

# A Review of "Adam's Fallacy"

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Duncan Foley, *Adam's Fallacy: A Guide to Economic Theology*, The Belknap Press of Harvard University Press, Cambridge, Massachusetts, 2006. Hardcover, 265+xviii pp. Amazon /HUP

In the era of staunch support for neoclassical economic strategies or neoliberalism, it is heartening to see the publication of a book like *Adam's Fallacy*. A 'postmodern' characteristic of this era is its announcements regarding many end-s - the end of history, the end of ideology, etc. Anything that cannot feed into the mainstream euphoria of global marketization is discounted altogether. This does not mean relative identities in the universal market are disallowed; rather they are celebrated as itemized competitive exotics. Everything exists for and in hucksterage. But, histories behind those commodities are no more. So what goes in the making of the items on sale does not count. Anything that exposes the universality/particularity of capitalist expropriation and exploitation behind relative commodities or commodified relativities, even if they differ only in labels and packaging, is forced out of fashion. That is why discussions on economic thought per se or its history do not constitute a concentration of the most saleable academic discipline of economics. These discussions would have exposed all pretensions of the newness of market fundamentalist ideas. *Adam's Fallacy* attempts to do exactly that, by exposing the essential "fallacy" that underlies the theory and practice of economics throughout its history.

Economic thought remained an interesting area of study till the third quarter of the twentieth century. Especially after the fall of Communism in Soviet Russia, the study of economic philosophy almost has become a foster child of mainstream economics, as the fall seemed to dawn an end to ideological clashes that gripped the world throughout the twentieth century. Duncan Foley's effort to bring the subject back to the forefront is formidable. He seeks to revive an interest in economic thought that motivates economic management and policies. The book also ascertains that this revival is possible only as a critique of economics and political economy - i.e., of economic theology.

As the title suggests, Adam Smith and his *The Wealth of Nations* is the main stage around which the author develops a coherent story of the journey of economics from the heyday of classical economics to the current neoclassical economics and further. However in the beginning itself it has been made clear that "This is not, however, a book on the history of economic thought proper. It uses a historical perspective as a happy way to organize a complex set of ideas into a coherent and understandable story... [Rather this book is more about] my own imaginative reconstruction of debates behind the debates".(xii)

According to the author, Adam's fallacy "lies in the idea 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) No doubt the assumption of selfish pursuits aggregating to social good is a basic foundation on which modern day economics stands. The separation of the economic sphere from other spheres seems essential to ideologically justify a society based on competition and profit-making. This separation is the basis for the constitution of modern academia with its disciplinary divisions and hierarchy. For example, modern 'positive' economics, in its insistence for positivist 'objectivity' banishes the issue of fairness and ethics from the overall economic framework, delegating them to other obscure branches of social sciences. Foley's patient account of the reality of this design is a formidable assault on the scientific pretensions of this separation, exposing its "theological" nature.

The book is organized into six broad chapters. The first chapter explicitly deals with the philosophy of Adam Smith as propounded in his acclaimed *The Wealth of Nations*. Adam Smith's conceptualization of the ascendance of capitalism is carried forward by two subsequent political economists - Thomas Malthus and David Ricardo, whose ideas are discussed in the second chapter. The third chapter is concerned with Karl Marx and his critique of capitalism. Marx's critique played a major role in shaking up the economic thought as propounded by Smith to Ricardo, revealing capitalism's subtle anatomy and its barriers, thus informing Marx's anti-capitalist revolutionary politics. The rise of "pure economics", i.e., "marginalist" or neoclassical economics, in a sense can be understood as an attempt to transcend these political possibilities in Smith and Ricardo's political economic thoughts. The fourth chapter gives an account of this sanitized economics, i.e., the growth of neoclassical economics. It shows how the neoclassical framework embraced Adam's fallacy in its purest form through mathematization.

