes such as the spontaneous order of

the market economy, changes in supply and demand automatically via the price mechanism, the apparently unjust incentive of profit that alters production and its requirements, and more. The one guiding factor for Mises is the impossibility of socialist economic calculation due to the absence of the price mechanism. Mises's critique of socialism was subjectivist in nature, and therefore he opposed the labour theory of value. Mises's own original contribution was that socialism eliminated the private ownership of the means of production and thereby also the price mechanism that permitted calculation and guided every step of the roundabout production process (pp. 124, 129), a critique that Ebeling believes has not been answered (pp. 124, 130).

Ebeling explains the different views among Austrians on monetary theory in 'Ludwig von Mises and the gold standard'. Wicksell's influence on the school was important, in particular on how a change in the nominal interest rate could be produced through a cumulative rise or fall in prices. Mises developed a marginal utility theory of money, stated that it was not neutral in effect and, together with Böhm-Bawerk's capital theory, Wicksell's interest rate theory and his own monetary theory, developed a malinvestment, credit expansion theory of the business cycle. Mises's policy proposal differed from that of other Austrians. He supported the Gold Standard as the most suitable monetary mechanism for the market economy. This removes the capacity for the inflationary state to issue fictitious, apparently sound, neutral money, so that money's purchasing power is ultimately determined by individual consumers.

In 'Classical liberalism and collectivism in the twentieth century', Ebeling traces the demise of the liberal order in Western Europe and the rise of collectivism and welfarism since World War One. Individual rights, private property and civil liberties have, he argues, been replaced by strong welfare states in which the individual recedes and state-sponsored ends prevail with state-managed interventions in all areas of society (i.e., neomercantilism), including regulation, planning, control, licensing, protections, and so on. This is the nationalisation of economic life.

In 'The political myths and economic realities of welfare state', Ebeling explains how the rise of welfarism in nineteenth-century Germany influenced surrounding democracies and encouraged state socialism on the bases of expediency and the higher good. He traces the influence of socialist economists to this end, and opposes the trend that has produced a generation which considers the current welfare state as a normal state of affairs.

In 'The free market and the interventionist state: the political economy of public policy', Ebeling examines three rationales for state intervention. He investigates the perfect competition hypothesis and finds it wanting in the light of the real imperfections of the market place. Second, he opposes interventions that redress matters of apparent social injustice (i.e., exploitation, inequality and insecure employment), finds the arguments without merit and considers the subject from a different perspective. Ebeling examines the public interest rationale as the third argument for intervention, and offers a market process solution for public and social goods problems, in which such matters may be resolved in the private and competitive market place.

Ebeling compares the influence of two groups in the paper, 'The limits of economic policy: the Austrian economists and the German ORDO liberals'. He notes their common opposition to historicism, scientism, positivism and collectivism, and that both schools advocate the laws of economics as applied to the market economy. They disagree, however, on what constitutes the good society, as determined by their differing analyses of the causes of social problems. The market

economy sufficiently addresses matters of liberty and prosperity, but Austrians and *ordo* liberals do not agree on the purpose of the state. For the German *ordo* liberals (W. Röpke, W. Enken and A. Müller-Armack), intervention by the state was necessary to regulate economic power, redistribute income, provide social insurance, centralise monetary control and so on; not so for the Austrians, who advocated non-intervention. Over time, the *ordo* liberals were compelled to question the limits of policy in the face of the growth of state expansion, expenditure and the resulting move away from individual responsibility. According to the *ordo* liberals, policy limits needed to be assessed in the light of their idea of the good society. This was a vision not shared by other groups.

