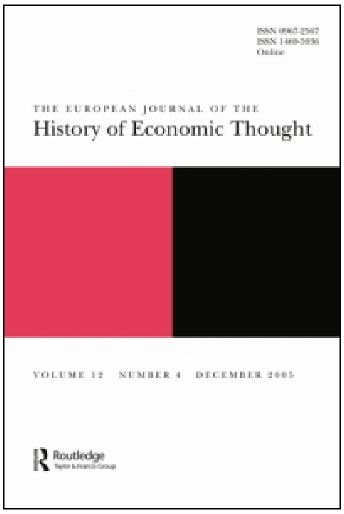

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Book Reviews

Richard Sturn[a]
[a] University of Graz,

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second fundamental equation of Keynes's *Treatise on Money*, and that they are very different in substance. The author gives a higher mark to Sismondi's essay in 1824 as criticism of Ricardo's balanced growth theory. Sismondi, with his numerical example, showed the possibility of there existing unsold goods if the balance among industries breaks down, on the same abstract level of reasoning of Ricardo. If the explanation shows Sismondi's own idea, he will not be much different from Ricardo, because Ricardo did not deny the possibility of loss of balance among industries as a cause of temporary over-supply of some goods. The reviewer believes that Sismondi stated his own theory in his *Nouveaux principes*, according to which if capitalists spend more for consumption they get more profits. That theory is very much similar to Keynes's or Kalecki's effective demand theory. Sismondi did not change his theory in the second edition of *Nouveaux principes* in 1827.

Thus I have different interpretations of the three classical economists; nevertheless I highly appreciate the book, in which we can find important contributions. For example, in his analysis of Ricardo's statements on tax incidence, the author demonstrates that the main conclusions Ricardo obtained based on his labour theory of value are valid under the general condition of unequal capital–labour ratios. He also demonstrates in rigorous terms that Sismondi implicitly adopted a fix-price theory in his essay in 1824.

The most striking feature of the book is that it views the theories of Ricardo, Malthus and Sismondi from the standpoint of contemporary neo-Ricardian and post-Keynesian theories. The book will serve as an antidote for the readers of the books of Hollander, and of Morishima's *Ricardo's Economics*, both of which emphasize continuity between the classical economics and Walras's general equilibrium theory. This book finds continuity between the classical economics and the contemporary neo-Ricardian and post-Keynesian theories.

Katsuyoshi Watarai
Maiji Gakuin University, Tokyo

S.A. Drakopoulos. *Values and Economic Theory: the case of hedonism.* Aldershot: Avebury, 1991. ix–235 pp. ISBN 1–85628–200–7. £35.

This well structured book convincingly shows that hedonism played and plays a big role in the development of economic theory. The main part of it (about 150 pages) is devoted to the discussion of hedonism as an important ingredient of economic theory – from classical economics to modern textbook microeconomics. Drakopoulos considers Bentham as the first thinker who systematically introduced hedonism in economics. (Earlier attempts to develop a utility-based value theory are not mentioned.) The core of the Benthamite utilitarian philosophy (as a universalistic doctrine of the good) is *ethical* hedonism. But the author points out that *psychological* hedonism is also an important part of Bentham's thought: Bentham's man is a rational and selfish utility maximizer. John Stuart Mill invented the concept (not the term) of the 'economic man' as an abstract model of human behaviour appropriate to the economic sphere. The heyday of hedonism in economics came with the first generation of marginalism and Edgeworth's hedonistic calculus. With Pareto and Fisher, a different era, the era of microeconomics as an allegedly value-free, positive science commenced. But it can be shown that their economic methodology implicitly is based on a hedonistic psychology. The *Logical positivism* of the *Wiener Kreis* provided a coherent methodological rationale for further attempts to *eliminate* hedonism and psychology and to base economic explanations on observable facts only. None the less, the now prevalent ordinalist, choice-theoretic version of microeconomics inaugurated by Robbins, Hicks and Samuelson inadmittedly is built on hedonistic concepts. The claims of these theorists to have established a positive, value-free economic science needing no psychological assumptions are therefore mistaken. As the author states in the conclusion (p. 216): 'Our main purpose was to show that . . ., hedonism has been and still is, an important underlying conceptual framework of conventional microeconomic theory.'

