Review of On Classical Economics by Thomas Sowell(2007)

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Review of *On Classical Economics* by Thomas Sowell, New Haven and London: Yale University Press, 2006, ISBN 13: 978-0-300-11316-7, pp. 304, ix, index, no price.

This book is about how little Thomas Sowell thinks of classical economics, not a critical restatement of classical economic principles to assist modern economic analysis or policymaking. It is dissenters from classical economic principles, particularly Malthus, Sismondi, and Karl Marx, Sowell credits with superior insights. Potential readers may be attracted by the fact that Sowell wrote two books on classical economics (1972 and 1974), and he currently writes a weekly newspaper column on topical issues from a perspective many might think reflects classical economic principles. But the book seriously disappoints. Half the 8-chapter book is merely a reprint of Sowell's *Classical Economics Revisited* (1974), with no attention to the secondary literature since the late 1960s. Thus, he repeats claims that have been corrected since the early 1970s, especially on the classical theory of value and Say's Law of markets. The other four chapters also do not benefit from the secondary literature since the early 1970s. Thus, accepting Sowell's conclusions about classical economics without verification would amount to about a four-decade retreat in scholarship. Sowell's copious referencing of the primary literature in his "rapid-fire" style of summarizing classical arguments – often three or four, sometimes even eight (p. 30) citations within a sentence – may give the appearance of reliable scholarship. But several of those I verified appear inconsistent with Sowell's interpretations. Thus, to one familiar with the classical literature, the book may be quite frustrating. In the hands of someone attempting to understand classical economics, the book can be misleading.

Chapter one, devoted to the "Social Philosophy of Classical Economics," discusses the views of such classical writers as Adam Smith, David Ricardo, Thomas Malthus, and John Stuart Mill on varying issues, including social classes, particularly landlords, business people, and the poor, the proper role of government, war, and slavery. Sowell correctly notes Smith as having discussed these issues most comprehensively, and because of their differing emphases, Sowell concludes that there "was … no rigid doctrinaire position on social policy in general or on the specific issues of the day" (p. 19) among the classical writers, although laissez faire was the basic frame of reference. A discussion of Jeremy Bentham's Utilitarianism and its influence on those, particularly J.S. Mill, who argued most government interventions would have been helpful.

Sowell's treatment of classical macroeconomics in chapter two is less in accord with what is current interpretation of Say's Law of markets and the classical quantity theory of money. He there dwells on the wrong arguments of Chalmers, Sismondi, Malthus, and Lauderdale about the possibility of too much production of all goods in a country, including money, against the clarifications of Smith, J.-B. Say, James Mill, Ricardo, and J.S. Mill. Sowell finds more accuracy in the dissenters' views because he denies the use of dynamic analysis to proponents of the Law and ascribes that to the dissenters. Sowell also alludes to Say's willingness to modify his original argument as being "subject to some restrictions" (p. 31), but does not explain these restrictions, thus leaving the wrong impression that the Law is not totally defensible. Sowell gives hardly any prominence to David Hume's essay, "On Money," as the foundation of the classical quantity theory of money and the forced-saving doctrine, restated by the likes of Jeremy Bentham, Henry Thornton, Ricardo, and J.S. Mill. But his summaries are a good counter to Keynesian views on these matters. Sowell also gives a useful account of Smith's and Ricardo's views on government spending as being a substitute for private sector spending but which may yet retard economic growth. However, he mars his summary with undue prominence to the erroneous counter claims of Lord Lauderdale and William Blake by assigning them the insight of dynamics and denying the same to those whom they criticize. Strange that Sowell finds no need to discuss the classical theory of interest, easily the most misunderstood of their principles in modern economics, in the chapter, except with a passing reference on p. 37.

Chapter three is devoted to explaining classical microeconomics, including the theories of rent, profit, and value. Sowell well illustrates the Ricardian theory of rent but gives an undue emphasis to Ricardo's quibbles with Smith on the inverse wage-profit relation in an economy experiencing diminishing returns in agriculture. Malthus's population theory is also discussed in this chapter, mainly to register Sowell's belief that Malthus's arguments have no empirical support whatsoever. "Man's food consists of plants and animals, which almost all reproduce in a shorter period of time and with more numerous offspring than man" (p. 57), thus there is no threat of food scarcity as Malthus had warned. The counter claims of Malthus's critics, including Sismondi, Senior, and Whately, are the basis for Sowell's dismissal of modern references to starvation in some Third World countries as affirmation of Malthus's point.