The final paper is 'The global economy and classical liberalism: past, present and future'. Here Ebeling traces the development of classical liberalism from mercantilism through to the freeing of trade via the Anti-Corn Law movement, Cobden and unilateral free trade in the nineteenth century, to welfarism and economic rationalism after World War One, on to greater interventionism in the 1930s – all this apart from the rise of fascism and collectivism in certain quarters – and the welfare state in the twentieth century, and finally to managed economies and trade in the late twentieth century. He argues in favour of unilateral free trade and against economic nationalisation (including fiat money), in which an open international order is promoted, and domestic and international policy is taken out of the hands of government. He favours privatised, market-determined commodity money, which would most likely be gold and/or silver. Free trade can only occur, Ebeling asserts, if there is also a free domestic economic order. In this possible future there remains no legitimate role for central banks, the World Bank, the IMF or the WTO.

This work is broad in scope. It considers the consequences of socialism, economic nationalisation and interventionism, finds the outcome unacceptable, and demonstrates that the logic of freedom, or individual choice, is the solution that adequately answers the stated problems of those opposed to individual freedom. Indeed, the apparent problems that various forms of interventionism are meant to address, Ebeling reveals, create more problems. According to Ebeling, individual freedom, operating in the context of a private, market economy best answers the underlying concerns. His arguments are refreshing and well documented. This compilation of essays is an attractive addition to the Austrian economics literature.

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

<p>Francisco Vergara. <i>Les fondements philosophiques du libéralisme - Libéralisme et éthique</i>. Paris: La Découverte. 2002. Pp. 220. ISBN 2 7071 3520 8. € 9.50.</p>

Sandrine Potulny*

Our interest has always been attracted by investigations of the thought of classical liberals. Indeed, the question of their theoretical heterogeneity is still unresolved,

despite the numerous specialists who have dealt with this matter (Berlin 1969; Hayek 1960; Gray 1980), challenging us to provide contemporary capitalism with viable liberal foundations. This explains why, ten years after its first publication, Francisco Vergara's book, *Les Fondements Philosophiques du Libéralisme*, has been reissued and still remains attractive, trying to clarify the aforementioned theoretical difficulty in the history of economic ideas.

Francisco Vergara is a French economist well-known for his critique of Louis Dumont (Vergara 2001), Karl Polanyi (Vergara 2000) and Élie Halévy (Vergara 1998). He bases his analysis on two explicit assumptions. Firstly, their differences notwithstanding, classical liberals offer 'concepts and elementary assumptions interacting to constitute a consistent whole' (p. 23). Secondly, classical liberals can be classified into two subgroups 'according to the ethical doctrine they adopt' (p. 49): the utilitarians, and the natural right theorists.

On this basis, the essence of Vergara's study is to highlight erroneous assumptions on two issues. First, the meaning of the word *utilitarianism*. According to Vergara, recent, numerous, and more eclectic extensions have led to misinterpretations. Utilitarianism is above all an ethical principle. Second, the 'fallacious' libertarian description of themselves as the 'heirs of the classical liberals' (p. 7). Vergara develops his criticism from an ethical perspective. In other words, he analyses the different trends of liberalism from an ethical point of view. In this way, his book is in keeping with the line of economic research which deals with the analysis of the ethical norms of liberalism (for example, Sen 1987; Hausman and McPherson 1993). I shall first see what his main results are, and then discuss the limits of his central argument: that to acquire a theoretical legitimacy, it is really necessary to assume an ethical monism.

Although I shall not discuss here the different meanings of the term *ethics*, it seems necessary to emphasise the definition the author has chosen: 'The word indicates this field of thought relative to what is the *supreme good* and *the criteria* we should adopt to evaluate whether our conduct is *good* or *bad*' (p. 51). The choice of this normative definition of the term allows one to go beyond the simple analytical description of moral customs – or of the formation of value judgments – and is totally consistent with the author's definition of liberalism as 'a project of the ideal society' (p. 16). Indeed research on the ideal society is linked to what is good and what is bad: 'when a thinker is not satisfied by the society in which he lives, and has a theoretical project he considers better (as classical liberals do), he is ineluctably led to explain what he means by better... it is the ancient question of the *Summum Bonum*' (p. 13).

