

## PHILOSOPHY, HISTORY, AND METHODOLOGY OF ECONOMICS

### Adam's Fallacy: A Guide to Economic Theology Duncan Foley

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of Harvard University Press, 2006 (265 pages)

Popular introductions to the economic way of thinking such as *Freakonomics* and *The Undercover Economist* have captured wide audiences in recent years with examples of novel or seemingly counterintuitive applications of the role of incentives, marginal analysis, and transaction costs to social concerns. Yet, these volumes essentially avoid any moral arguments with respect to crime, advertising, abortion, and other social issues. Duncan Foley's aim in *Adam's Fallacy* is to expose the error of this way of doing economics by demonstrating its origins and evolution in the thought of the giants of economics. Foley, the Leo Model Professor of Economics at the New School for Social Research, further contends that economic thinking is inherently value-laden, for in it "moral and scientific arguments" (4) are enlaced both for good and ill.

While not a history of economic thought *per se*, this book sets the ideas of the central figures in economics in the context of a specific moral, logical, and psychological error—"Adam's Fallacy" (AF)—a "dubious division" so significant that it is "the kernel of political economy and economics" (xiii). Foley identifies AF as the concept "that it is possible to separate an economic sphere of life, in which the pursuit of self-interest is guided by objective laws to a socially beneficent outcome, from the rest of social life, in which the pursuit of self-interest is morally problematic and has to be weighed against other ends" (xiii). He employs six chapters, organized around an exposition of the central ideas of classical and neoclassical economics, and several major examples of heterodox

economics, to develop his thesis. He also provides a final section with suggested further readings and a helpful appendix with a graphical and analytic exposition of several key concepts from Thomas Malthus, David Ricardo, and Karl Marx.

Regarding his method, Foley offers this explanation and caveat: “In places I have ventured beyond the texts of the authors in question and pursued my own imaginative reconstruction of debates behind the debates ...” (xii). Thus, in discussing Adam Smith in chapter 1, Foley does not seek to prove through in-depth textual analysis that Smith committed the fallacy; instead, he argues that AF is generally impressed upon readers of the *The Wealth of Nations* as the “lens” through which “Smith presents the world” (xiii). The weakness of this speculative approach becomes evident when Foley describes the outworking of Smith’s famous invisible hand:

Smith asserts the apparently self-contradictory notion that capitalism transforms selfishness into its opposite: regard and service for others. Thus by being selfish with the rules of capitalist property relations, Smith promises, we are actually being good to our fellow human beings. With this amazing argument, Smith proposes to absolve us of the moral ambiguity and pain that haunt capitalist reality (2–3).

Yet, Foley cites no direct evidence of such an absolution. Moreover, he ignores *The Theory of Moral Sentiments*, in which one finds a nuanced position on the moral complexity that surrounds the social interplay of human self-interest and sympathy.

Instead, Foley points to the apparent erroneous consequences of Smith’s sleight of hand in depicting the work of an invisible hand. He declares, “The moral fallacy of Smith’s position is that it urges us to accept direct and concrete evil in order that indirect and abstract good may come of it” (3). Foley finds an example of this fallacy in Smith’s formulation of what came to be known as Say’s Law. In response to technological change, we must tolerate job losses in the short run for a greater good in the long run: “Thus the direct, concrete evil of unemployment is instrumental to achieving the indirect, abstract good of lower prices” (11). Foley provides no instances in which Smith exhorts his readers to accept this direct social disservice. He further points to the example of Europe’s stubbornly high-unemployment rates over the 1970s–1990s as illustrative of the same fallacy but ignores the problem of inflexible European labor market regulations.

Chapter 2 discusses the core ideas of classical economics, portraying the discipline as the “gloomy science” represented by the works of Malthus and Ricardo in the early nineteenth century. Foley raises some well-known criticisms of Malthus’ postulates regarding contrasting rates of food production and population growth. He provides a clear exposition of Ricardo’s case for capital accumulation leading to the stationary state. In line with his thesis, he finds that these economists rely upon AF in their “attitudes towards poverty and charity” (84). In this connection, Foley emphasizes the way in which their reasoning stressed the unintended consequences of governmental actions to remedy social evils.

Foley next offers an extensive discussion of Marx’s materialist understanding of history, labor theory of value, specific critique and ambivalent attitude toward capitalism, and vision of social transformation. Marx, “the severest critic” of nineteenth-century

political economy, directly challenges AF: “The pursuit of self-interest, even in the context of private property relations regulated by law, is no path to the good life. On the contrary, it blinds the individual to the true conditions of his own existence....” (112). Still, Foley finds that Marx employs capitalist categories in analyzing social change, and “the functional forms of capitalism” are recapitulated in his “vision of socialism” (219). Foley provides an insightful discussion of Marx’s analysis of the dynamics of capitalism. Marx portrayed the more extensive reliance on the impersonal market associated with the industrial revolution as a greater dependence on “the antagonistic relations of the market” (103).