But theories cannot preempt the real possibilities. With the turn of the twentieth century, the world witnessed a long-drawn crisis of the capitalist system through two World Wars and the Great Depression. A revolution in Russia and other nationalist upheavals against colonial/neo-colonial capitalism, with a stress on a non-capitalist path, throughout the globe constituted a grave political crisis for the expansion of capitalist economy. To inform the rescue of capitalism came three most prominent thinkers of the twentieth century economics - John Maynard Keynes, Joseph Schumpeter and Friedrich von Hayek. Chapter 5 of the book deals with these three thinkers and their efforts to bring the capitalist regime of accumulation on track. The final chapter gives an overall summary and the author's conclusions.

While discussing Adam Smith's work, the author gives a concise description of his contributions. It is made very clear in the beginning that Adam Smith's book was not famous because of technical discoveries, as there were political economists who already talked about these things. What made Smith's book unique was its ability to "put forward a clear vision of how capitalist society might develop" and to address "more directly than anyone else the central anxiety that besets capitalism - the question of how to be a good person and live a good and moral life within the antagonistic, impersonal, and self-regarding social relations that capitalism imposes...[B]y being selfish within the rules of capitalist property relations, Smith promises, we are actually being good to our fellow human beings"(2). This is the crux of Adam's fallacy and "neither Smith nor any of his successors has been able to demonstrate rigorously and robustly how private selfishness turns into public altruism."(3).

The author goes on to discuss the different facets of Smith's work starting with the division of labor followed by the Theory of Value. He exposes the inconsistencies in these theories, which were a result of Smith's concern for presenting "key ideas and insights of political economy" more than "with constructing a consistent framework for these ideas".(42) However, these "inconsistencies betray a tension between his economic theology and his good sense. As a theologian of capitalist social relations, he is willing to remove traditional moral constraints on the pursuit of self-interest through the accumulation of capital... But another side of his character recognizes the damage that this license to pursue self-interest can do to society as well."(44)

Then Foley moves on to explain in his second chapter how Malthus and Ricardo carried the flagship of Smith but with many qualifications in order to remove Smith's inconsistencies - turning "Adam's vision" into the basis of their "gloomy science". Also, Malthus and Ricardo diverged in conflicting directions due to their different positions in the intra-hegemonic class conflicts in Britain between the landed aristocracy and industrial bourgeoisie. While expounding his theory of geometric population growth and its consequent effects on agricultural production and prices, Malthus doubted the viability of laissez-faire capitalist development. Foley, in his exposition of Malthusian theses, explains their politico-ethical consequences in the context of Malthus' confrontations with Godwin's perfectibilism, which envisioned a possibility of eliminating all human misery in social transformations occurring at the wake of the nineteenth century.

On the other hand, Ricardo, a representative of the rising industrial and financial bourgeoisie, was much more hopeful about the prospects of capitalism. He was an enthusiast of the laissez faire capitalism and defended free trade against welfare programs and during the historic debates on rent laws. Ricardo eliminated the inconsistencies in Smith's value theory in favor of a labor theory of value, which became a precursor to Marx's conceptualizations. He propounded the theory of comparative advantage on which is founded much of international economics today. He gave definiteness to theories of wages, rent and profit. Foley ends the chapter with a note on how Malthus and Ricardo opposed the idea of providing charity to the poor. According to him, their attitudes on this point "show the extremes that Adam's fallacy can reach".(84) Their argument about charity being self-defeating, as it allows the poor to reproduce without producing employment, involves a method that contrasts "the immediate effects of action (charity relieving the sufferings of the poor) with indirect, systemic effects (charity expanding the population and lowering the standard of living of the poor). Its burden is the necessity of resisting beneficent and moral impulses - do not give to the poor lest you actually create poverty."(85).