Before going into detail, let me first take issue with the last argument (which, if successful, would indeed be by far the most important one of the book). While a tremendous hedonistic influence on the general development of economic theory seems beyond any doubt, the claim that ordinalist choice theory implies hedonism as a psychological basis obviously is controversial. Let us assume that Drakopoulos successfully has established (I think he – and Sen (1973) – have done so) that the axioms of rational choice theory are not free of *some* psychological connotations. As a psychological theory, this underlying psychological basis of choice theory plainly is egregiously simplistic, compared with some rivals which much better explain the complex dynamics of the human psyche. But how can one account for the undeniable success of some parts of a choice-based social theory? One would assume that the latter should be drastically outperformed by social theories based on more solid psychological ground. Hence, this crude psychology cannot be all that matters. The first task for someone theorizing about the psychological content of rational choice theory is to locate its peculiar position between a full scale psychology and an abstract framework of human action subscribing to a merely formal notion of rationality which is – as claimed by its adherents – compatible with any value system or any psychology, but implies none and needs none for its explanations. I agree with the author that this claim probably cannot be defended. But none the less rational choice theory is compatible with *some* ethical value systems and with a wide variety of psychological motivations for action, besides maximizing pleasure. Its adherents must assume that the human psyche and brain are capable of maximization (a psychological assumption), but they need not assume anything about the motivating force behind maximization. Utilitarianism implies maximization but is not implied by it. Maximizing (or minimizing) behaviour need not be driven by pleasure seeking, but one may think of other driving forces (Carl Menger combines marginalism with a concept of objective needs. Marx's capitalists minimize costs without hedonistic connotations, but in order to survive. The behaviour of Max Weber's protestant capitalists presumably can be represented as a sequence of rational choices. But they certainly are not driven by a hedonistic psychology nor do they subscribe to ethical hedonism.) The author does not make an attempt to answer questions emerging from this ambivalence, like: To *what degree* is rational choice theory psychological; what are the consequences of this dose of psychology for its capacity to analyse complex interdependencies, its explanatory success and its epistemological status?

All in all, the author's historical account of 'Hedonism in Economics' – and particularly of the attempts to downplay hedonism – is informative and well argued. Among the less satisfactory parts are the passages on Carl Menger. He rightly characterizes Menger as 'less explicitly hedonist' than Walras and Jevons. But the arguments supporting this claim lead to a distorted account. Most important, he fails to do justice to two not easily reconcilable tendencies present in Menger's thought – tendencies which, by the way, shed some light on the question of the degree of psychology in microeconomics. On the one hand, Menger clearly entertains a *heavily* psychology-laden concept of needs and their satisfaction which is later emphasized by Friedrich Wieser. This concept can neither be reduced to abstract 'pleasure maximization', nor is it restricted to material needs and material goods as the author asserts – maybe misled by the faulty English translation of the relevant passages in Menger's methodological book quoted by him (e.g. 1883: 78): 'material wealth' for 'Güter' (goods)! On the other hand, Menger (1883: Ch.7) stressed the importance of abstract models of human behaviour and the *'exact'* character of theoretical economic science. Ludwig Mises's aprioristic praxeology (which even rejects formal concepts of rationality/consistency as value-laden and psychological!) draws on this side of his work. Mises's economics (who is not mentioned by the author) nicely illustrates the epistemical consequences of the total elimination of psychology. Both Wieser's and Mises's position are border cases. The conservative interventionist Wieser probably was no hedonist at all: a rather strong concept of objective needs lurks behind the utilitarian rhetoric sometimes used in his main works on value. Some important theoretical conclusions are motivated by his objective-needs concept. For example, he emphasized that 'natural value' provides a straightforward measuring rod for national economic planning. This presupposes that the planner knows how useful various goods are for various purposes. On the other hand, the ultra-liberal Mises was no hedonist because he thought that even concepts with very weak psychological connotations like consistency are not admissible. Between these two border cases, there is wide range of intermediate positions which are more or less psychology-laden and which may connote different versions of hedonism.

