THE FINAL TRIUMPH OF ADAM SMITH?

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A review essay of Mark Skousen's *The Big Three in Economics: Adam Smith, Karl Marx, and John Maynard Keynes*. Armonk, NY: M. E. Sharpe, 2007. xi+243 pp. ISBN 0765616947.

Those who teach undergraduate courses on the history of economic thought are on a constant and alert lookout for a suitable textbook—more so than those who teach other courses. Such a book must introduce readers to the chief dramatis personae in a full and accurate manner and—no less important—have the sense to leave out the minor characters. Such a book must describe clearly the breakthrough ideas—and their evolution over time—and also have the confidence to sidestep the duds. It must be deep enough to not trivialize the magnificence of the major works, and it must also be able to hold the interest of the Nintendo generations in the classroom.

Professor Mark Skousen's book has, simply by refusing to be a clone of some existing textbook, significantly broadened the choices available to today's teachers. Skousen's book should not be compared to typical college textbooks such as, say, Brue and Grant (2006), Ekelund and Hebert (2004), or Landreth and Colander (2002). It more closely resembles *New ideas from dead economists* by Todd Buchholz (1989) and *The worldly philosophers* by Robert Heilbroner (1999), two mass-market trade paperbacks that are widely used in colleges. Skousen's book is a very concise, non-technical, and easy-to-read narrative of the history of economic ideas from the ancient

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Greeks to the present day—or, in terms of personalities, from Plato to Stiglitz—with most of its attention going to the Big Three: Smith, Marx, and Keynes.

Compared to Buchholz or Heilbroner, Skousen puts a stronger relative emphasis on the life stories of the Big Three, and a weaker relative emphasis on their economic theories. Another distinguishing feature of Skousen's book is his love for polemics. This leads to a stronger relative emphasis on the policy prescriptions of various economists and, once again, to a weaker relative emphasis on the theoretical ideas behind the policy prescriptions.

And Skousen's evaluations of those policy prescriptions are based almost entirely on whether they: (a) celebrate the free market unreservedly, and (b) assert an optimistic future for all free-market economies. Any mulishness on those two counts will [illegible]ou an *F* from Prof. Skousen, as is the fate of David Ricardo, T. Robert Malthus, John Stuart Mill, Paul Samuelson, Karl Marx, and John Maynard Keynes in his book.

The use of generous helpings of biographical detail is a two-edged sword, as is the raising of the ideological temperature. One the one hand, Skousen's approach livens things up: we all like gossip and we all like fights. On the other hand, the life stories recounted by Skousen are mostly (though not always) a distraction, and Skousen's emphasis on policy debates can take the spotlight away from the theoretical innovations that we need to celebrate. Moreover, fights of the intellectual sort are no fun without some resort to caricature, some redefinition of the participants into stick figures. This can distract readers from the complexities and multi-dimensionalities of the people they are reading about.

Skousen's focus on policy at the expense of theory can occasionally be frustrating. It is not enough to be told that Quesnay opposed mercantilism (p. 42). Did his opposition have a theoretical basis? Condillac may have supported free trade (p. 43), but what reasoning led him to do so? Yes, Hume opposed mercantilism (p. 44), but with what arguments?[1] Skousen states that Smith rejected the quantity theory of money (p. 36), which is a crucial component of classical economics, but has no further comment on this ~~and no explanation of Smith's reasoning~~. Skousen notes that Smith favored the gold standard, but shows no interest in explaining Smith's underlying logic.

Instead of providing clear explanations of Ricardo's seminal theory of rent and his theory of comparative advantage and letting the reader draw his or her own conclusions about the usefulness of Ricardo's deductive method, Skousen spends three pages criticizing Ricardo's penchant for abstract theory (pp. 54–56). As a result, the reader has nothing to relate Skousen's methodological objections to.

The exposition of the theories discussed in Chapter 4 is especially unclear. Key ideas of the marginalist revolution—such as, the equality of the real wage and the marginal product of labor (p. 109)—are mentioned but not explained to the uninitiated reader. The true heroes of the marginalist revolution such as Cournot, Dupuit, Gossen, and von Thunen are mentioned only in passing (p. 107) on the grounds that marginalist ideas received acclaim only through the writings of Menger, Walras, and Jevons. But this justification is not good enough. True pioneers must be given their due, especially when their achievements are ignored for no fault of theirs.