One thing that really sets this book apart is its simplicity. Perhaps this feature becomes more glaring in the third chapter where Foley takes up the Marxist criticism of capitalism. His explanation of Marx's historical materialism along with explanation of other Marxist concepts like surplus value, modes of production, base and superstructure, circuit of capital and accumulation cannot be simpler. Further in his brief discussion on the theory of commodity fetishism, Foley notes that Marx "takes on Adam's Fallacy directly in elaborating" this theory. "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 (ironically, precisely the division of labor that Adam Smith so clearly describes), and prevents humanity as a whole from confronting both its real conditions and the real possibilities for social change that technology and the division of labor make possible."(112)

Though a major emphasis of the chapter is to provide a thorough feel of the severity and sharpness of Marx's critique of capitalism, this does not prevent Foley from criticizing Marx and also in pointing out where Marx has fallen short in his explanations. While succinctly presenting the elegance of Marx's vision of socialism, especially as found in his critique of the Gotha program, Foley finds "devastating gaps in Marx's argument, gaps that grew into some of the worst features of the revolutionary socialist project in the twentieth century. Marx seems completely unaware of the problems of institutional power that are inherent in his brief phrases describing the social control of the surplus product."(134-35) The problem of institutional specificities for deciding and regulating the production and distribution of the surplus product remains unresolved in Marx. "Either Marx had no answers to these questions, or he thought they were trivial and secondary administrative problems that would be solved in the actual evolution of socialism. The experience of twentieth-century socialism, however, underlines the critical importance of these questions for the socialist project, and the terrible inadequacy of Marx's analysis to suggest viable answers to them."(135) Further, "[d]espite his vigorous critique of the commodity form of production, Marx's concrete vision of socialism carries with it a lot of capitalist baggage", which sometimes seems to relegate the socialist regime to "a kind of collective capitalism".(151)

Foley provides a very holistic view about what Marxist practice has contributed in terms of social change in the twentieth century. "In the twentieth century Marx's ideas of class, exploitation, and revolutionary social change played an important historical and ideological role, but not one centered on actual proletarian revolution.... [In many countries,] Marxism, on the other hand, provided an alternative which promised a route to modernization, that is, the destruction of traditional cultures and social relations, without surrender to the hegemonic claims of world capitalism." (145). Revolutions that did happen especially in Russia and China, according to Foley played an important role in transforming these societies from an "unsystematic, traditional political and economic system into some version of modern capitalism, as a stage of social development which was necessary preliminary to socialism." (146).

Chapter 4 is concerned with the development of marginalist economics and the attempt of the economic thinkers to make economics a hard science. It evolved to serve the ideological needs of capitalism in the 1860s, when Adam's Fallacy needed new shoes. Under the new circumstances characterized by a formidable intensification of class struggle between capital and labor, which was consciously organizing itself, the historical and inductive method of classical political economy was becoming counterproductive. "Ricardo's language and conceptual framework when applied to these issues [of class struggle] look uncomfortably like - well, like Marx". William Stanley Jevons, Carl Menger, Vilfredo Pareto, John Bates Clark, Irving Fisher and Leon Walras came as rescuers. They "labored to create an axiomatized, mathematical political economy that could endow the social relations of capitalism with the aura of "natural laws" that guaranteed the stability and rationality of economic life".(157)

He complements this with his short survey of Thorstein Veblen's ideas, which heavily relied on evolutionary biology. Veblen, who is frequently counted within the "heterodoxy" for his unconventional ideas, "is the Ecclesiastes of Adam's Fallacy, conveying the human distortion and cost of capitalist social relations in a mordant and stylish prose."(175) Further, "[w]hile the evolutionary approach does much to dispel the mathematical aridity of marginalist economics, it does not do a great deal to return human beings and their moral concerns to the center of economic thinking".(177)