Among other approaches (the Historical School, Institutionalism, Keynes, non-hedonistic choice theories), short sections of the book are devoted to the economic thinking of Adam Smith and Karl Marx. All of them are discussed as examples of non-hedonistic economics. The section on Smith contains a remarkably good and succinct account of his non-hedonistic concept of human agency. This concept establishes a link between sympathy and self-interest. Drakopoulos's account of the relevant aspects of Marxian economics is less satisfactory. He rightly emphasizes the Marxian concept of man as a communal being. But he does not make clear the implications of this concept for the politico-economic framework, namely that the patterns of social relations are determined by the conditions of collective appropriation of productive forces – and that individual optimization may play a certain role if this framework is used to give a theoretical account of how capitalism works. More generally, the most interesting feature of Smithian and Marxian economics in the present context is that both of them are good examples of social theories combining the following characteristics: (i) hedonism is not the driving force; (ii) maximization/minimization by (some) individuals is important in some sense. A systematic discussion of the two theories in the light of this aspect probably could provide a partial answer to the question, What are the consequences of separating rationality/consistency from hedonism? The discussion of the Historical School could add a further shade to a systematic exposition of the role of hedonism in demand-oriented theories of value. Drakopoulos correctly argues that the Historical School rejected hedonism and attacked the marginalist methodology. But interestingly, most of the adherents of this school rejected labour- and cost-theoretical value theories and subscribed to a demand-based value theory. The latter is typically combined with historical and psychological arguments (e.g. Sombart's *Wirtschaftsgesinnung*). A demand-based theory, then, does not necessarily connote hedonism or methodological individualism. Moreover, a partial view of market interaction may be embedded in a purportedly all-encompassing view of the society which stresses the manifoldness of causes. A further remark is in order concerning the section on the Historical School. It is almost exclusively based on secondary sources. F. List's book 'The National System of Political Economy' (which was, by the way, first published in 1841; 1885 is the year of the English publication) is mentioned as 'a representative example' (p. 187). This assessment is somewhat questionable because List's methodology was severely criticized by Knies (1883: 16 and 29) and Hildebrand for not taking into account the peculiarities of historical developments in an appropriate way.

Despite some weaknesses, this book doubtlessly is worth reading. As a piece in the history of ideas, it provides an interesting perspective and a comprehensive and good overview of the theme. Some omissions (the revival of utilitarianism in the context of the Social Choice-literature is inadequately discussed in two sentences (p. 164)) cannot shed doubt on this positive opinion. This also applies to another minor flaw: some of the author's assessments stated in passing are not reliable. For example, James Mill's debatable characterization as a 'mere follower' (p.37) of Bentham is presented in a way which could make the reader believe that this view is canonical. A merit of the book is the clear distinction between ethical and psychological hedonism. One would even wish that more emphasis is put on this distinction in the discussion of neoclassical economics: the case of Marshall exemplifies the fact that an adherent of ethical hedonism need not be an ardent adherent of psychological hedonism. The opposite constellation also may apply: some social theorists (from Mandeville to some present-day neo-Hobbesian and libertarian economists) are psychological but – emphatically – not ethical hedonists.

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Richard Sturn
University of Graz

Walter Eltis. *Classical Economics, Public Expenditure and Growth*. Aldershot: Edward Elgar, 1993. xxxii–450 pp. ISBN 1-85278-741-4. £49.95.

This book contains a selection of seventeen articles by Walter Eltis, published in leading journals or collections of essays between 1963 and 1992. This selection corresponds to about one third of all the scientific papers previously published by the author and they certainly represent the best choice of his scholarly writings.

Thus, the book provides an excellent opportunity for a general assessment of W. Eltis's academic and professional career, reminding us of his contributions in three main fields of economic inquiry and research: the theory of economic growth and technical progress (which is covered by two papers in Part I of the book); the study of the inherited contributions from the classical school of political economy (seven papers collected in Part II); and the theory and policy of public expenditure and its macroeconomic implications (eight papers presented in Parts III, IV and V).

For the reader mainly interested in history of economic thought issues, it is Part II of the book which certainly deserves special attention. The papers contained in this Part deal with capital and growth theories in the works of Quesnay, Steuart, Smith, Malthus and Ricardo. In his outstanding insights – some of which were already published with slight revisions in his classic *The Classical Theory of Economic Growth* (1984) – Eltis supersedes the historical design and significance of the topics under study and acknowledges the relevance of classical economics for a better understanding of the theoretical foundations and the policy implications of modern macroeconomics. In this sense, Part II – i.e. Eltis' concerns on the history of economic thought – is indeed the essential core of the book.

A further interest of this volume may be found in the fresh autobiographical episodes that Walter Eltis tells us in a 22-page Introduction entitled '*How my economics evolved*'. The reader is first introduced to a