

Adam Smith's Mistake

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Adam Smith's Mistake by Kenneth Lux. Boston: Shambhala Publications, 1990, pp.232, ISBN: 0-87773-593, \$US13 (\$C17.50).

This work is written by a psychologist who dabbles in economics. Too often in the economics profession we are insulated from developments in other fields. Recall the great stir that occurred when McCloskey introduced literary criticism into economics in his *The Rhetoric of Economics*. A work such as Lux's is potentially beneficial because it reminds us of the way that the discipline is perceived by outsiders. How does Lux perceive economics? It is a big mistake. The book could easily be retitled "What's Wrong with Economics?"

Lux tries to argue that there has been a transformation of values in the West. "Smith's work was to play a central role in defining the new order" (p.15). In sum, Lux's view of Smith is indicated by the sub-title to his book: "How a Moral Philosopher Invented Economics and Ended Morality." Despite this Smith is the core of only a few chapters in Lux's book.

Let me deal with Lux's views on Smith first. It was the doctrine of self-interest developed in the *Wealth of Nations* that was a break not only with Smith's own earlier work but that of the society at large. Chapter 4 of Lux's book ("The Mistake") is particularly worth reading. He states explicitly the Adam Smith Problem: "between his first and second books Smith abandoned any reliance upon human benevolence or sympathy" (p.104). Lux also states the same view implicitly (p.98). Unlike the German originators of the Problem, Lux is fully aware of the revisions that Smith made late in his life to the *Theory of Moral Sentiments*. Lux nevertheless holds that Smith's two works are inconsistent. He returns us to a Problem that in recent times has received glib treatment. Lux argues that the leitmotiv of the *Wealth of Nations* is Smith's view that we must appeal not to the benevolence but to the "self-love" of the butcher, the brewer and the baker to get our dinner. Indeed, he goes so far as to claim that "this statement ... most characterises the transition from the thinking of the Middle Ages to that of modern economic society" (p.25). Smith's self-interest doctrine "has imprinted its peculiar stamp upon the mentality and morality of the modern world ... [S]elfishness [became] sanctioned in the name of science and economics" (p.110).

Further, according to Lux, Smith made a methodological error. Smith tried to follow the natural sciences in his study of human things. He was thus led to seek an equivalent ordering principle to gravity in the context of the heavenly bodies. In Smith's account "[s]elf-interest was for society what gravity was for the heavens" (p.139). Smith made the error of identifying "the world of people with the world of physics" (p.140). This error of adopting self-interest as the principle of the *Wealth of Nations* is compounded by "the humanistically fatal error of seeing labor as a commodity ... Apart from its general principle of self-interest, this is economics' most dehumanising idea" (pp.140-1).

The sins of the parent are passed down to the children. Lux shows how later economists made the same mistakes: adopting self-interest and the natural science method. Malthus is portrayed as heartless. Lux even refers to the "serious moral failure of Malthus" (p.46). "It is the task of economics to demonstrate the social reformers and moralists wrong" (p.154 sic). "[E]conomics, in teaching self-interest without teaching benevolence or justice, is in essence teaching crime -- if we

understand this word as a more direct expression of the latin word immorality" (p.199). One could list these accusations but there is little point by now.

Lux's analyses of economic thinkers is usually superficial. One insightful comment on the "scientific socialism" of Marx and Engels (crude Marxism?) is that: "This scientifically inspired philosophy ... is a deep self-contradiction. By saying that ideas, thought, and reason have nothing to do with social change it does no less than to rule out philosophy itself. For that reason it would seem to be a waste of time for Marx and Engels to bother writing at all They are saying that will doesn't matter, and personal freedom is only an illusion" (p.143).

We get a fairly accurate impression of the book by examining the notes. Some chapters have an opening note indicating Lux's main sources for the whole chapter. This approach hides the fact that several times (pp.14,28) statements from, or quotations used in, Heilbroner (*The Worldly Philosophers*) are not specifically noted as such. Several times there are amazing parallels in the two accounts.

There are 271 endnotes. Lux relies heavily on newspapers (16 notes). The notes indicate time and again that Lux relies on secondary sources for his views on thinkers such as Bentham, Malthus, Mandeville, and Marx. He even has three notes to encyclopedias. He also clearly indicates in the notes his favourite authors: Tawney (9); Canterbury (9); Heilbroner (7); and Polanyi (4). Not surprisingly he also quotes Galbraith and Joan Robinson. He cites Herman Daly twice but surprisingly fails to mention Schumacher. In case the message is not yet clear, I will add that he also refers to his own work (with Mark A. Lutz) called *Humanistic Economics*.

We are at least kept up to date on what is "politically correct". When giving hypothetical examples, always call professionals women. When referring to dates do not use Anno Domini (AD) or Before Christ (BC) rather use Common Era (CE) or Before Common Era (BCE). These conventions I intend to ignore. But "politically correct" issues need to be watched: community and human dignity. Having lived in Canada (which in one anecdote Lux describes as being more community-oriented than the U.S.A.) for almost five years I am not sure whether these issues have arrived in my native Australia.

Lux's book reflects the defects of the amateur in an age of specialists. There is too much superficiality in Lux's book. He relies on anecdotal evidence far too much. His book is the product of indignation and moral outrage. It reminds me of my own views of economics some years ago. Generally it is not a book that one could recommend for a body of specialists in the history of thought. It does not live up to its potential as an outside examination of economics. My advice is not to buy the book but get your library to buy it. Better yet, get it on inter-library loan and review Chapter 4.

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