Vergara then argues that classical liberals propose two distinct solutions. A first group of thinkers, such as Hume, Smith, Bentham, Ricardo and J.S. Mill, adopt 'the ethical doctrine called utilitarianism or principle of utility' (p. 13), according to which one has to attentively examine the consequences for the happiness of the community before taking a decision (on a law, an institution or a liberty). On that basis, 'the theoretical task of utilitarian liberals is to identify the fields into which liberty should be extended and ... which fields must be brought under regulation, where liberty alone does not lead to the maximum happiness' (pp. 74-5).

In this regard the book completes Vergara's earlier criticism of Élie Halévy's interpretation of utilitarianism, which argued for equivalence of the term 'liberalism' and the principle of 'non-intervention of the State'. As the first broad analysis of the characteristics of utilitarianism, *The Origins of Philosophical*

Radicalism (Halévy 1934) had a great influence on authors as diverse as Schumpeter, Dworkin and Stigler. According to Vergara, the problem with such a characterisation of liberalism is that 'it is precisely imaginary: a reading, even a rapid one, of utilitarian thinkers highlights a myriad of arguments sustaining state intervention' (p. 9). For example: 'the principle of natural liberty developed by Adam Smith should not be confused either with the doctrine of non-intervention by the State, or with the doctrine of the minimal state' (p. 81).

A second group of thinkers, such as Turgot, Jefferson and Condorcet, gave birth to a second type of liberalism, which Vergara terms 'natural rights liberalism'. For them, in opposition to the preceding view, an action should not be evaluated only on the basis of its practical results, but also according to its 'conformity with Nature' (p. 37). This criterion allows us to know if a law, an institution, a liberty, or any other collective decision is good or bad for society, for knowledge of the Laws of Nature is attainable by reason, by revelation, by intuition, or by moral sense, and would imply a statement of rights (and of corresponding duties) proceeding from 'natural right'. This reasoning supposes that 'behind the instinctive sentiment of right and wrong there is a logical reality, a kind of legal code, a set right, or in short a Natural Right' (p. 125).

This analysis allows Vergara to criticise libertarian thinkers on two grounds. Firstly, they are *systematically* against any state intervention. This implies that their claim concerning their classical liberal inheritance is totally unfounded: 'To us, this linkage seems to a large extent usurped' (p. 7). Secondly, what disqualifies libertarian thinkers in a more radical way is their ethical foundations, which are, according to Vergara, characterised by two kinds of problems. The first difficulty is that they do not use a unique ethical criterion; one can easily observe eclecticism among authors, and even different criteria used by a single author according to the question treated (Vergara quotes Hayek in this context, pp. 169-71). But, according to Vergara, sometimes there is no ethical criterion at all and this is more problematic: 'here we are facing rhetoric and not serious philosophical reasoning' (p. 172). The second type of problem is the meaning of the criteria referred to. When it is referred to as the 'natural right' criterion, Vergara notes that Spencer's and Bastiat's conceptions of justice are quite different from the classical one (pp. 177-81). As far as the utility principle is concerned, Vergara then quotes Milton Friedman (p. 184), who identifies it with the principle of efficiency: on that basis, any intervention is precluded on the fundamental argument of its costs for society. Vergara also notes that, for some ultra-liberals, liberty is central to their conception of liberalism: 'liberalism... is the doctrine which considers the "global quantity of liberty" as *the ultimate good* and as *the ultimate ethical criterion*' (p. 173).

As a positive corollary to his previous criticism, Vergara underlines the meaning of the principle of utility, which is above all a precise, clear and simple ethical criterion: 'Utilitarianism is the ethical theory whereby under any given circumstances the conduct which is objectively right, is the one which will produce the greatest amount of happiness, taking into account all the individuals affected by the conduct' (Sidgwick 1907, p. 411, cited by Vergara, p. 67). In this sense, utilitarianism is a particular type of consequential ethical theory, which praises a certain type of good as the ultimate criterion of evaluation.