The turn of the twentieth century brought many crises for the capitalist development especially in the form of two World Wars and the Great Depression. According to Foley, three visions that contended for supremacy in political economy in this period, centered on the thinking of John Maynard Keynes, Joseph Schumpeter and Friedrich von Hayek. All of them attempted to resolve in their own way the "crisis of confidence in capitalist political and economic leadership", with the imperialist rivalry leading to world wars and economic depression. Keynesianism succeeded in establishing its supremacy, as it justified state interventionism required for refurbishing the machinery of capitalist accumulation after the Great Depression and provided a credible framework for policy formulations. It provided an antidote to the popularity of central-planning socialism, while stressing on "reforming capitalism to make it function better through a great expansion of the economic role of national governments and central banks".(183)

Hayek on the other hand, being a representative of the Austrian school of economic theory was trained in a vigorous defense of the laissez fair capitalism against every sign of collectivism. Much of the first half of the last century was not conducive for such ideas. Hayekian misadventure of attacking Keynesian support for activist government is indicative of the age. Also, simultaneously there was a rise in the concept of market socialism (which is "just another statement of Adam's Fallacy"), which found "no difference between a socialist and a capitalist organization of the division of labor except for the formal legal mechanism that support the market, and perhaps the distribution of income".(205) Much of Hayek's theses which became the foundation of neoliberalism were formulated in his attempt to thwart the socialist appropriation of market. Thus he reproduces Adam's Fallacy in a pure and unadulterated form - "It is not, according to Hayek, the market form that is critical to organizing the division of labor; it is the content of the market as a clash of personal interest that actually drives things forward".(206) But only during the 1970s, when capitalism needed a new regime of accumulation in the aftermath of slowing down of the 'welfarist' economies, Hayek could emerge "from his bruising theoretical defeats at Keynes's hands in the dark days of the Depression to fight again and climb back to occupy the ideological high ground of capitalist society".(209)

While Schumpeter sympathized much with Marx's critique of capitalism, he devoted "his considerable rhetorical and analytical powers to injecting Marx's theory of technical change into the marginalist framework as a corrective to the equilibrium-fetish of neoclassical economics".(210)

The final chapter recapitulates the various incarnations that Adam's Fallacy has made throughout the development of capitalism. Further, Foley summarizes some of the lessons that can be drawn from the economic debates. He notes, "All sides in these debates have important lessons to teach about the logic and limited functionality of the social world that capitalism has created."(213) The conclusion that Foley draws "from surveying the high peaks of political economy" is that dualisms in political economy - normative vs. positive, value-free scientific analysis vs. policy analysis - are futile. "The attitudes promulgated by the great political economists toward capitalism and its social logic cannot plausibly be separated from their analysis of its workings."(215)

The rejection of dualisms along with their perpetuator, Adam's Fallacy, clears away "grand illusions" about capitalism. It allows us to historicize our existence - eliminating the most fundamental distortion that this fallacy perpetuates by representing "capital accumulation, with its accompanying technical and social revolutions, as an autonomous and spontaneous process that is somehow inherent in the expression of "human nature".(224)

Foley draws two lessons "from the history of political economy for our globalizing era". Firstly, "moral and social conflicts are part and parcel of capitalist economic development". The societies that have recently come into the fold of capitalism "do not benefit from vague sermons on the power of capitalist development to raise masses of people from traditional poverty - sermons which at best tell only half the story."(227) Secondly, with the unevenness of capitalist processes, it is dubious to talk about any unique path to capitalist development. These lessons are particularly important in today's context when the neoliberal path is being imposed through international negotiations between transnational institutions supported by the hegemonic powers and local agencies in the underdeveloped countries.

An important aspect of Foley's work that distinguishes it from other works on economic thought is the identification of a single central theme. The whole narrative revolves around the phenomenon of Adam's Fallacy, analyzing its reproduction or reincarnation throughout the development of political economy and economics. This allows the reader to grasp the foundation of the discipline, instead of being awestruck by its apparent edification with esoteric conceptualizations. Further, the book forces the reader to question the neutrality of the economic theory and practice, of their being above all political and ideological conflicts that mark every society. In fact, it shows how the very foundation of economics is not only ideological, but theological too.

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