Review

Adam's Fallacy—A Guide to Economic Theology, by Duncan Foley. Cambridge, MA: Belknap Press/Harvard University Press, 2006. $25.95, cloth. 288 pages.

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I enjoyed reading *Adam's Fallacy* as much as if I were reading a book of fiction. This is an excellent book on the ideas of economists and the way they developed over the last three centuries. Though Foley says in the preface that he intended this book as a general presentation of economic ideas for the cultivated reader, it is likely that most of his readers will come from the group he mentions in his dedication, "For my colleagues."

It is likely that some but not many noneconomists will read this book. In spite of its being a great presentation of interesting material, the historical arrangement and the depth with which theories are presented will dissuade many lay readers from wading far beyond the first pages. Those with a serious interest in social knowledge, however, will probably make it to the end.

In books on the history of economic thought, it is common to cite old authors profusely,[1] but Foley has used a different approach. *Adam's Fallacy* has almost no citations. Foley tells us in his own words how earlier and modern economists have understood and explained economic problems. We are told in the preface that the book is "an attempt to explain the core ideas of economists" from the point of view of the author, and not "a book on the history of economic thought proper," though its historical perspective is "a happy way to organize a complex set of ideas into a coherent and understandable story." The reader is warned that this is Foley's "own take on economics," in which he exploits "the great figures in the history of political economy shamelessly" for his own ends (p. xii).

Foley begins with a discussion of the classical economists, Smith and Malthus, as well as Ricardo. The title *Adam's Fallacy* is a kind of pun, linking the concept of foundation to two Adams, one from the garden of Eden and the other from the Scot-

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tish school of political economy. The illustration on the dust jacket reinforces the image, superimposing the face of Adam Smith on a bitten apple.

Foley goes into great detail on the ideas that have come into present-day economic thought from Adam Smith. For Foley, as for many others, the most important idea of this Smithian legacy is that of the invisible hand, which assumes or rather asserts the emergence of acceptable and efficient common-good outcomes from the ethically questionable pursuits of private interests in the market. This "separation of an economic sphere," says Foley, "with its presumed specific principles of organization, from the much messier, less determinate, and morally more problematic issues of politics, social conflict, and values, is the foundation of political economy and economics as an intellectual discipline. Thus to my mind Adam's Fallacy is the kernel of political economy and economics" (p. xiii). We see from the start that a major component of Foley's argument is the ethical inadequacy of those schools of economic thought that agree with the basic Smithian principle that the pursuit of individual economic interest is not ethically wrong because it leads to common good.

On Malthus, Foley says one of his major contributions was to bring mathematical reasoning to economic thought (p. 48), but overall, Foley is not sympathetic to him. It is indeed difficult to be sympathetic to Malthus, unless you are one of those economists who, for instance, deny the possibility of improving the human condition through public policy. There are some positive aspects of Malthus, however, that are often overlooked. On one hand, he was the first author in political economy to clearly articulate the issue of natural bounds to human society. This puts Malthus in direct connection with modern ecological views, generally critical of capitalism, although it also aligns him with quite different right-wing currents that are properly referred to as neo-Malthusian.

On the other hand, in spite of Malthus's reactionary stance regarding the possibility of human progress, he did explain disease and death in terms of biology and natural causes, rather than attributing them to the Almighty's will. The view that disease and death were directly determined by the Divinity was still quite extended in Malthus's time—just twenty-five years before his birth, Johann Süssmilch had published in Germany his celebrated *Proof for a God-Given Order to the Changes in Male and Female Births and Deaths and the Reproduction of Human Populations.* For Malthus, the way nature is set (by God) makes it impossible to improve society by, say, reducing famine, but it was not his view that each death and birth is decided by God alone. Surprisingly little attention is paid in *Adam's Fallacy* to environmental issues—in this respect Foley is a true follower of the tradition in economics and does not take much advantage of Malthus to discuss such matters.

After the classical economists, Foley moves on to Marx—I will return to this later—and then in the last hundred pages of the book to marginalism, Veblen, Keynes, and modern neoclassical views. Though perhaps this is too much material to be treated in just a third of the book, it is clear that Foley's interest is much more focused on old political economy than on recent economics, perhaps because he believes that, in the end, not much was contributed by the marginalist revolution.

