

Book Reviews

VIENNESE HERITAGE

A reprint of newspaper articles and lectures (in German) by Karl Wittgenstein. Introduction by J. C Nyiri and Brian McGuinness. Summaries and notes by Barry Smith (in English). Published by John Benjamins. \$12 paperback, \$32 hardback.

Reviewed by Stephen Berry

Karl Wittgenstein, the millionaire Austrian industrialist, is probably best remembered as father of the philosopher Ludwig. Hopefully, this collection of entertaining and perceptive thoughts on some of the topics which were 'in the air' at the end of the 19th century should go some way to correct this state of affairs.

Reading Wittgenstein, one is immediately struck by the extent to which America was a model for idealists in Europe. The articles create an overwhelming sense of nostalgia for the time when America impressed the world by what it accomplished inside - not outside - its borders. It is impossible to quantify the damage, economic and political, which resulted when America lost its role for many idealists as the society to be emulated, and this position was taken first by the Soviet Union and then by any Third World dictator who could spell the word Marxist. Wittgenstein devotes a whole section to an analysis of the rapid economic development of America, but often anecdotes capture the spirit of the times better. He relates the story of a European immigrant who walked past the veranda of his millionaire American boss and was astonished to see the boss cleaning his own shoes - not the sort of thing which European bosses went in for! Wittgenstein saw something clearly which needs to be reiterated today: "The American engineer or the American worker comes more frequently than his counterpart in Europe into the situation where he has to experience the disappearance of old enterprises and work together on the establishing of the new. Thus it is to the much-maligned and much-feared state of crisis, which is itself a consequence of speculation, that industry in general in the

United States owes its priceless stock of experienced engineers and businessmen and trained workers." Because Wittgenstein's judgement of America is almost entirely favourable, it comes as something of a surprise to read the following passage. He has just suggested that Austrian men should be sent to America to experience what work is really like. But what of the fair sex? "Whom we should not send to America, however, are our wives and daughters. These are, as much in the way of build and bodily charm, as also in the way of intellectual talent and application, far superior to the American woman." Tough luck on the American male whose vigour in all departments had been praised by Wittgenstein.

Libertarians will find Wittgenstein's contribution to the free trade versus protectionism debate less satisfactory. He thinks that free trade was fine for England as it was: "the freedom to force other people to order English products. .. England was the first in a position ... to create an industry, and the European continent, undermined by wars and much less favoured by nature ... has suffered with pleasure, one can say, the invasion of English goods." As Barry Smith puts it in his excellent summaries, Wittgenstein believed that an increase in production must be preceded by an increase in the amount of capital invested, which in turn is dependent on surpluses won through previous cycles of production. Surpluses can be achieved only under a given distribution of prices, and prices will not be maintained unless the level of activity in the remainder of the economy is comparable to that in the area where the surpluses are achieved. If this whole price structure is then dependent upon, or even affected by the price structure in another country, this can give rise to a decrease in capital invested. Because of protectionist tariffs, German agriculture was not under external pressure on its price structure and therefore was more productive than Austrian. It might conceivably have been true that German agriculture was more productive than Austrian purely and simply because it was able, thanks to tariffs, to maintain a level of prices which was such as to allow increasing investment. What

Wittgenstein does not point out, however, is the extent the rest of the German population had to suffer for the benefit of German farmers. They were compelled to buy food which was more expensive than that which they could have consumed from sources outside Germany. Protection of agriculture would also have prevented the possible reallocation of capital within Germany to more profitable uses. But it is also possible that tariffs had nothing to do with the relatively more efficient German agriculture. During the 1840s there were dire predictions for the future of English agriculture if the Corn Laws were abolished. In fact these fears proved groundless and English agriculture enjoyed a golden age up to 1870. It was only with the development of markets in North America, Argentina and the Antipodes after 1870 that British agriculture saw a decline. This meant, however, that British people could purchase cheaper food from abroad, that resources previously devoted to British agriculture could be reallocated to other, more profitable, areas of the economy. Cheap food increased the standard of living in Britain at the end of the 19th century. Dear food at the end of the 20th century, a result of EEC protectionism, is lowering the standard of living in Britain.

It would be unfair to leave with the impression that Wittgenstein was generally supportive of state intervention. His attack on Adolf Wagner, Professor at Berlin, shows that he certainly was not. Wagner, evidently a disciple of Henry George, had maintained in a lecture to the Juridical Society in Vienna that it was unfair that benefits from an increase in the value of the land in towns should flow to the owners of the land and not to the whole society who had contributed to the increase in value. Wittgenstein ironically points out that this idea could be extended to other areas. New railways into the Alps will bring tourists and profits to the inns and these profits too should be shared by the whole of society. Coal mines have society to thank, at least in part, for the fact that they sell their product at all. Would it not be proper if here, too, society should take the lion's share of the profits? (We can't be too harsh on people at the end of the 19th century for failing to foresee that when coal mines in Britain were run 'for the benefit of the whole society', there would be no profits

at all to share out.) Wittgenstein concludes, "If it should indeed one day come about that the whole of society should receive the gain that is its right, through taxes, contributions etc, then I believe that society in its turn ought properly to give up a part of this reward to the professors, to whom we have so much to be thankful for, and for the same reason also to the Juridical Society itself."

