On Classical Economics. By Thomas Sowell. New Haven, Conn.: Yale University Press, 2006.

Thomas Sowell is probably best known for his studies of ethnic relations and economics and for his policy oriented works, aimed at a wide popular audience, e.g., *Conquests and Cultures: An International History* (1998) and *Basic Economics: A Citizen's Guide to the Economy* (2004). His *Knowledge and Decisions* (1980), which earned the praise of F.A. Hayek, showed him to be a gifted theorist as well; and, in *On Classical Economics*, this versatile author makes a valuable contribution to the history of economics.

Sowell begins with a definition of classical economics:

> Since the authoritative tradition that built upon *The Wealth of Nations* underwent a major change with the marginalist revolution of the 1870s, the end points of classical economics can be reasonably well established, about a hundred years apart. Within that span, there were three men who were clearly classical in every sense: Adam Smith, David Ricardo, and John Stuart Mill. (p. 3)

Others, such as James Mill and J.R. McCulloch, were "fully part of the same tradition, though not of equal stature"; yet others, such as Say and Malthus, "contributed key concepts to classical economics without sharing all its methods and conclusions." A further group, which includes Marx and Torrens, made less important contributions but still falls within the "larger penumbra" of classical economics (pp. 3–4).

About the classicals as a whole, Sowell makes a most valuable observation. Most of the classical economists supported the free market, though they allowed conspicuous exceptions to *laissez-faire*. They rejected, however, the view that the interests of participants in the market are harmonious. Quite the contrary, economic classes were often locked in battle: "In Ricardo, as in Smith, the landlord gained in the long run at the expense of capitalists and workers, and, in addition, wages and profits—in Ricardo's peculiar definitions—always moved inversely to one another" (p. 11). If so, do we not confront a paradox? Why not invoke the aid of government to ease these conflicts of interest? Why, instead, did the classical school usually insist on a policy of *laissez-faire*?

Sowell locates the answer in the classical economists' resolute skepticism about the good intentions of the government. Those holding power were not public servants,

[1]Only two essays in the book are new; the others "first appeared in print over a span of more than four decades" [p. vii].

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anxious to resolve disputes: they were avid partisans in the struggle. The classical economists "were steadfast in their *general* policy of laissez-faire, in part precisely because of the *dis*harmony of interests and the dangers to the public when organized private groups influenced government economic policy" (p. 14).

One government activity especially aroused misgivings among the classical economists: they

> opposed the contemporary wars in which their countries were engaged or were being urged to engage. Smith's *The Wealth of Nations* appeared in the year of the American Declaration of Independence from Great Britain, and his analysis led him to suggest either a negotiated peace or a unilateral withdrawal by his own country. . . . The elder Mill declared that "war is the greatest calamity with which a nation can be visited." (p. 15)

Despite the wisdom of the classicals regarding government, their approach to economic theory suffered from grave deficiencies. Sowell concentrates on Ricardo, whose tightly structured system he finds less insightful than the looser reflections of Adam Smith. Despite his skill in deductive reasoning, Ricardo failed adequately to distinguish two different senses of "tendency." The economist and logician Richard Whately explained the matter in excellent fashion: By a "tendency" towards a certain result is sometimes meant "the existence of a cause which, if *operating unimpeded*, would produce that result." In this sense it may be said, with truth, that the earth or any other body moving round a centre, has a tendency to fly off at a tangent. . . . But sometimes, again,

> "a tendency towards a certain result is understood to mean the existence of such a state of things that that result may be *expected to take place*.". . . But in this latter sense, the earth has a greater tendency to remain in its orbit than to fly off from it . . . [and] in the progress of society, subsistence has a tendency to increase at a greater rate than population. (pp. 92–93)

Ricardo and his followers here fell into fallacy: "Ricardo and the Ricardians often reasoned as if the long-run tendencies in the Ricardian system—subsistence wages, minimal profits, stationary capital and population—were in fact generally existing conditions" (p. 94). Ricardo arbitrarily called certain elements of his system "tendencies" and others "disturbing causes." On this issue, Ricardo did battle with Malthus and William Whewell, a noted philosopher and historian of science.

Sowell's charge is forcibly argued, but he unaccountably blunts the indictment. He says that if the Ricardians had made explicit that the system was intended to explain "the dynamics of change" rather than "states of being," then they could no longer be rightly accused of ignoring the two senses of "tendency." It is not clear why Sowell thinks this. Suppose that a fall in wages occurs, and that Ricardians explain this through a tendency of wages to move towards subsistence. The fact that the question here at issue is the cause of a change still leaves open which sense of "tendency" is meant. And further to complicate matters, Sowell elsewhere maintains that Ricardo "did not in fact believe that wages remained at subsistence . . . but more 'realistic' assumptions . . . would not have changed his conclusions but only reinforced them" (p. 55).