Some figures worthy of discussion are ignored. Nicholas Georgescu-Roegen, for instance, is a major author and an isolated figure in modern economics who challenged economic orthodoxy from angles that were almost wholly ignored by the classics, including a strong concern with the real meaning of "wealth" and the relation between nature and humanity. That he is not even mentioned in a book in which we find such names as Lytton Strachey, Oskar Lange, and Enrico Barone seems very much related to Foley's view that environmental problems present no Gordian knot for the present economic system to solve. For instance, he believes that the extension of property rights to environmental assets and some tinkering with pollution markets can lead to a feasible solution for global warming.[2]

Foley asserts that modern neoclassical economics "is not committed to laissez-faire policy: it supports intervention in cases of monopoly, incomplete information, and externalities" and "opens the door to widespread government intervention" (p. 172). This may be true from a theoretical point of view—for instance, one that makes a fine distinction between the neoclassical and Austrian schools in economics—but it seems to be a biased assessment if it refers to mainstream economics. From Friedman to Greenspan to McCloskey (not to mention economists from other countries), the economic profession has been deeply committed to the rejection of government intervention. Even the major tenets of Keynesianism are viewed with suspicion in economics departments controlled by neoclassicals. And economists like Paul Krugman, Joseph Stiglitz, and Amartya Sen, who to some extent disagree with the neoliberal consensus—though in no sense question capitalism—are often considered by mainstream economics as vicious leftists. (On the occasion of Amartya Sen's receiving the Nobel Prize in economics, I heard the famous theoretician of international trade Jagdish Bhagwati saying on National Public Radio that Sen's interventionist views on economic policy are to be repudiated because they help perpetuate poverty.)

In a review of *Adam's Fallacy,* Robert Solow criticized the book for lacking "mechanics."[3] For Solow, economists must be much more concerned with specific "mechanisms" (such as those that explain the price of beer or the balance of payments) than with big issues like "the future of capitalism." To discuss in depth this idea of Solow's would require going into what is the utility of economists for society, or rather what is the utility of economists for those in society who decide where it is worthwhile to put money. At any rate, it is clear that "mechanisms" are important to understand economic processes, but schools of economic thought strongly disagree on what the important mechanisms are. For instance, mainstream economics often emphasizes decreasing returns to scale and perfect competition in order to argue that "in equilibrium," profits are zero. Heterodox views often point to such mechanisms as economies of scale and increasing returns to scale to illuminate particular facts of economic life—for example, that most new firms die in their first years of life and that the tendency to the accumulation and centralization of capital is pervasive. From this point of view, perhaps, it would have been good if *Adam's Fallacy* had dealt at least to some extent with mechanisms like these.

That Foley is seriously interested in socialism is clear from the almost 100 pages his book devotes to Marx's economic thought and socialist ideas and movements. Some reviewers have criticized Foley for this "preposterous extension" given to the unruly and subversive thoughts of Karl Marx. For standard economists, Marx is just a pile of boring books to be ignored and rejected. Economists rarely read Smith or Ricardo, not to mention Marx, but they "know" that Marx is just garbage. That is inherited knowledge from Francis Edgeworth and other fathers of economic science.

Foley's presentation of Marx's ideas is nuanced and dispassionate, though sympathetic. He explains in a particularly illuminating way Marx's ideas on the fetishism of commodities and discusses with insight major issues posed by Marx's rejection of utopian designs for "the socialist kitchens of the future." Foley may be unfair to Marx in saying that from the point of view of non-European traditional societies (Inca statism, African tribal communities?), "Marx's form of socialism might be almost indistinguishable from capitalism in its broad outlines" (p. 134).