None the less, 'commentators often designate by those expressions [utilitarianism or utility principle] *many different things*, with no necessary links between them' (p. 59): utilitarianism is said to be a theory of psychology stating

that man is motivated in the first instance by egoism (a theory of motivations); or an ethical hedonism praising personal happiness or personal satisfaction (although Sidgwick stated that it was a 'universal hedonism' (p. 63), in the sense that the ultimate end is the happiness of the greatest number of individuals in the given society); or again that utilitarian happiness comes from the acquisition of wealth or possession of material things. All those misinterpretations explain why there is a profusion of contemporary theses stating different types of utilitarianism (see p. 68).

The core of my criticism centres on Vergara's dual ethical approach and his corollary monism. Indeed, he takes for granted the analytical tradition in which the ethics of goodness and the ethics of rightness are incompatible. He asserts: 'We are compelled to use one moral rule exclusively, if we are to avoid facing a heterogeneous and absurd structure. But which one should we apply? ... Are we condemned to a moral eclecticism which is, as we know, non-optimal?' (p. 206).

None the less, some moral philosophers have recently developed theses that tend to reconcile those two aspects of morality (for example, Jean-Pierre Dupuy, Charles Larmore, Thomas Nagel and Paul Ricoeur). According to them, moral values are fundamentally heterogeneous, and, as such, consequentialism (from which the utility principle proceeds) and deontological ethics constitute the two *complementary* branches of a whole global study of our moral reasons to act.

That vision implies departing from some of Vergara's positions. First, in response to the various common criticisms addressed to utilitarianism (pp. 106-22), Vergara makes a central argument that constitutes, in our opinion, a shortcoming. For him, indeed, utilitarianism does not exclude 'sacred values' or 'non-negotiable duties and rules', and he adds that the difference with the natural right theories is the reason given to justify them: 'Moral philosophers and legislative theorists have always thought that there exist *two types of duties*. The first one has to be precisely determined and must be applied *with no exception*; the second one is less precise and does not involve the obligatory aspect. Utilitarian thinkers do distinguish between these two types of duties. The specificity of their doctrine consists in the nature of the demarcation line between those two types of duties or rights: it is *public utility* and not *Reason*' (pp. 116-17). In the works of some contemporary philosophers (Nagel 1980, 1986), one can find strong arguments showing the shortcomings of utilitarianism on that precise point: the problem is that this utilitarian justification of rights (and corresponding duties) misses something essential to the definition of morality: the inviolable status of others, just as we expect others to respect our inviolable status as human beings. The absence, or the theoretical possibility of the absence, of such a status involves the negation of the force of morality.

Second, I think that Adam Smith well understood precisely this point. In his *Theory of Moral Sentiments*, one can read: 'That it is not the regard to the preservation of society, which originally interests us in the punishment of crimes committed against individuals, may be demonstrated by many obvious considerations... when a single man is injured, or destroyed, we demand the punishment of the wrong that has been done to him, not so much from a concern for the general interest of society, as from a concern for that very individual who has been injured' (Smith 1759 [1976], Part II, Section 2, Chapter 3, pp. 89-90). And when he adds that there is, in certain circumstances, the possibility of exceptions, such as the sacrifice of the sentinel who slept instead of standing, which Vergara mentions to prove that Smith holds a utilitarian ethic, Smith wanted to highlight precisely by this example that the sentiment that pushes us to punish the sentinel

has nothing to do with the sentiment to demand repairs to damages caused to individuals: 'The very different sentiment with which the spectator views those different punishments, is a proof that his approbation of the one is far from being founded upon the same principles with that of the other... etc'. (*ibid.*, p. 91). This leads me to think that Smith was well aware of the heterogeneity of ethics and of moral motivations; moreover, because of the importance Smith gave to moral judgement in the definition of morality, and to the positive aspects of ethics, Vergara's interpretation of Smith seems debatable.