If Malthus saw the mote in Ricardo's eye, he ignored the beam in his own. His famous law of population gains its plausibility precisely through ignoring the distinct meanings of "tendency." His "theory of differential growth rates between food and population" (p. 57) claims that there is a tendency of population to increase faster

than subsistence. But, in reality, subsistence often grows more rapidly than population, as Whately noted in the quotation already given. For Malthus's claim to be valid, he must first take the tendency of population to increase in Whatley's first sense, i.e., what would happen to population if it were unchecked by other forces. Having done this, he must then compare this result with the actual growth of subsistence. Then, he will indeed obtain his law of population; but, unfortunately for him, the comparison of these two rates has no significance.

John Stuart Mill was well aware that Malthus's theory was refuted by the facts, but nevertheless he insisted that Malthus was still right. Though in recent times growth in subsistence far outstripped the rise in population, this "did not change the real problem, that population pressed 'too' closely on the means of subsistence" (p. 62). There was always a "tendency" for population to grow faster than subsistence, whatever the empirical evidence. Those who criticized Malthus for the shifts in what he meant by "tendency" were "brushed aside by Mill"; they had pointed out "corrections of 'mere language'" that somehow left Malthus's law intact. Was it not ironic that one of the greatest logicians of the nineteenth century here committed an elementary mistake in reasoning?

Though Sowell respects Mill's extraordinary intellectual abilities, he does not hesitate to find fault with him. Mill's *On Liberty* does not impress him. This famous essay, he holds, in fact aims to secure the right of an intellectual elite (most definitely including Mill himself) to remold society to their liking. Mill's main target was not state suppression of individual liberty, but rather attempts by "society" to enforce conformity on innovating elites. Instead, the elites should be free to experiment as they wish: with proper guidance, the masses will eventually adopt the changes that their superiors favor.

> Thus *On Liberty*, which seems at first to be an argument for being nonjudgmental towards individuals in general, turns out to be an argument for a *one-way* nonjudgmental attitude toward special individuals who are to apply social influence on others that others are to refrain from applying to them. (p. 145)[2]

Though Sowell has written an excellent book, in two areas he seems to me to have gone badly astray. He maintains that Malthus and Sismondi raised valid objections to Say's Law:

> For Sismondi and Malthus, "demand" meant the quantity demanded at cost-cutting prices, where cost was the *ex ante* supply price, not simply the *ex post* factor payments, "not what it has cost now, but what it would cost hereafter." Differences between expectations *ex ante* and results *ex post* permitted aggregate supply to differ from aggregate demand, even with no leakages from the circular flow. (p. 29)

Sowell does not mention that Say responded to this very point in his correspondence with Malthus. Murray Rothbard has carefully explained the relevant issue:

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[2]For similar interpretations see Hamburger (1999) and Raeder (2002). Capaldi (2004) offers a view more favorable to Mill.

> Say then notes that Malthus . . . fell back on a second line of defence: that "productions will fall to too low a price to pay for the labour necessary for their production." . . . But where do "costs" come from? And why are they somehow fixed, exogenous to the market system itself? . . . [F]actor prices being high means that they have been bid up to that height by alternative uses for them. (Rothbard 1995, pp. 29–30)

How then can there be a "general glut"?

Sowell's discussion of Marx's labor theory of value is even more open to objection. Incredibly, he claims that the

> most famous refutation of *Capital*, by Austrian economist Eugen von Böhm-Bawerk, proceeded on the assumption that the discussion of value in the first volume was Marx's theory of prices and therefore Böhm-Bawerk made criticisms of the labor theory of value that were essentially the same as Marx's criticisms of the labor theory of value in manuscripts not yet published until long after his death. (pp. 158–59)

As Sowell sees matters, Böhm-Bawerk ignored Marx's method of "successive approximations." Marx began with a simplified model: this he gradually complicated until it was adequate to explain real world phenomena. The labor theory of value, was not, as Böhm-Bawerk took it to be, Marx's final account of price. Marx himself was entirely aware that labor values did not determine actual market prices. "Marx was quite clear in his correspondence, even before the first volume of *Capital* was published in 1867, that values so defined [by labor time] did not and could not equal prices in the real world" (p. 163).

It is not Böhm-Bawerk but Sowell who here falls victim to misunderstanding. Böhm-Bawerk knew that Marx did not think that labor times directly determine final price: his *Karl Marx and the Close of His System*, after all, appeared as a response to the publication by Engels of the second and third volumes of *Capital* (Böhm-Bawerk 1898). Böhm-Bawerk's fundamental contention was that Marx had completely failed to show that final prices could be derived from the simplified model that was supposed to be their underlying cause. Böhm-Bawerk did not misunderstand Marx: he refuted him. Once again, Rothbard grasps the essence:

> Sowell follows [Rudolf] Hilferding and others in erroneously claiming that Böhm-Bawerk and other critics wrongly held that Marx identified "values" with prices. On the contrary, Böhm-Bawerk and the others were fully aware that labour-created "values" were supposed to determine, but not be the same as, exchange values or prices. (Rothbard 1995, p. 416)

Nevertheless, *On Classical Economics* is well worth careful study; it is filled with careful distinctions and thoughtful comments.

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