Foley distances himself from some major aspects of Marxian thought that are especially distasteful to modern academia in general and modern economics in particular. He labels as "prophecy" Marx's idea that capitalism is pregnant with a new society. He might have said "forecast," which denotes exactly the same prediction of the future but is a prestigious term in economics, without the suggestion of divine inspiration. (To be fair, Foley also uses "prophecy" to refer to predictions by Keynes and others.) At any rate, Foley believes that Marx's view of the present society pregnant with another, in which class relations and class struggle would disappear, carries "a utopian and unhistorical flavor that sits uneasily with the general point of view of historical materialism" (p. 99). Since Foley does not follow up on this argument to explain his general perspective, the reader is left with the idea that, according to Foley, class relations and class struggle will be a perpetual characteristic of human society, or at least that it would be rather silly to expect something different. I have heard Duncan Foley assert his socialist inclinations in the past, but it is difficult to say what socialism would be if not a society overcoming class relations and class struggle. Precisely the persistence of these characteristics in societies like those built in authoritarian ways by communist parties in Eastern countries is what made those nonmarket economies anything but socialist. One of the virtues of the modern market economy is that it tends to equalize human beings in many respects, except for one rather important area: income and wealth.

This does not mean that differences and oppressions based on gender, ethnicity, or other factors that differentiate human beings are no longer important, but these oppressions not based on class appear to be weakening over time. This is particularly noticeable in the case of the social condition and status of women, which has improved by leaps and bounds worldwide in the last century, as revealed by all kind of indicators, from those based on education to those referring to the presence of women in cultural, intellectual, and artistic life, and in the spheres of power. (Today's religious fundamentalism is probably in large part a reaction to this upswing of women in society, as major religions have always been stalwart bastions of male power.) It is difficult, therefore, to envision any kind of historical transcendence of the present economic organization of our society that would not involve a very different change from that occurring in other historical transformations, in which one class of oppressors just displaced another.

A favorite issue for Marxian commentators to disagree over is the celebrated law or tendency of the profit rate to fall, to which Foley refers in several passages of *Adam's Fallacy.* The view of the present reviewer is that from passages of the last volume of *Capital* it can be inferred that Marx viewed this law mostly as a short-run tendency leading to economic crises. The crisis itself is a built-in mechanism to raise profitability again. The constant tendency of capitalism for the technical composition of capital to increase—that is, that the "volume" of physical capital (machines, raw materials, etc.) per worker tends always to increase because of competition—is one of the historical trends that Marx clearly outlined. That tendency also translates into an increase in the value composition of capital; that is, in the long run, investment in machines, buildings, and means of production in general (c) grows faster than capital invested in paying wages (v), so that c/v, the value composition of capital, also rises. Since profitability is the ratio of surplus value s to total capital $c + v$, that is, $s/(c + v)$, which can be also written $(s/v)/(c/v + 1)$, the increase in the organic composition c/v will push profitability toward zero unless *s/v,* the rate of surplus value, grows enough to compensate for it. Though there are reasons to think that the growth of the rate of surplus value is bounded while the value composition of capital is not, the experience of two centuries of historical capitalism seems to suggest that capital has been quite successful in raising the rate of surplus value, so that profitability has come up after each crisis (be it a mild recession like that of 2001 or a deep depression like that of 1929).

Adam Smith and David Ricardo had very clear views on the profit rate's long-term tendency to fall. In *Adam's Fallacy*, Foley is much more concerned about economists' views on long-term trends than their views on short-run activity, and he discusses why Smith and Ricardo thought the profit rate had a secular trend to drop (e.g., pp. 24, 79). Then he implies that Marx shared Smith and Ricardo's idea about that falling trend (pp. 136ff.), though he disagreed about the mechanisms producing it. It is true that volume 3 of *Capital* contains statements referring to a long-term trend for the rate of profit to fall. Some of them are quite isolated, and it is believable that, as Geert Reuten[4] has argued, they may be no more than interpolations by Engels, who had to wade through a pile of unfinished manuscripts to come up with an educated guess at what Marx intended. At any rate, Marx never outlined any mechanism ensuring that the profitability recovery in each crisis brought the profit rate to a lower level than in former periods of expansion. Only this kind of mechanism, producing dampened oscillations of profitability, would lead to a long-term falling trend of the profit rate. Otherwise, the fall of profitability immediately preceding each slump would be only a mechanism to recurrently generate economic downturns, and there is a lot of statistical evidence (for instance, in Wesley Mitchell's works) that this is what actually happens.

Whatever the case, and as far as the fragmentary nature of Marx's *Capital* allows assertions about what he really thought, it is fair to say that the mature Marx who wrote *Capital* viewed economic downturns as crises of profitability. He considered it "a pure tautology to say that crises are provoked by a lack of effective demand or effective consumption,"[5] a view that is not difficult to find in the *Communist Manifesto* written two decades earlier and where economic crises were explained in an underconsumptionist manner as crises of overproduction. But overproduction is just the flip side of lack of consumption or, in Keynesian terms, lack of effective demand.

