



The Myth of Adam Smith

Review Author[s]:
Spencer J. Pack

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Chapters 8 and 9 tackling labor unions and female participation. One minor editorial note is the absence of a conclusion at the end of Chapter 8 when all the other chapters had them.

Part 4 (Chapter 10) is a useful summary that emphasizes, more or less, the main points of the book, namely, that economic growth and conservative macroeconomic policies have paid off for labor and the Indonesian economy. Sound macroeconomic policies were exemplified by the broad adjustment of the exchange rate with external balance disequilibria, yet the recent exchange rate problems that Indonesia encountered do not lend credence to this argument. Furthermore, the author's point that the poor labor supply market conditions were a result of low productivity and skills rather than government neglect does not match well with the causes of the recent Indonesian uprising. I am also surprised by the author's conclusion that the Lewis (1954) model does not work well in dual economies (segmented markets), such as Indonesia, where there is high government intervention. In fact, much of the literature focusing on government policies in dual economies draws on Lewis's model (Gang and Gangopadhyay 1987).

However, these concerns are but minor detractions from the thought-provoking implications of the results in this book. It indicates that as economies progress from conditions of poverty and surplus labor to more industrialized and technologically based ones, the appropriate employer-labor relations and wage structure might need to differ. By necessity, a minimum level of development exists below which better terms of employment cannot be achieved.

All in all, this book will remain an important reference for students and researchers following the development of labor markets with economic growth in developing economies.

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Osman Suliman
Millersville University of Pennsylvania

The Myth of Adam Smith

By Salim Rashid.

Cheltenham, UK: Edward Elgar, 1998. Pp. X, 227. \$80.00.

For every economist who has ever idolized Adam Smith or wished they could be more like him, Salim Rashid's *The Myth of Adam Smith* is the valuable antidote. Rashid is unusual among economists in that he really does not care much for Smith. In this well-researched book, Rashid presents a strong case against what he regards as Smith's overblown reputation. Rashid's book is not rancorous or nasty. Rather, Rashid asks the reader for pity, as after years of study he has "to struggle to find something nice to say about Smith" (p. vii).

In Rashid's view, "what is true" in *The Wealth of Nations* "is not original and what is original is not true" (p. 3). According to Rashid, Smith made no advances in microeconomics; indeed, "if we identify economics with the use of the concepts of 'demand and supply' then Adam Smith never did become an economist" (p. 9). From the point of view of neoclassical economics, Smith's price theory was inadequate; it is not clear what determines the natural rate

of profit, and Smith is confused on the determinants of rent. Also, Smith was behind the best of his age in macroeconomics and monetary theory.

In Rashid's reading, Smith's emphasis on the division of labor was probably not genuinely perceptive. Moreover, it distracted attention from the role of machinery, science, and inventions and the activity of entrepreneurs and managers. According to Rashid, Smith took his example of pin making from the French encyclopedists and his emphasis on the division of labor from Xenophon's *Education of Cyrus* without properly acknowledging either.

For Rashid, and contrary to the impression cultivated by Smith, Smith was not a painstaking scholar; his references contain many inaccuracies. Smith was not aware of the Industrial Revolution or of the major growth sectors of the economy. Smith gives the impression of carefully studying his facts. Actually, Smith used historical facts largely to corroborate his own theory and to illustrate his already established convictions. For Rashid, Smith was really an *a priori* theorist.

Rashid finds that Smith's work in public finance represents no advance over the work of Locke or Sir Matthew Decker. Indeed, issues in public finance had been thoroughly discussed in the economic pamphlet literature in the previous half century before publication of Smith's *Wealth of Nations*.

Blood is on Smith's hands for his extreme arguments that there should be complete *laissez-faire* policy in the market for foodstuffs during seasons of scarcity and for his calamitous speculations that famines were caused solely by governments attempting to regulate the food trade. Drawing inspiration from contemporary gyrations in the foreign exchange markets, Rashid argues that in the absence of government intervention relatively small shortages in harvests would lead to erroneous speculations concerning future food price increases, too much hoarding of food by speculators and middlemen, and a consequent lack of food and unduly high prices for food, thus resulting in needless mass deaths from starvation.

Smith's views were not so popular before 1790. Little notice was made of his death. However, Smith was an assiduous cultivator of patronage; he knew how to "play the game." To his social superiors he presented himself as the loyal, cooperative, and deferential intellectual.

Rashid further argues that Smith ignored the work of his competitors Sir James Steuart, the Reverend Josiah Tucker, and Arthur Young. Smith's description of the mercantilists is a caricature. Smith demonstrates little historical understanding of the evolution of British economic thought, does not place the work of his predecessors in the context of their time, gives a cursory treatment of the historical problem of unemployment, and "wrote with a determination to highlight his own originality and merits" (p. 188). It is deplorable that Smith himself is the authority for the views of his predecessors.

In Rashid's judgment, Smith borrowed much without acknowledgment. Because the literary and intellectual standards of his day were not so different from today, Smith was a borderline plagiarist.

Rashid's book is both entertaining and informative; however, it is not without its flaws. The work is basically a collection of articles published from 1980 to 1994. Unfortunately, they have not been smoothly rewritten to form a seamless whole. Some material is unnecessarily repetitious, and the tone occasionally varies from chapter to chapter. Moreover, the book lacks a general bibliography.

