

and political realms. These are important lessons for public policy practitioners and scholars alike, especially if they have been deeply versed in the idea of public finance as a mode of top-down social control.

Replete with original insights, and combined with mainline political economy themes from Adam Smith onward, *Politics as a Peculiar Business* stands as a monumental work for realigning our core understandings about complex human action in multifaceted social realms.

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Who Cooked Adam Smith's Dinner? A Story of Women and Economics

Katrine Marçal

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John Maynard Keynes once wrote of Hayek that one of his arguments was “an extraordinary example of how, starting with a mistake, a remorseless logician can end up in bedlam.” Katrine Marçal’s *Who Cooked Adam Smith’s Dinner? A Story of Women and Economics* is a nice example of how an author can actually start with a correct observation, yet also end up in intellectual bedlam. The correct observation at the heart of Marçal’s book is that economics has, historically, paid far less attention to the household and family than it has to the market, and that, when it has examined the family, it has frequently done so through a framework that is too narrow to really capture how the institution works. From that truth, she begins her path toward bedlam by laying blame on economics for constructing itself around the hyperrational, self-interested, and very masculine, “economic man,” which she thinks has blinded the discipline to women’s concerns and other forms of behavior more associated with women. As a result, economics fails at understanding a world containing men and women with a wider range of motivations and personalities, which, in turn, she believes, undermines the case for the market.

Her title gets at the core of her argument: Adam Smith invented modern economics by creating the idea of “economic man”—who is, in Veblen’s terms, “a lightning calculator” of his self-interest—and

the idea of the invisible hand, by which greed and self-interest are always good in leading to economic growth. Furthermore, she argues that this vision of the economy, which came from Smith and has been mathematically refined by generations of thinkers, was an attempt to create a kind of Newtonian mechanics of the social world. Armed with this view of humans, which was masculine to its core, economists have been blind to the household and family, as well as ignoring all the ways other than self-interest in which humans interact. At one point, she describes economics as all about “conserving love.” Economists believe love is scarce, but self-interest is not, so it makes more sense to run an economy on the latter rather than the former. Thus, Smith never discusses the question of who cooks his dinner (his mother), nor why such issues might be important.

Marçal then argues that once one understands that this is how economists see the world, we can understand the origins of the financial crisis and Great Recession that began in 2008. By focusing on and overestimating human rationality, by giving full license to greed, and by thinking that unhampered markets will always produce good outcomes, economists could not see the crisis coming and have not been able to offer meaningful regulatory and other government policies to prevent another one. This same logic also explains why the United States refuses to adopt “family friendly” policies like subsidized day care and stronger parental leave mandates, which, she believes, would help women.

There are numerous problems with this argument, despite it proceeding from a largely correct observation. The fundamental problem is that Marçal has created a straw economic man out of Adam Smith. At times, she suggests that her depiction of the humans that populate economic models—self-interested, greedy, and utterly unconnected to others and incapable of emotional reaction—is more the product of later economists. However, by continually returning to Smith as the source, she invites the question of whether her characterization of Smith is fair. It is not.

From all the evidence in her book, Marçal seems completely unfamiliar with Smith’s book, *The Theory of Moral Sentiments* (TMS). (To be honest, I’m not so sure that she’s really read *The Wealth of Nations* either.) In TMS, Smith offers his vision of moral philosophy, and his focus is on the faculty of sympathy. The famous first sentence of the book puts the lie to Marçal’s straw economic man of Smith: “How selfish soever man may be supposed, there are evidently some

principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it.” A search of the book reveals dozens of discussions of love, which for Smith was not something scarce to be conserved, but a core part of the human personality and key driver of our ethical behavior. Similarly, the book has numerous discussions of the importance of the family. Simply put, anyone remotely familiar with what Adam Smith actually wrote in his two major works would know that his vision of human nature bears no resemblance to the sociopathic one that Marçal attributes to him.

Recent scholarship on Smith explores the connections between the focus on sympathy in TMS with the focus on self-interest in *The Wealth of Nations*. The general conclusion is that Smith recognized that, in the more intimate worlds of direct interpersonal interaction, we are able to exercise sympathy and love more easily, whereas in the more anonymous world of the commercial society, it is harder to do so. That difficulty is not because love is scarce, but because we cannot know exactly what it would take to get others to cooperate with us when we know little or nothing about them. Just before the famous defense of the self-love of the butcher, brewer, or baker in *The Wealth of Nations*, Smith points out that we do not have the time or knowledge sufficient to elicit cooperation through sympathy and altruism from all of those we wish to cooperate with, so we rely on appeal to self-love in people we do not know well. This argument is best understood as a complement, not a substitute, for the emphasis on sympathy and love in TMS, especially because TMS was written first.

Smith’s two books cover the range of human interaction, from the intimate worlds of friends and family to the larger world of the commercial society. Smithian man is not a sociopath. He is a man of love, sympathy, and has concern for others who also understand that, while those traits are necessary for moral behavior and an ethical society, they are not sufficient to generate social cooperation among anonymous actors. This whole framework for understanding Smith, which has a good deal of experimental evidence behind it, is much more sophisticated and nuanced than Marçal’s straw man.