Foley's explanations of the Marxian vision of economic crises (e.g., pp. 138ff.) refer little if at all to profitability, which seems to be a major flaw. In my view, Foley's assertion that, in Marx's view of capitalism, "crises of demand (over-production) would become increasingly frequent, severe, and intractable" (p. 139) is an interpretation of Marxian ideas strongly tinted by Keynesian views. It is true, however, that almost three decades before Lord Keynes, Rosa Luxemburg had tried to mend socialist economic ideas in that direction. In the Marxist tradition there has been always an important component of determinism in which the long-term trend of the profit rate to fall was seen as the economic mechanism that would eventually lead to the demise of capitalism. Many Marxists viewed the Great Depression of the 1930s as *the* general crisis of the market economy, but then in the 1950s and the 1960s the repeated crises became a mild business cycle that led many leftists to doubt the inevitability of capitalism's demise.[6]

In discussing Marx's political views (pp. 139–40), Foley probably puts too much emphasis on Marx's excoriation of those who thought that the emancipatory fight must be for reforms only. Marx actively participated in the struggle for reforms. The International Workingmen's Association in which Marx invested so much effort for years actively supported the fight to reduce the working day, and Marx was never reluctant to support legislative regulations improving the conditions of work or, in general, the living conditions of the people. This comes up in passages of *Capital,* though it can be seen much more clearly in any narrative of Marx's activities in the International, or in such works as *The Poverty of Philosophy* or the pamphlet "Wages, Price, and Profit."

It is true, however, that Marx thought of reforms as minor aspects of the political, social, and economic struggle to create a new cooperative society. Marxist parties, in which those like Eduard Bernstein emphasized reforms to increasingly adapt themselves to the capitalist reality, had become in the early years of the twentieth century so entangled with their national realities that they supported their fighting governments in World War I. Thus the assimilation of Marxist forces into capitalist society, with the abandonment of the goal to overcome capitalism, made them forget about workers' internationalism and even about principled opposition to war simply from humanitarian principles. Only a few years after Friedrich Engels rejoiced in the great triumphs of socialist forces in Europe, millions of working-class soldiers were massacred with the support of such "socialist" forces, for the benefit of industrialists and merchants. The "Great War," in which humanist thinkers like Hermann Hesse were "to the left" of such "orthodox Marxists" as Karl Kautsky, was the origin of the communist parties that, returning to Marx's idea of a principled opposition to capitalism, soon fell into the orbit of the Soviet Union, becoming mostly pawns in the Soviet struggle for world power.

The 1960s split of the communist international movement between those parties "on the right"—going into the Russian orbit or the eurocommunist path to parliamentary softening—and those "on the left"—supporting Chinese positions—had again a strong component of adaptation/rejection to existing capitalism. In the end, what the history of these and other emancipatory movements in the twentieth century—the anarchists, the greens—has proved is the monstrous capacity of the capitalist system to push those fighting against it to the irrelevance of radical marginality, or to the impotence of spineless reformism. This history suggests that Marx's idea, emphasized by Rosa Luxemburg, that the defining element of emancipatory struggle must be the fight against capitalism, and not the fight for reforms, was quite correct.

Foley makes interesting comments on how socialist politics became antidemocratic and manipulative (p. 140ff.), but he seems to shy away from developing that idea to apply it to present-day political forces, be they those labeled communists still in power in Cuba, China, and a few more Asian countries, or the dozens of parties defined as social-democratic, socialist, or even communist, grown from the Marxist tree and now just practicing "politics" in the worst sense of the word, managing the interests of the powerful under capitalist conditions and often not applying any progressive reform. In Spain, for example, during the 1980s and early 1990s, the governing Socialist Workers Party (PSOE) applied economic policies so conservative that it is impossible to characterize them even as Keynesian.[7] In Vietnam and China, both purporting to be socialist countries, working time extending to sixty and even more hours per week has been reported as quite common in recent years.[8]

Most people in Western society find it very difficult to imagine a viable economy organized along noncapitalistic lines. Foley may well be conscious that any mention of socialism or communism brings up the dismal Eastern European societies or, even worse, the killing fields of Kampuchea, the concentration camps of Stalinist Russia, or the recent swift executions and mass incarcerations of "Communist" China. To clarify what is and what is not socialism is a very hard intellectual task, but the difficulty of the task does not diminish its increasing urgency. For these reasons, Foley's book may leave socialist readers rather disappointed, although that should not be much of an issue because there probably will not be many of them.