The monetary theories of Mises and Hayek are discussed at length (pp. 128–130) but without rigor and precision. The discussion of "Hayekian triangles" is especially frustrating.[2]

In his chapter on Keynes, Skousen refers to the IS-LM and AD-AS representations of Keynes's ideas and even provides the AD-AS diagram (~~Table~~ Chapter 10), but does not provide one word of explanation that would make the diagram intelligible to readers, making one wonder who is Skousen's intended reader.[3]

Skousen's chapter on Smith is exciting to read and his high regard for his subject comes through loud and clear. But someone who has read other textbook treatments in Blaug (1997) or Roncaglia (2005) or Screpanti and Zamagni (2005) or in the books mentioned earlier will notice the thinness of Skousen's discussion. There is nothing on Smith's theory (theories?) of value, for instance. The origins of the invisible hand theorem in the writings of Mandeville, Cantillon, and others is clumsily downplayed and relegated to an appendix. Skousen notes that Murray Rothbard, whom Skousen seems to hold in high regard, and other economic historians consider Cantillon the true father of modern economics, but then fails to engage with the notion. These pioneers should have been hailed for their insights in the body of the chapter even at the risk of bringing Smith down a notch. More controversially, Skousen notes that 1776 marks both the signing of America's Declaration of Independence and the publication of the *Wealth of nations* and writes, "In that prophetic year, two vital freedoms were proclaimed—political liberty and free enterprise—and the two worked together to *set in motion* [italics added] the Industrial Revolution." This is a gross simplification of the origins of the Industrial Revolution, which are the subject of debate even today (see Clark, 2007, and Wade, 2007).

Ricardo's deductive use of abstract theory is criticized (p. 55) and yet the first welfare theorem (of Arrow, Debreu, and others), which is in a sense the mother of all abstractions, is deployed in support of Smith's invisible hand theorem (p. 20). The real reason for Skousen's doubts about Ricardo's

method seems to be Skousen's ideological dislike of Ricardo's emphasis on income distribution among the classes; he is comfortable with abstractions as along as the policy prescriptions that follow from them are ideologically correct.[4]

Nevertheless, Skousen's criticisms of the empirical invalidity of the Ricardian–Malthusian assumptions of the iron law of wages and of diminishing returns to scarce land are strong and persuasive. Although Smith preceded Malthus and Ricardo, it was Smith who understood the economics of the industrial era that lay ahead, whereas Malthus and Ricardo were busy discussing the economics of the pre-industrial era that was already coming to an end. Smith was clearly ahead of his time.

Moreover, Smith was probably a lot more complex in his attitudes than is commonly believed. As Skousen notes (p. 7), "His sympathies lay with the average citizens." Here are a few zingers from Smith (2005) that might surprise Skousen's readers:

> As soon as the land of any country has all become private property, the landlords, like all other men, love to reap where they never sowed. (p. 56)

> Masters are always and every where in a sort of tacit, but in constant and uniform combination, not to raise the wages of labor. (p. 76)

> Our merchants and master-manufacturers complain much of the bad effects of high wages in raising the price … They say nothing concerning the bad effects of high profits. They are silent with regard to the pernicious effects of their own gains. They complain only of those of other people. (p. 113)

> Civil government … is in reality instituted for the defence of the rich against the poor. (p. 771)

> Wherever there is great property, there is great inequality. (p. 766)

> With the greater part of rich people, the chief enjoyment of riches consists in the parade of riches, which in their eye is never so complete as when they appear to possess those decisive marks of opulence which nobody could possess but themselves. (p. 198)

> Were the expence of war to be defrayed always by a revenue raised within the year, … wars would in general be more speedily concluded, and less wantonly undertaken. (p. 1004)

The penultimate quote could be mistaken as something from Veblen, of whom Skousen is not an admirer (2007, p. 122). The final quote could have come from Cindy Sheehan, the Iraq War protester.

Skousen notes Smith's endorsement of universal public education (p. 34) but does not speculate about what this endorsement might or might not tell us about how Smith would have responded to some of the prominent

features of the European welfare state of today. Heilbroner has argued that Smith was primarily opposed to governments of the mercantile era that were meddlesome and monopoly-coddling instruments of oppression of the common people by the aristocrats. What Smith would have said about a helpful and caring government that is accountable to the people is perhaps still open to debate. The third paragraph of the passage from Smith that Skousen quotes suggests that Smith was against government spending that pays for "the people who compose a numerous and splendid court, a great ecclesiastical establishment, great fleets and armies" or, in other words, the most egregious forms of waste, fraud, and abuse (p. 35).

Skousen's chapter on Marx is written in a fluid and brisk style and is both enjoyable and informative. But the story of Marx's life takes up a surprisingly large amount of space. Skousen leaves nothing out, not even some pretty personal and lurid details that have only a tenuous link, if any, to Marx's intellectual life.

Skousen's discussion of the massive failure of Marx's predictions is right on the money. But capitalism has changed a lot since the nineteenth century. In many countries, workers nowadays belong to strong and powerful labor unions, working conditions and work safety are monitored by alert legal authorities, and workers are insured against job loss. In many countries, government-funded healthcare, higher education, and pensions are available to all. Can we not say that Marx's writings have been a significant force behind this transformation of capitalism? In his narration of an anecdote about a student of his (p. 66), Skousen makes those who are fascinated by Marx's ideas look delusional. Could it not be that the "abundance and variety of goods" provided by capitalism are not enough for many of us? Could it not be that we also hanker for equality, dignity, and freedom from humiliation at the hands of the rich and powerful? Could it not be that Marx was able to tap into this hurt within many of us?