Surprisingly, Foley employs this notion of inherent conflict in a sweeping fashion in describing concepts of market relations both backward and forward from Marx. Thus, Smith’s ideas on exchange, private property, and the division of labor involve “antagonistic market exchange relations” and “moral violence” (43) and “in [Friedrich] Hayek’s vision the antagonistic relations of the market are the existential core of human existence ...” (206). Again the drawbacks of the method of imaginative reconstruction appear.

In the postbellum era in the United States, and simultaneously in Britain, the swift growth of large-scale capitalism led to the need for a “modernized” version of AF. Foley sees this need filled by marginalist economists such as Stanley Jevons and J. B. Clark and by their contemporary Thorstein Veblen. Chapter 4 shows how the marginalists supply a mathematical version of political economy that “tries to remove the question of morality altogether from economic life,” while Veblen depicts “the morality of capitalist social relations” as “submerged in the inexorable flow of evolution” (158). Veblen is presented as a dispassionate socioeconomic analyst who portrays the social contradiction of AF but fails to offer a solution more viable than that of the other great economists (176).

Chapter 5 analyzes the thought of John Maynard Keynes, Hayek, and Joseph Schumpeter as “voices in the air,” which battled for “supremacy in political economy” in the twentieth century, an era in which AF “took an even more serious form ... [for] the problem was how to live with or even through the chaotic forces unleashed by capitalism on a world scale” (179). Keynes’ only connection to AF is that he employs a modified version of the fallacy in appealing to the need for macroeconomic technicians to stabilize capitalism. In contrast, Foley sees a pervasive use of AF in Hayek’s Austrian economics, which “held that the realization of economic surpluses was the ultimate purpose of economic life” (204). Hayek’s response to the market socialists of the 1930s (who also employed AF by endorsing market mechanisms for socialist ends) relies upon AF, yet advances economic understanding “in a fruitful direction,” for Hayek rightfully puts the “informational aspect of the market in the central position” (206). At the same time, Foley lauds Schumpeter’s work for illuminating “the metabolism of twenty-first century capitalism” and prophesying a time when AF will be spurned and a form of “rational socialism” will be instituted in its place (212).

In several ways, chapter 6 is Foley’s best. He makes trenchant observations on the traumas non-Western economies have experienced in adopting different forms of capitalism over the past few decades. His modest forecast for the future of economic thought

raises relevant questions about the nature of markets and how society evaluates their moral significance. For example, Foley asks, “Are markets a morally acceptable method of deciding what is produced and who gets access to it?” (214), a question neoclassical economics avoids. He highlights the complex moral issues raised by relying on market institutions (while largely avoiding discussion of the difficulties associated with relying on governmental allocation of resources).

Nonetheless, there are difficulties with Foley’s evaluation of modern economic thought. Beyond valuing a more equitable income distribution and cleaner environment, he makes no case for a specific moral/theological framework that should guide economists—a strange omission given the subtitle of the book. However, the author thinks of theology quite narrowly as speculative philosophy; matters of political economy ultimately involve “discussions above all of faith and belief, not of fact, and hence [are] theological” (xv). Foley rightly recognizes that each of the great economists employed a vision (215), but he makes no compelling argument for the source of his own ‘vision’ as to what should replace the naïve faith in the laws of the market, which he disavows.

*Adam’s Fallacy* is a provocative, well-written, and fairly comprehensive survey of major economists and key economic concepts expressed in a manner comprehensible to the noneconomist. Nonetheless, Foley’s imposition of the grid of AF combined with, at crucial points, his deliberate reliance on speculation rather than actual writings, tends to present a skewed reading of the development of modern economic thought. This book does suggest the need for a more careful analysis of the values underlying the contributions by the major figures in political economy. Such a work of scholarship, by employing, for example, the framework of historic Christian orthodoxy, would no doubt provide us with greater insight into the value-laden economic way of thinking.

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## Adam Smith’s Moral Philosophy: A Historical and Contemporary Perspective on Markets, Law, Ethics, and Culture

**Jerry Evensky**

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Evensky’s book is a milestone in the contemporary recovery of the bases of our economic paradigm.

Most economists trace their scientific corpus back to Adam Smith. However, since the rise of neoclassicism in the late nineteenth century, they have increasingly and almost unconsciously lost contact with Adam Smith’s “vision.” This process has reached an apex during the last forty years, during which economics has been turned into a set of very specialized fields. Furthermore, the partly ideological fight against Soviet Communism