Rashid has not incorporated some of the recent literature on Smith into the book. Especially Ross's *The Life of Adam Smith* (1995) has anecdotal material that supports Rashid's general position. In general, Rashid gives the impression that he is throwing everything at Smith. Thus,

for example, at one point Rashid notes but does not elaborate on the fact that Smith was accused of borrowing the main ideas in his *Theory of Moral Sentiments* from Aristotle. I think this is clearly an unfair accusation. Smith's ethical theories are compatible with Aristotle, and a great deal of similarity exists between the two (Pack 1997). Yet, Smith's theory is rooted in his theory of sympathy (or empathy) and the development of an impartial spectator. These two organizing principles clearly differentiate his work from that of Aristotle.

Sometimes Rashid's own scholarly standards appear to slip. For example, at one point he appears to quote Smith as an unambiguous admirer of the radical Rousseau. Actually, the quote is from Rae's old biography *Life of Adam Smith* (1895). It is simply an anecdote related by the biographer, not something Smith himself wrote. Indeed, we know from Smith's *Correspondence* (1977, pp. 112–3) that he was not an uncritical admirer of Rousseau.

Nonetheless, despite these shortcomings, as I read Smith, Rashid is nearly always correct, and he wins most all his battles. By neoclassical standards, Smith's price theory is erroneous. Smith's monetary analysis is inadequate, and he slights the problem of unemployment. Smith's arguments against government intervention in times of food scarcity were used by later authorities to let Ireland and South Asia starve during their respective great famines. Smith acted sneakily toward contemporary rivals in economic theory, he did not adequately acknowledge his predecessors, and his description of the mercantilists is much less than just.

On the other hand, I think Rashid ultimately loses and will probably continue to lose the war. I suspect that most economists (myself included) venturing into Smith's work will continue to be charmed by Smith, perhaps more than we should. What Smith has going for him is his systematic nature; his understanding of some form of general equilibrium theory in that everything ought to hang together; his piling up of historical data and giving the appearance of following the data; the clarity of his style; his ability to form not only his system but also that of his opponents, whom he dubs the mercantilists; his concern for economic growth; his emphasis on the strategic nature of most social phenomena and the need for various games in the drama of everyday life; the sheer length of *The Wealth of Nations*; his presentation of himself as a moderate who has carefully considered all sides of a question; and his ultimate defense of what we now call capitalism.

Rashid's work points in two important directions. One is the need for historians of economic thought to study not only the putative greats of the profession but others as well, including the various pamphleteers. In other words, Rashid demonstrates that a thicker history of economic thought is needed. This will help us to more clearly discover and specify what the exact contributions of various theorists were.

Finally, Rashid's major concern, Adam Smith's undue acclamation, points us into the direction of studying rhetoric and scientific methodology. After all, Smith started out in Scotland as a teacher of rhetoric, and he continued to teach the subject for years at Glasgow (Smith 1983). Also, Smith's so-called histories of astronomy, ancient physics, and ancient logic and metaphysics were actually applied studies in the principles that lead and direct scientific thought (Smith 1980). Smith spent years thinking about what is science, what is political economy, and how to present his work. Smith's writing style, his presentation of his subject matter, and then his subsequent fame were no fluke. Economists who seek admiration from their peers and the public would be well advised to study Smith's writings on these issues. As Rashid inadvertently demonstrates, the adroit application of these rhetorical and methodological theories evidently are a large part of the source of Smith's own fame.

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Spencer J. Pack
Connecticut College

The Struggle over the Soul of Economics: Institutional and Neoclassical Economists in America between the Wars

By Yuval Yonay.

Princeton, NJ: Princeton University Press, 1998. Pp. *xiii*, 290. \$39.50.

Yuval Yonay makes two broad claims in this ambitious book about institutionalism during the interwar period. First, conventional histories of economic thought have, through neglect or misinterpretation, gotten the institutionalists all wrong. Second, the errors arise because the standard stories are either “Whig histories” (i.e., history as constructed from the perspective of the winners, the neoclassicals) or histories that utilize philosophical frameworks (borrowed from Thomas Kuhn or Imre Lakatos), which are poor vehicles for telling this particular story. The claims are related: The historiography we have been using is wrong, and that has led us to do bad history. The author’s positive goals are to correct the historical record and to provide an alternative framework for doing the intellectual history of economics.

Yonay’s themes are important ones, and were he able to deliver on his claims, his book would be a very significant one. However, in my opinion there is less here than meets the eye and much less than Yonay promises. After reviewing Yonay’s arguments, I will offer my reasons for this assessment.

Yonay opens with an introduction outlining both his criticisms and his preferred alternative explanatory framework. Next come two chapters that aim to correct the historical record, one reinterpreting the development of neoclassical economics and the other reconstructing the history of institutionalism. Five chapters follow in which classic debates between the institutionalists and the mainstream are reconstructed. Among these are the importance and meaning(s) of theory; the role of rational economic man and social institutions in economics; the evaluation of market institutions; the value of various types of empirical work, and the historical treatment of institutionalism. Chapter 9 offers a brief description of “modern economics,” that is, economics since World War II, which the author claims differs from both institutionalism and the neoclassicism that preceded it. In the final chapter, Yonay summarizes his case, compares it against some other characterizations of economics in the twentieth century, and draws some conclusions.

The highlights of Yonay’s argument can be briefly sketched. The “textbook version” of economic thought that he rejects has economics beginning with Adam Smith and the classicals. Neoclassical economics appeared at century’s end and built on classical analysis in terms of