For anyone interested in the ability of human beings to decide their own future, a major issue is the power of political parties as instruments to bring forth an actual transformation of society. The idea that political parties are antidemocratic institutions connects with the folk idea that "politics" is dirty, commonly exploited by unscrupulous politicians like those presently (2007) in office in the United States. However, it also reflects a reality of many decades in which worldwide political parties have increasingly become tools for a party elite to rule, usually defending the interest of larger social elites. Both the right (Robert Michels) and the left (Karl Korsch, Anton Pannekoek, Paul Mattick, and Cornelius Castoriadis) have offered interesting reflections on this phenomenon.[9]

According to Foley, in recent

decades the widening of financial markets and the creation of financial instruments "presumably strengthens the ability of wealth-holders to hedge risks and form a more consistent view of the future path of the economy" (p. 198). In general, though Foley does express some concerns about processes potentially dangerous for humanity and connected with capitalism, he neither forecasts nor prophesies any major crisis in the near future. He seems to play down that in recent years the level of unemployment not only in many third-world countries but also in Europe often reached levels comparable to those of the Great Depression; that big capitalists like LTCM, Enron, Arthur Andersen, and many others went down bringing chills to the increasingly global economy; that the formerly "vibrant" economy of Japan has gone through a protracted stagnation largely connected to financial problems; and that the "Asian tigers" went into economic meltdowns, and financial panics occurred in East Asia, Russia, and Latin America.

Moreover, when writing on the views of economists of past centuries, it may be easy to forget that war is a major component of our economy.[10] Do not the huge fiscal deficits of the United States in the years since the Iraq occupation amount to military Keynesianism? Can it be disputed that the rapid capitalist development of Germany and Japan in the early decades of the past century was a causal precedent of both world wars? The economic growth of these two countries that arrived late to the splitting up of the world between the capitalist powers in the early twentieth century was often termed "miraculous." A similar "miracle" is now occurring (bourgeois thinkers see miracles where there are only huge profits), this time in China.

Adam's Fallacy provides many enjoyments. We find frequent pithy observations on economic facts that often go unpublicized—for instance, Foley's comments on "our ambivalence" toward the commodity form, revealed in the fierce debates about markets for medical care or for selling children or body organs (p. 103)—and reflections on why different economic views are or are not mutually consistent, or on why this or that theory does not seem to fit with reality. Near the end of the book, however, Foley appears to go postmodern with McCloskey. On the one hand, he asserts that capitalism "shapes people's lives and behavior in predictable ways, and gives rise to measurable regularities in economic data. But it is idle fantasy for economists to elevate these statistical phenomena into universal principles." Moreover, institutions of economic life such as markets or the division of labor were created by human beings, "and they can change them if they want to and understand them well enough" (p. 225). On the other hand, there are few reasons to think that major problems are posed that capitalism cannot solve. Keynesian lessons are now built "into the structures of public finance. They have worked remarkably well, and freed us to think about longer-run issues" (p. 199).

Different stories and narratives, each one giving a specific perspective on the economy, have been presented to the reader, and Foley tells us we can learn from all of them, though perhaps we must be more serious about not being deceived by the fallacy of Adam Smith and his followers. But Adam's fallacy also seems to be a kind of original sin, infecting virtually every important author writing on economic issues (p. 4). So, where are we now? It is difficult to understand how we should take the last part of this guide to "economic theology." Can different schools of economic thought be compared in terms of their ability to explain the economic reality? Is the major problem with neoclassical economics that it presents a view of society rooted in an immoral fallacy? I rather think not.