Quite surprising in the chapter is Sowell's failure to carefully distinguish Smith's use of labor as a measure of value rather than the determinant of exchange values (relative prices), which are supply and demand in the short run and costs of production in the long run. He appears to be unaware of J.S. Mill's clarification of that distinction in the works of Smith and Malthus, concluding: "To confound these two ideas [i.e., a measure of value and determinant of value] would be much the same thing as to overlook the distinction between the thermometer and the fire" (Mill, *Principles*, Bk 3, Chapter 15, p. 568). From his failure to recognize this point, Sowell is never able to absolve the classics from the false charge, with the possible exception of Ricardo, that they argued a labor theory of value throughout the book. Sowell also fails to notice Smith's, Ricardo's and J.S. Mill's basing of demand on utility, and thus draws the wrong conclusions from their analysis. Besides the classical texts themselves, particularly, Bk. 3, chapters 1–6, in Mill's *Principles*, Sowell could have benefited from some modern reaffirmations of the classical theory of value, e.g., Samuel Hollander, *Classical Economics*, New York: Blackwell, 1987, and not argue a "marginalist utility revolution" during the 1870s . Sowell also may not be aware of Mark Blaug's "Was There a Marginal Revolution?" *History of Political Economy*, 2 (1972), or Blaug's *Economic Theory in Retrospect*. 5th ed. New York: Cambridge University Press, 1996, clarifying these points.

Sowell discusses "Classical Methodology" in chapter 4, focusing on the views of Ricardo, Malthus, Say, J.S. Mill, and such lesser known as Samuel Bailey, Nassau Senior, Sismondi, and Richard Jones regarding the appropriate method in economic analysis: inductive, deductive, or a combination of the two. Sowell (pp. 101–2) follows Joseph Schumpeter to charge that Ricardo made little use of facts but abstractions to derive his conclusions, perhaps unaware of Samuel Hollander's (1987, 335–6) refutation of the charge. While noting J.S. Mill as having best "exemplified and elaborated classical methodology," Sowell reaches no firms conclusions regarding appropriate method other than that "Many of the basic methodological issues of modern economics were raised and explored during the classical period, though not ultimately settled then any more than today" (p. 102).

In chapter 5, devoted to "Sismondi: A Neglected Pioneer," Sowell seeks to remedy the neglect accorded J.C.L. Sismondi in modern economics, even as Sismondi's "work was marred by a lack of intellectual rigor and was [so] noted by his contemporaries as well as later commentators" (p. 104). The case Sowell makes for taking Sismondi's work seriously includes his having disputed the validity of Say's Law of markets; having written down an equation of equilibrium income determination in which next period income is 2.5 times current period's wages fund; having disputed Malthus's population theory on the basis that "the multiplication of vegetables follows a geometric progression infinitely more rapid than that of animals, and the latter is in its turn infinitely more rapid than that of men" (p. 120); and having opposed "'systems' in political as well as economic theory" because "Economics could not be based 'on a mathematical succession of theorems, deduced from obscure maxims, given as indisputable truths'" (p. 124). Sowell also attributes to Sismondi the ability to bring to the "surface the difference between dynamic analysis and the comparative statics of the Ricardians" (p. 127), an ability he denies the major classical writers. I doubt that Sowell's claims are worth taking Sismondi as seriously as he urges.

Sowell believes that J.S. Mill has an overrated, positive image in the literature and aims to correct that in chapter 6, "The Enigma of John Stuart Mill." He first sketches Mill's personal life as one "woefully lacking in understanding or empathy with those around him, including members of his own family" (p. 129), illustrating that with Mill's bizarre love life with Mrs. Harriet Taylor. He repeats the charge that Mill snuffed out "the early beginnings of a utility theory of value and a schedule concept of demand" (p. 134); chides Mill for failing to refer directly to statements of Sismondi and Malthus on gluts, or to "the leading socialist writer of all time – Karl Marx" (p. 137), thus violating Mill's own precepts in *Essays on Some Unsettled*

Questions (pp. 135–6); and that Mill was an elitist, contrary to his image as a defender of individual liberty because of his essay, "On Liberty." Sowell also holds against Mill's reputation the fact that he completed his *Principles of Political Economy* in barely 18 months. Sowell does a good job of criticizing Mill's efforts to separate the laws of production from those of distribution (pp. 147–9), but he is on shaky grounds in denying George Stigler's assessments of Mill's contributions to price theory (pp. 150–1).