Third, Vergara's argument that the libertarian theses are untenable on the basis of their eclectic ethical arguments is, in my opinion, a misleading criticism of their position. In my opinion, clarifying the definition of justice in the thinking of the classical liberals would be a more fruitful way to proceed. What is their conception of justice? Can we highlight distributive aspects in their conception? What form(s) do they take? Such questions have to be resolved if we wish to clarify all those conceptual problems, and to show that there are no links between libertarian and 'classical' economists, a thesis which is quite uncommon in France.

Fourth, and finally, I would like to underline Vergara's idiosyncratic definition of natural right theories: they presuppose the existence of an external law, independent of Man's reason and superior to him, that imposes itself on him. This way of seeing natural rights theories is not, contrary to what Vergara asserts, equivalent to deontological ethics, which precisely highlights what is interior to man in the justification of morality. It is a peculiar way of interpreting natural right theories, and it has to be noted.

In conclusion, I firmly share Vergara's conviction that a more thorough study of the ethical foundations of liberalism, both of the founders and the diverse contemporary extensions, would bring great theoretical enlightenment. Vergara focuses his analysis on the discrepancy between the utilitarian and the natural rights ethical roots, on the basis that these two tendencies rely on two antagonistic ethical principles: the ethics of the good versus the ethics of the right. Although the existence of these two tendencies is easily shown by a detailed analysis of the works of the classical liberals, it seems premature to declare the superiority of one of them in the determination of the ethical principles of 'true liberalism'. Such a judgement can only emerge from a complete study of the fundamental concepts (justice, ethics, economics, and so on) and of their interrelations: a truly vast and collective program of research. None the less, although Vergara's main ethical argument seems to me highly debatable, it remains true that his work constitutes the analytical basis for overcoming the theoretical difficulties that have burdened the term liberalism for decades now.

* Department of Economics, University of Paris 2, France.
Email: Spotulny@aol.com.

References

- Berlin, I. 1969. *Four Essays on Liberty*. Oxford: Oxford University Press.
Gray, J. 1980. 'On negative and positive liberty', *Political Studies* 28, pp. 507-26.
Halévy, É. 1934. *The Growth of Philosophical Radicalism*. London: Faber & Faber.
(First published in French, 1901).

- Hausman, D. and McPherson, M. 1993. 'Taking ethics seriously', *Journal of Economic Literature* 31(2), June, pp. 671-717.
- Hayek, F. von. 1960. *The Constitution of Liberty*. Chicago: Chicago University Press.
- Nagel, T. 1980. 'The limits of objectivity', in Sterling M. McMurrin (ed.), *The Tanner Lecture on Values*, Cambridge: Cambridge University Press, pp. 75-139.
- Nagel, T. 1986. *The View From Nowhere*. Oxford: Oxford University Press.
- Sen, A. 1987. *On Ethics and Economics*. Oxford: Blackwell.
- Sidgwick, H. 1907. *The Methods of Ethics*. London: Macmillan.
- Smith, A. 1759 [1976]. *The Theory of Moral Sentiments*, edited by D.D. Raphael and A.L. Macfie. Oxford: Clarendon Press.
- Vergara, F. 1998. 'A critique of Élie Halévy: an important distortion of British moral philosophy', *Philosophy* 73 (283), January, pp. 97-111.
- Vergara, F. 2000. 'Libéralisme et éthique', *L'économie politique* 6, pp. 67-81.
- Vergara, F. 2001. 'Les erreurs et confusions de Louis Dumont', *L'économie politique* 11, pp. 92-6.

Steven Kates (ed.). *Two Hundred Years of Say's Law: Essays on Economic Theory's Most Controversial Principle*. Cheltenham: Edward Elgar. 2003. Pp. x + 221. ISBN 1 84064 866 X. £55.00.