Wesley Mitchell often used the terms "money society" and "profit society" for the economic system that in recent decades has extended its sway over the whole planet. That economic system does not work without capital accumulation, but that in turn does not work without an ever expanding world market, and a world market is quite unthinkable without ever expanding output and ever increasing movements of commodities and people. This reality implies the depletion of natural resources at increasing rates, rising production of pollution and garbage, and ever increasing emissions of carbon dioxide. It is quite unlikely that a problem such as global warming can be solved inside the frame of this economic system.

Even if that problem were solved, which seems very dubious under present conditions, the permanent push for growth would make other environmental problems become acutely severe over time. Who could have said in the time of Adam Smith that water would be the scarce resource that it is increasingly becoming? At the same time, the internal dynamics of capitalism, permanently mechanizing production to cut costs, continue to drive millions out of the workforce into the world pool of the unemployed or underemployed. This accounts now for the millions who, not every year, but every month, try to find better lives by migrating from Eastern Europe, Latin America, Africa, or Asia to North America or Western Europe, or from the Chinese interior to the industrial cities on the coast.

All this is what global capitalism produces when working properly, in "prosperous times." But that is only one side of the coin. The flip side is the generalized misery of a major depression that, because of unsustainable processes in the world economy, may appear at any moment as a world crash. That outcome would generalize mass unemployment worldwide and put in jeopardy even the ill-spread wealth in the "developed" world. Though Foley's book rather discounts this possibility, the reader will find in the book ideas and discussions that will promote understanding of these and other economic issues. *Adam's Fallacy* offers good food for thought, and that has to be welcome in an intellectual environment like the Business & Economics section of most bookstores, in which junk food is so abundant.

Notes

1. As in the excellent *The Origin of Economic Ideas* by Guy Routh (White Plains, NY: M.E. Sharpe, 1975).

2. Foley's views on environmental issues are presented in a quite technical way in his book *Unholy Trinity: Labor, Capital, and Land in the New Economy* (London: Routledge, 2003).

3. "How to Understand the Economy," *New York Review of Books,* November 16, 2006, pp. 43–46.

4. " 'Zirkel vicieux' or Trend Fall? The Course of the Profit Rate in Marx's *Capital* III," *History of Political Economy* 36 (2004): 1.

5. See *Capital,* trans. David Fernbach (New York: Vintage/Random House, 1981), vol. 2, chap. 20, sec. 4, pp. 486–87, on simple reproduction.

6. In a poem published in the 1970s, Stephan Brecht presented this in a beautiful way: Taught I was / these were the last days. Watch the wheel, they said, / see how the world is a village, now dark & crumbling, riding / on its upper rim: soon it will turn, the wheel, dragging / man's world down / down through the dark waters of renewal / to bring it back up again / quite otherwise: / abluted, kin to light, / pure. "I saw it budge," / said my father, "I felt the impulse," / said his wife. Having believed them, / I lost my faith. The vision / left me. "It may well turn," I thought, / "but the world will come up unchanged." Nevertheless, / their words had clung to my eyes, I saw / the village, dark & crumbling, ever / ephemeral, perched on THE WHEEL, unworthy / of consideration, distasteful even, / & I closed my eyes (*Poems* [San Francisco: City Lights Books, 1977], p. 11).

7. Sima Lieberman, a mainstream economist, judges the economic policy of the Spanish socialist party in power as indeed more conservative than that of Ronald Reagan in her *Growth and Crisis in the Spanish Economy, 1940–1993* (New York: Routledge, 1995).

8. Pietro Basso, *Modern Times, Ancient Hours—Working Lives in the 21st Century*, trans. G. Donis (London: Verso, 1998).

9. Robert Michels, *Political Parties—A Sociological Study of the Oligarchical Tendencies of Modern Democracy,* trans. E. and C. Paul (New York: Free Press, 1961); Douglas Kellner, ed., *Karl Korsch Revolutionary Theory* (Austin: University of Texas Press, 1977); Anton Pannekoek, *Workers' Councils* (Oakland, CA: AK Press, 2003); Paul Mattick, *Anti-Bolshevik Communism* (London: Merlin Press, 1978); D.A. Curtis, trans. and ed., *The Castoriadis Reader* (Malden, MA: Blackwell, 1997).

10. This was vividly explained by a major general of the U.S. Marine Corps, Smedley D. Butler (1881–1940). See his book *War Is a Racket* (reprint, Los Angeles: Feral House, 2003).