A PAST MASTER OF ECONOMICS ADAM SMITH

by D. D. Raphael,

Oxford University Press, £ 1.95 net.

Reviewed by David McDonagh

This series on the past masters has turned out to be an excellent one that by far surpasses the Fontana Modern Masters series. One reason is that most of the modern masters are charlatans while the past masters are not. Our age seems to be the age of the charlatan, with the likes of Freud being widely accepted. This gives the Oxford series an advantage it seems to have so far exploited.

Originally economic historian A.W. Coats was due to write the book on Smith, but in the event it turns out to be philosopher D.D. Raphael who got it out. I would have liked to have seen the book by Coats but the one we have by Raphael is quite good.

Smith is as much a moral philosopher as an economist, and he was something of a philosopher of science too. But to place Smith as an economist we may have been better served by the historian. To study Smith today is to study the history of economic thought. Yet our philosopher, who has worked on the history of ethics, does not serve us badly.

To put Smith in perspective - as this rather tangential review will attempt to do - we need to have a potted history of economic thought. Before Smith there were the Mercantilists and the Physiocrats. The former still have some impact today, as does Smith himself, and J.M. Keynes revived many of their ideas in the 1930s. But the Physiocrats are now totally defunct. The Mercantilists held that trade was a sort of cold war in which nations strive against each

other to see who can become top dog. This moronic outlook remains in fashion. Dr Johnson (who has a book on him by Pat Rogers due in the series) used to write pamphlets in the eighteenth century cold war, usually with an eye on France as Britain's major rival. The general idea was to get a favourable trade balance and look upon the surplus money gained as a lead in the race. The Physiocrats attacked this as folly. They were right to do so as money is ultimately barren, as they said. Mercantilists were either misers or fools. In Dr Johnson's case it was another of the many errors he made, though he amply compensated for them by the witty insights that he produced.

The Physiocrats held not only money to be barren, but also general services like banking and manufacturing. Smith agreed that services were barren but held that manufacturing was not. Raphael says that Smith agreed that agriculture was more productive, but he may mean here that Smith agreed that it was more essential. The Physiocrats held that only agriculture was productive, and here Smith disagreed. But he did hold that services were unproductive, as did all the classical economists till the 1870s. This remains the common-sense view today.

Since the marginal revolution in economics in the 1870s, and especially since the work of Alfred Marshall (*Principles of Economics*, 1890), Smith's valid theory and his notion of what is or is not productive is defunct, as outdated as Joseph Priestley's defence of the phlogiston theory. As noted by Raphael (p.111), Smith knew full well that scientific theories were products of the imagination, so that the history of science has many theories that have no truth at all in them. But Raphael seems to think that this somehow means that we can never get the truth in science; as though the imagination crowds out objective fact. He even makes an apology for Smith's use of the concept of truth, by saying that he is not to be taken literally (p. 112). Well, there are epistemological problems in science, and as a friend of the sceptic David Hume, Smith knew of them as well as anyone today, but like scientists of all days he used the concept of truth quite literally - as does Raphael in this book on Smith. It is often said that science-fact is stranger than science-fiction, but, despite the sincerity of

the scientists, the truth is that lots of science is fiction but it is not at all easy to tell fact from fiction in science. Distinguishing true from false theories is the work of the imagination. But this fact does not entail that no theories are objectively true.

We can best see the difference between the views prior to 1870 and those of modern economics by looking at the Greek and the Jewish notions of creation. The Jews held to a supernatural notion of God creating something out of nothing by his divine powers. But the Greeks had a more mundane notion that almost any rearrangement was creative as it made a difference: creation is a similar notion to production. Perhaps it would be a caricature to say that the Physiocrats and others held to the Jewish idea of creation in their notion of production, but the modern notion is certainly similar to the Greeks notion of creation.

Marshall held that there were only services. They were never totally productive, in the sense of getting something out of nothing, but they all changed things to some degree. The barber changed our hair, the painter our walls, the comic our mood, the miner the coal stockpiles. They all had in common the application of their services. Farming on this modern outlook is no more productive than is either factory or retailing services. Economics is about utility, not physical output.

Smith was indeed a master of economic theory, and despite the eccentric polemics of Schumpeter in his *History of Economic Analysis* (1954), that Raphael feels to be important (p 82), he was an innovator of the first rank (and this, for all his valiant efforts, Schumpeter was not). Smith is not a modern economist, but he is a past master who repays close study.

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