John Singleton*

Say's Law was 200 years old in 2003. As the essays in this collection show, it has never been economic theory's most controversial principle. Keynes, in his charming way, set Say up as a fall guy in the *General Theory*, presenting a severely bowdlerised version of the 'law of markets'. Since 1936 most economists have regarded Say as a clown, and his law as nonsensical. (Rational expectations theory converged on Say's Law – as mangled by Keynes, not as expounded by Say.) A small group, however, retains an interest in Say, either because they believe him to have been misrepresented and/or because they think that his law of markets really does make sense. Some of these economists, the best known of whom is William Baumol, contribute essays to this volume. Baumol, by the way, is a Keynesian who feels embarrassed that Keynes was so unfair.

According to Keynes, Say denied the possibility of recession and asserted that the economy always operated at full employment. As is often the case, the fact that Say and Keynes used their own definitions of key words (such as capital, saving, investment, hoarding), and modified them on several occasions, was a potentially fertile source of confusion. There can be no doubt that Keynes planned to hold Say up for ridicule; he may even have genuinely misunderstood him.

Say lived in a period marked by short and sharp bouts of recession and unemployment, and could not ignore such phenomena. He argued, however, that recessions were caused by factors other than deficient aggregate demand – notably by errors in production planning, political uncertainty, and unwarranted government interference in the economy. He acknowledged that the introduction of

new technology could lead to unemployment in the short run. Recessions could also be seriously aggravated by financial panic.

Littleboy offers a sympathetic restatement of Say's Law (p. 157): 'supply expresses a willingness to demand but that this demand is potential and contingent on the terms on which the supply is sold'. Those who wish Say to be rehabilitated argue that the law of markets was not meant to operate in the mechanical fashion depicted by Keynes. Evelyn Forget, Say's recent biographer, offers an intriguing interpretation of the law of markets in which entrepreneurship plays a central part. Her version of Say is very Austrian. Supply *tends* to create its own demand, especially in the long run. Entrepreneurs – a term Say introduced into economics – and not consumers are the driving force in the economy. If entrepreneurs as a group are skilled in anticipating the desires of consumers there will be a ready market for their products. But if they miscalculate, as often happens, unsold goods will accumulate and firms will switch to new product lines or go out of business. Say may have been more interested in growth than in short-run equilibrium. The longer the time horizon, the bigger the weighting of supply factors, especially technology.

Say was not studying an economy in the midst of chronic depression. Admittedly, economic conditions were rather unstable in the early nineteenth century, mainly because of the Napoleonic Wars and their aftermath. Western Europe was, however, embarking upon a remarkable phase of intensive growth. We cannot know what Say would have written had he been active in the 1930s. Perhaps he would have agreed with Keynes! Clearly, the world and economists had changed enormously over the intervening century. Some economists had come to accept Keynes's version of Say's Law as a dogma, possibly without knowing its origins. Keynes and many other economists had come to a much more sophisticated understanding of the role of money in a modern economy than Say had been able to grasp. But Keynes was writing about a one-off event, at least in the context of the twentieth century, and one that was already in the past by 1936. It could be argued that Say's approach was more 'general', if less refined than that of Keynes.

Having established that Keynes's attack was gratuitous, it remains to be seen just how important a figure Say was in the development of economics. Was he a great economist, or merely a figure of middling consequence? How does he compare with his contemporaries, Ricardo, Malthus, and James Mill? The contributors do not give an explicit answer to this question, but it is possible to read between the lines. Kates concludes that 'the first statement [of Say's law of markets] made hardly a ripple because it represented what most economists [already] believed.' (p. 11). If Say was original, then, it wasn't because of Say's Law. Was it because of entrepreneurship?

* Faculty of Commerce and Administration, Victoria University of Wellington, PO Box 600, Wellington, New Zealand. Email: John.Singleton@vuw.ac.nz.