Keynes and his followers get two very readable and interesting chapters in the book. But once again Skousen cannot resist recounting some unflattering (and largely irrelevant) details from Keynes's life, perhaps with the intention of priming the reader for the weightier intellectual criticisms to come.

Skousen begins his attack by enlisting the real-balance effect of Pigou and Patinkin against the Keynesian model (pp. 177–178). But here is Patinkin (1987) himself on this issue:

> In any event, no one has ever advocated dealing with the problem of unemployment by waiting for wages and prices to decline and thereby generate a positive real-balance effect

> that will increase aggregate demand. In particular, Pigou himself concluded his 1947 article with the statement that such a proposal has 'very little chance of ever being posed on the chequer board of actual life.' Thus the significance of the real-balance effect is in the realm of macroeconomic theory and not policy.
>
> Correspondingly, recognition of the real-balance effect in no way controverts the central message of Keynes's *General th*

Skousen then brings up the unquestioned long-run importance of saving to attack Keynes's paradox of saving, even though the latter is entirely a short-run result (pp. 178–179). Even more absurdly, Skousen then attacks Keynes's use of independent saving and investment functions, as in the familiar Keynesian Cross diagram that has become a fixture of introductory textbooks:

> … saving and investment do not involve two separate schedules at all. … Thus there is no intersection of S and I at a single point and therefore no determination of macro equilibrium. The Keynesian cross crumbles under its own weight. (p. 186)

Before we rush to re-write all macro textbooks, we should see that Skousen is again attacking Keynes's short-run analysis with concepts that are appropriate in long-run analysis. For example, the Solow model of long-run growth assumes that all saving is automatically invested; it has no independent investment function. Only the proponents of the real business cycle theory of macroeconomic fluctuations may claim that Solow's model is an appropriate basis for short-run analysis.

Skousen seems to endorse a theory of short-run recessions that he attributes to J.-B. Say (p. 185). In that theory, producers overestimate demand and, as a result, overproduce. Unsold goods pile up and, consequently, workers get fired. Skousen does not discuss whether this theory has any falsifiable predictions or whether it has been empirically tested by anyone.

In his concluding chapter, Skousen gives a detailed policy-centric account of the "counter-revolution" led by Milton Friedman and discusses miscellaneous other facets of the slow but sure triumph of the ideas championed by Adam Smith over those proposed by Marx and Keynes.

It cannot be denied that our trust in the effectiveness and relevance of countercyclical fiscal policy has been shaken and that free-market ideas have achieved a very prominent and pre-eminent place in the toolbox we use to make sense of the world around us. But some nagging doubts remain. Skousen himself seems to acknowledge that our environmental problems may require a coordinated effort by governments to organize some global market in tradable pollution permits. Also, who will pay for fundamental

scientific research if not the government? Who will stand by those of us who were not lucky enough to be born with talent, ability, and luck? When financial markets periodically go on the fritz, who will steer them to sanity if not the government?

Yes, socialism has been routed. But it is not totally clear that it was the laws of economics that did it. The use of American military might have been a big part of the story. Even democratically elected socialist governments in several Third World countries were violently overthrown by agencies of the U.S. government and not allowed to evolve on their own (see Kinzer, 2004, 2007).

Finally, what is to be done when economic freedom and political freedom are in conflict? What if the rich can pay for the best lawyers and in effect purchase legal immunity for their crimes?[5] What if public offices are monopolized by the rich who can finance their own election campaigns? Skousen deplores the power of special interests in public life. But would he support the public financing of all election campaigns?

To sum up, Prof. Mark Skousen has written a concise and exciting account of the history of economic ideas. But not every reader will like his heavy reliance on biographical tidbits. And not everybody will be satisfied with the clarity of his theoretical exposition.

UNCITED REFERENCE

Smith (2000)

NOTES

1. Hume's specie-flow mechanism is mentioned but not explained.
2. For a fuller treatment, see Garrison and Kirzner (1987).
3. The Introduction says nothing about his target readership. There is no Preface.
4. Although Smith's invisible hand theorem and the first welfare theorem have a superficial similarity, they are actually two very different arguments. In the words of Blaug (1997, p. 60), "[T]he effort in modern textbooks to enlist Adam Smith in support of what is now known as the 'fundamental theorems of welfare economics' is a historical travesty of major proportions."
5. We still remember the O. J. Simpson murder trial and its outcome. In a more recent echo of that episode, the actor Robert Blake, after being declared not guilty of the murder of his wife, reportedly said of the American system of justice, "You are innocent until proven broke."

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