In Chapter 7, "The Mysteries of Marxian Economics," Sowell argues that it is due to Marx's obtuse and scattered writing style, some meant to set "traps" for readers (p. 182), that "so many economists have misunderstood him" (p. 155), but cites references of only the 1950s and 1960s in illustration. Hollander's 1987 treatment of Marx's scholarship is an easy counter to the claim. While he repeats his attribution of the labor theory of value to the "classical economists" (p. 163), Sowell credits Marx with its criticism, the very labor theory without which Marx's critique of capitalism would not stand: "While Marx followed Ricardo in seeing the value of a commodity as the labor time that went into its production, this was for Marx simply a *definition*, rather than a theory of prices" (p. 163; italics original). In illustrating the enlightened Marxian view of price determination by supply and demand, Sowell (pp. 166–7) quotes an 1844 statement from Engels in which changes in supply and demand are confused with changes in quantities supplied and demanded, but without criticism.

Whereas Say's Law explains the equation of supply and demand for goods and services in the marketplace, Sowell in chapter 7 credits Marx with a more enlightened version which focuses on individuals' equations of their own supplies and demands (p. 174). Sowell quotes Marx's allusions to changing relative prices and interest rates as possible sources of adjustment to equilibrium, the very processes described most clearly by Ricardo and J.S. Mill, but credits Marx with the more useful insight, namely, that "beyond some magnitude of imbalance, this no longer worked" (p. 176). The crucial magnitude is not clarified. Indeed, Sowell's praises of Marx extend to his view that, contrary to what has taken place following revolutions inspired by Marx's arguments, "he [Marx] saw the desirable features of a ['post-revolutionary'] government as including universal suffrage and civil liberties – what people today loosely call democracy, … [akin to] nineteenth-century laissez-faire liberal[ism]" (p. 192). Sowell does not deal with the incompatibility of Marx's and Engels's war on private property with the existence of civil liberties under democratic laissez-faire liberalism.

In the concluding chapter, "Thoughts on the History of Economics," Sowell departs from the now generally accepted view that we study the history of economics so we may learn how and why theories developed or evolved, recognize the errors in those discarded, and draw insights for handling current problems in theory construction and policy formulation. Rather, he thinks studying the history of economics is just have one considered "an educated individual" (p. 188). This because he wonders if all the useful aspects of classical economics already have not been "incorporated into the latest textbooks, with the classical insights rendered into diagrams and equations, and the classical errors and misstatements decently buried without fanfare?" (ibid.), a view described as "absolutism." Sowell appears oblivious of Kenneth Boulding's (1971) "After Samuelson, Who Needs Adam Smith?" *History of Political Economy*, 3, 225–37, and Mark Blaug's (2001) "No History of Ideas, Please, We're Economists," *Journal of Economic Perspectives* 15, 145–64, arguing the standard view.

Sowell also downplays the role of economic events in prompting new theory construction, arguing more a discipline's "own internal pressures to resolve the inevitable ambiguities and puzzles that arise in the course of groping for truth and clarity" (p. 196), a viewpoint drawn from George Stigler (1965). The evolution of theories, particularly in macroeconomics, seems to indicate otherwise. Thus, Sowell wonders whether Keynes's *General Theory* "would have been such an instant and runaway success had it arrived during the prosperity of the 1920s rather than during the Great Depression of the 1930s" (p. 201). But Keynes wrote that book specifically to address problems of a depression economy under the erroneous presumption extant "classical" principles were inadequate.

Sowell's seeks in the book to reflect "on a lifetime of research in the field [history of economic thought] that first attracted [him] to economics" (p. viii). But the field has developed considerably since the early 1970s, even as the subject has been de-emphasized in the economics curriculum in most universities. Sowell's failure to keep up with the literature since the 1960s thus should caution prospective readers to verify his numerous references, particularly those that appear counter to their expectations. For example, I would not interpret Smith's argument that "In all great countries the greater part of the cultivated lands are employed in producing either food for men or food for cattle. The rent and profit of these regulate the rent and profit of all other cultivated land" (*WN*, 152) and "the rent of the cultivated land, of which the produce is human food, regulates the rent of the greater part of other cultivated land" (ibid., 159) to mean "Adam Smith had long before [J.S. Mill] recognized that rent was a price-determining production cost when the land had alternative uses" (Sowell, p. 151). Ricardo is also well known for recommending tax, trade, and monetary policies for economic growth. It thus appears inconsistent to interpret his argument that "It has been well said by M. Say that it is not the province of the Political Economist to advise: – he is to tell you how you may become rich, but he is not to advise you to prefer riches to indolence, or indolence to riches" (*Works*, 2: 338), to mean "Ricardo disavowed any intention to advocate growth-promoting policies in general" (Sowell, p. 33). Sowell also credits several writers with being the "first" to have said this or done something, e.g., pp. 32, 45, 68, 100, 104, and 175. These, along with many of Sowell's conclusions on classical economics, may be prompts for further study, but I would hesitate to rely on his authority.

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