Marçal might respond that, even if she’s wrong about Smith, she’s not wrong about modern economics. She’s on stronger ground here, but three points are worth making. First, even 20th-century economists understood that the notion of self-interest was not about the

self strictly considered. As Hayek wrote in a discussion of Smith and individualism: “The ‘self’ for which alone people were supposed to care, did as a matter of course include their family and friends, and it would have made no difference to the argument if it had included anything for which people did in fact care.”

Second, even strong defenders of self-interest among modern economists do not think that greed is always good. What Marçal leaves out, and what economists have discussed at least since Smith, is that whether or not self-interest produces good social consequences (is “good”) depends upon the institutional framework within which we act. If the law permits me to steal from others, then acting on my self-interest will not produce social good. If the law punishes theft, I will have to satisfy my self-interest by instead creating value for others through production and exchange, which will produce social benefits. Self-interest is not an unambiguous good. Its value is institutionally contingent. This well-understood point appears nowhere in Marçal’s discussion of Smith or modern economics.

Finally, the second half of Marçal’s argument is that the case for free markets rests upon what she sees as a demonstrably false conception of human behavior. By pointing out that humans are not the self-interested lightning calculator of modern economic models, she believes she has undermined the case for the market, with the Great Recession being Exhibit A. An economics that paid more attention to feminist concerns and whose model of human behavior was less sociopathic would never have created or justified a world in which something like the financial crisis would have taken place.

This is a variation of a long-standing argument from critics of markets. Such critics believe that the case for markets rests upon the rationality of individual actors, so if they can show that people aren’t rationally self-interested, the case for markets collapses. But this is a major misreading of modern economics. As noted earlier, whether people’s broadly self-interested actions produce good consequences depends on the institutional environment. Vernon Smith won a Nobel Prize for his work on “ecological rationality” that explores many of the issues Marçal overlooks. One would think that a book criticizing Adam Smith and modern economics would show some familiarity with a Nobel Prize winner who has written on these very topics, but, alas, it does not.

But had she just read both of Adam Smith’s books, she would have seen that, from the start, the case for the system of natural liberty

hardly rested on a narrow conception of economic man. The case for the market is about the ways in which market institutions make it possible for lazy, ignorant, and self-interested humans to learn what they need to do to create value for themselves and others, and then to provide them with the incentives to do so. Markets don't depend on human rationality—it is markets that help us become more rational.

Marçal's confusion is culminated in her blaming the financial crisis and Great Recession on the economics profession's use of economic man and supposed love of free markets. The housing boom and bust was driven not by unregulated financial markets and "greed is good" capitalists, however, but by the Federal Reserve's attempts to manage market outcomes and political actors who claimed to be altruistically helping a wider range of people obtain houses through a variety of subsidies, mandates, and regulations. In other words, the Great Recession resulted from the same sort of rejection of free markets that characterizes Marçal's critique of modern economics. The Great Recession is what you get when you don't let markets work.

In addition, the very sorts of abstract models that Marçal sees as problematically gendered are what support the case for discretionary monetary policy and regulatory intervention. The tools of modern economics are far more often used to justify stifling markets than defending them. It was the partisans of intervention who thought they could model economies as Newtonian systems, not the defenders of markets. Blaming the Great Recession on a hyper-masculinized model of human behavior that led economists and policymakers to unleash greed in a deregulated financial market is wrong both theoretically and historically.

Marçal is right to point out some of the ways in which economics has ignored the contributions of women. However, in addition to the flaws already noted, the book also overlooks the ways in which the very sort of muscular government regulation she wants has made it harder for women to compete effectively in the labor market—for example, occupational licensure, minimum wages, mandated benefits, and the secondary earner bias of the tax code. In her attempt to construct a more female-friendly economics, these very real issues are never discussed.

Marçal's book has been popular precisely because it appeals to the straw man of economics held by people who share her political priors. Unfortunately, her butchering of Adam Smith, her misunderstanding

of the role of self-interest and institutions, and her misreading of the causes of the financial crisis combine to leave little of value to people who really are familiar with modern economics, especially those who have actually read Smith. It is true that economics has not always done a good job in incorporating the work that women do, and it is also true that the discipline can and should do better. Marçal's book, however, does more damage than good to the cause of figuring out a path forward.

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The Vanishing American Corporation: Navigating the Hazards of a New Economy

Gerald F. Davis

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In his Introduction to *The Vanishing American Corporation*, Gerald F. Davis, the Wilbur K. Pierpont Collegiate Professor of Management at the Ross School of Business at the University of Michigan, succinctly expresses the core theme of his book: “Today, the compact between corporations and employees is increasingly under siege by low-cost alternatives that *make the traditional corporation unsustainable* [emphasis added].” Davis spends the first three of the four parts of his book explaining the rationale behind his conclusion, beginning with an evolutionary history of the corporation in America, proceeding to the “why” behind the impending “disappearance” of the American corporation, and concluding with the consequences resulting from the demise of this American legal and economic institution. The final part of the book is his take on a postcorporate America and how future Americans should educationally prepare to navigate this emerging economy.

In Part I, Davis reviews the legal and economic foundations of the modern American *public* corporation (the legal form that Davis focuses on) and its organizational variation among many developed economies. Throughout most of the 20th century, public corporations, such as General Motors, Exxon, and ITT, controlled the majority of economic activity in the United States. Yet public corporations (hereafter “corporations”) differ globally by both board make-up—in Germany, for example, half of the supervisory board is elected by