

**Peter Oppenheimer**

**Review of Tomáš Sedláček's *Economics of Good and Evil***

The historical roots, and initial appeal to a Czech audience, of this erudite and entertaining book are no mystery. One is reminded of them by an individual sentence or paragraph every 50 or 100 pages. "...As is seen from history, the Marxist communist vision was not capable of offering a functional alternative to capitalism" (p152)... "Society therefore requires neither a tyrant nor a central planner, but a regulator, a ruler-helmsman." (p164). "My country has pulled away from its communist legacy and has become a more or less standard 'Western-style' economy" (p245). And on mathematics in economics, p286, "it was the centrally planned economy of the Soviet bloc, believing that with increasing computer and mathematical capabilities, central planners would be able to substitute market mechanisms with "optimal" price setting..."

Arising from this, one is conscious as one reads the book of an undertone of irritation, suppressed anger even, not at the opportunities foregone under communism (the author is too young to have lived anything more than his childhood in the confrontation era), but rather at the disappointed expectations with the market system which followed, or more specifically with its intellectual underpinnings. The author regrets the transformation of economics from a branch of moral philosophy into an autonomous 'science' or pseudo-science, in which wide-ranging mathematical and statistical superstructures are erected upon philosophically impoverished foundations.

He remarks (p177) that "Economic models are not accepted on the basis of greater or lesser truthfulness (even if a correspondence to reality certainly adds to their attractiveness) but rather on the basis of greater or lesser *believability, suitability, persuasive force, or correspondence with our internalised faith in the workings of the world* (i.e. with borrowed or inherited paradigms, or, if you will, prejudice)" - those things which the late Milton Friedman in his notorious essay on "The Methodology of Positive Economics" had the temerity to call predictions.

Observe that - as the author well reminds us - modern economics is not in this respect fundamentally different from the physical sciences. "The anthropological difference between scientific and pre-scientific man is that pre-scientific man explicitly knew the assumption referred to (articles of faith and myths) and actively accepted them (or rejected them). In contrast, modern man bears his (scientific) faith more or less unconsciously... It is as if modern man is ashamed of his (scientific) faith: This could very well be because it cannot be scientifically proven, which somehow does not correspond with modern anthropology..." (p178).

And again (p239): "the problem is that if a certain approach is recognised as scientific by the scientific community, then it becomes a scientific topic... scientific truth is not, then, a matter of some kind of objective appraisal, but a matter of appraisal by its own academic community" [in short, peer-review]. "Here too it is certainly possible to suspect the scientific community of a tendency leaning toward the political or scientific fashion... Those who "create" the truth and those who "appraise" it are one and the same. In the scientific world there is none of the division of power we know and carefully watch over in the world of politics."

Whatever one may think of his views on science, as a summary of the current state of affairs with economics in Britain this could hardly be bettered. The appraisal of postgraduate students and the allocation of government funding to university departments alike depend on the appropriate degree of conformity with current intellectual fashions.

More than half of the book is concerned with the ancient classical, biblical and mediaeval pre-history of economics. Its sub-title, "The Quest for Economic Meaning from Gilgamesh to Wall Street," somewhat belies the emphasis on ethics. It is a quest, one feels, not so much for "meaning" as for "relevance" or, better still, for a good economic regime, incorporating care for others, leisure and scope for the expression of fundamental values as well as productive efficiency, a definition which still found expression less than a century ago in the mid-1930s, in Lionel Robbins' celebrated work *On the Nature and Significance of Economic Science*, stressing above all that economics is about means, not ends. Sedláček fears that modern economics, in cultivating scientific pretensions, has lost sight of this distinction between ends and means.

I find his diagnosis persuasive. But the aetiology of the disease is, I suspect, more complicated than the author allows. To a large extent he sees the source of the infection - or rather, since we are talking moral philosophy, he sees the villainy of the piece - in the notion of the "invisible hand". He admits that the concept is partly a metaphor or an abbreviation for a relatively uncontroversial coordinating mechanism. But for the most part he insists on it being a morally subversive phenomenon which purports to justify individual evil (that is, ruthless egotism) by converting it into social or collective good. And because this notion is patently absent from the works of Adam Smith (both *The Wealth of Nations* and, even more, *The Theory of Moral Sentiments*) Sedláček duly attributes it to Bernard Mandeville's *Fable of the Bees*.

I fear there is a certain loss of perspective here. To be sure, Mandeville's elevation of private vice as a source of public benefit scandalised his contemporaries and successors (including Adam Smith himself). But his work was never regarded as a serious treatise on the common weal. Rather it was a satire on the hypocrisy and pretensions of his contemporaries, a biting comment on some glaring defects and inconsistencies in late-17<sup>th</sup> and early-18<sup>th</sup> century society. One may place it in the same context as the works of Jonathan Swift, or the *Beggar's Opera*; or the social commentary in the art of Hogarth.

As for the idea that Adam Smith downplayed the invisible hand as any kind of universal magic formula, he was simply arguing in a rather general way for decentralisation of economic decision-taking, for the encouragement of individual enterprise as a source of prosperity, and (following David Hume's essay *On the Balance of Trade*) for economic diversification rather than mercantilist accumulation of gold reserves as a criterion of national economic success. Moving into the 19<sup>th</sup> century - a period conspicuously and mistakenly neglected by Sedláček - the miseries of the Victorian workhouse criticised by Dickens or Charles Kingsley were a reflection not of institutionalised selfishness sanctified by Bernard Mandeville, but rather over-emphasis on the virtues of Self-Help (Samuel Smiles' celebrated tract) and of genuine anxiety, or puzzlement, over the scope for government intervention to be successful in relieving poverty without killing the goose of free enterprise that was laying the golden eggs of economic advance.

By the end of the 19<sup>th</sup> century prosperity had reached a level where such apprehensions were no longer plausible, and so the first tentative steps were undertaken towards the welfare state, and subsequently the mixed economy. In terms of economic theory, incidentally, the huge importance in this context of Vilfredo Pareto deserves a mention. It was his work above all which clarified the nature of the market optimum and its relationship to the issue of inequality and poverty.

The late-20<sup>th</sup> century Mandevillian or (in contemporary nomenclature) Thatcherite resuscitation of private vice as the source of public benefit reflected resentment at features of today's mixed economy and welfare state, notably the high ratio of taxation to GDP, rather than a throwback to the 18<sup>th</sup> century. Much more of a throwback was the liberalisation of banking. This duly led to a whole series of financial crises, aggravated by the vastly enlarged scale of national savings and

private pension schemes which facilitated speculative behaviour. The evident need for a new chapter in public regulation to deal with this recalls the lesson learned, and taught, in 19<sup>th</sup>-century London by the founder of central banking, Walter Bagehot. This, to be sure, is beyond the scope of Tomáš Sedláček's book.

Let me conclude on a few more trivial notes. The proof-reading and style of the English (or American) edition of the book are not up to the standards one expects from OUP. Next, the author is over-inclined to refer to people he quotes approvingly as "distinguished", "well-known", "great" or whatever. Some, such as Ludwig Wittgenstein or Bertrand Russell, don't need this accolade. Others don't deserve it. He is also inclined to cite, understandably no doubt, a disproportionate number of Czech and Slovak intellectuals. Well, we can all play at that game. Having been reminded of the formidable meta-mathematician Kurt Goedel and his Incompleteness Theorem, I hoped also to find applause for Antonin Dvorak or Franz Kafka, whose contributions to European culture are at least as worthy. Alas, a vain hope.