

Review of *Economics of Good and Evil: The Quest for Economic Meaning From Gilgamesh to Wall Street* by Tomas Sedlacek. Oxford University Press, 2011

Tomas Sedlacek's book on economics of good and evil first appeared in Czech in 2009 and within a few weeks it became a best seller in his home country.

Translations into English, German, Italian and Polish soon followed and other translations are on the way. In 2012 the book won a prestigious prize at the International Book Fair in Frankfurt. This immediately raises the question of the reasons for such a fast rise in popularity. A part of the answer lies in the subjects covered in the text. Apart from economics the book's content spans a long period of history, delves into philosophy, touches on sociology and anthropology, and gives a fair bit of attention to psychology. The text is well written, generously endowed by citations from books from all the subjects mentioned above and by prose and poetry. The erudition of the author is reflected on every page.

Perhaps the main draw card is the central aim of this book which is to liberate economics from the present shackles of positive economics based on mathematical models, and to return to the normative and verbal economics of the past. The normative approach advocated by the author views economic problems in light of their moral implications and goes outside the strictly economic format for ethical inspirations. The contrast between the traditional contemplative European approach and the pragmatic American problem-solving approach could not be any clearer.

The book consists of two parts. The first part takes us through ancient economics and beyond. It traces any mentioning of economic issues starting with the oldest work of literature in Mesopotamia four thousand years ago. It continues with the Old and New Testament, Ancient Greece, Christianity, and ends with Adam Smith. The writings from early Mesopotamia include the term “animal spirits”, later introduced by Keynes and contrasted with mathematical expectations. There is no record of historical progress in Mesopotamia. However, the Hebrews conceived progress as relating to not only material things but mainly to spiritual matters. This conception of progress changed much later when, as noted by Keynes, growth and material advancement appeared three hundred years ago.

An interesting observation relates to the Egyptians who are credited with the foundation of bureaucracy and registration. Similarly, Egypt is credited with the acknowledgement of business cycles through Pharaoh’s dream of seven years of abundance followed by seven years of famine. The Hebrew interpretation of the causes of business cycles was that they were God’s punishment versus God’s blessing. The role of money in the Old Testament is also noted. In the chapter on Ancient Greece we learn that the first economist was Hesiod, his main economic contention being an assertion that labor is the source of all good. Another Greek economist, Xenophon, advocated the advantage of trade and investment and took note of the benefits of the division of labor, two thousands years before Adam Smith. With regard to utility, the dispute in Greece was one between the Stoics and the

Hedonists, (Epicureans). The Stoics considered all economic behavior constrained by moral rules, while the Hedonists considered constraints to be already part of the utility function.

The importance of economics in Christian teaching is amply demonstrated in the last book of the New Testament where the height of punishment was considered to be “not being able to buy and sell”. A very fitting application of the Christian rule, “do unto others as you would have them do unto you”, solves the problem in the modern theory of games known as “prisoner’s dilemma. A similar parallel in the theory of games is an application of the biblical advice “when struck on one cheek, turn the other cheek”. In both cases doing good and suffering evil will be rewarded in heaven.

As a key founder of modern science, Descartes tried to get rid of dependence on feelings and emotions in his view of a rational world. His logical thinking let him to the famous quote, “cogito ergo sum” (I think therefore I am). The chapter on Descartes ends with the most damning criticism of current economics that can be found in the literature. Specifically, Sedlacek claims that “in economics there is not even agreement on the most fundamental models, and methodology by far, is not unified. It is more the agreement on a question that unifies a field.” (p.181)

In the chapter on Adam Smith, the reputed founder of modern economics, Sedlacek disputes the credit given to Adam Smith for fathering the idea of the beneficial consequences of self-interest and the idea of the “invisible hand” which is also self-serving. It is claimed that Adam Smith de facto withdrew himself from advocating these ideas. The issue of the existence of “two Smiths” , one the author of the ***Wealth of Nations*** and the other being the author of “***Theory of Moral Sentiments***” was labeled by the Germans as “das Adam Smith Problem”.

The second part of the book, labeled ***Blasphemous Thoughts***, consists of chapters criticizing the current state of economics. The author suggests as an alternative a much broader and less mathematical approach. The chapter on ***greed*** contains the presumed problem of the gap between supply and demand. The author proposes as a solution adjusting supply or demand as needed. The classical solution, namely using the price as the equilibrating factor, is strangely never mentioned. The principle of utility maximization is criticized on the ground that the meaning of the term “utility” is not well defined. In the chapter on ***progress***, the question of the need for continuous growth is raised but not answered. The main claim of the book, that economics is about good and evil is the subject matter of the next chapter. Recalling history, the mutual influence of ethics and economics is asserted and to a large extent documented. Keynes himself, placed great emphasis on ethical issues in economics.

The entire book represents a strong challenge to contemporary mainstream economics which developed from the “scientific revolution” initiated by Paul Samuelson’s *The Foundations of Economic Analysis* (1947). This revolution replaced the largely verbal analyses and discussions characteristic of the 1920’s and 1930’s. It is founded on the following two basic assumptions.

(1) Maximizing behavior of agents.

(2) Stable economic systems

The maximizing behavior of agents is nothing else but the belief that agents prefer being better off to being worse off. With regard to the assumption of equilibrium, attempts are being made to account for external shocks in the existing models.

Sedlacek objects to the reduction of all economic discourse to mathematical and deterministic models because he asserts that they are not connected with reality. Further, he thinks that most of current economics is void of any ethical issues. With regard to the first objection, the author ignores the fact that mathematical models used in economics for testing economic theories are not deterministic but stochastic and that the development of these models has been accompanied by the development of econometric methods. Econometrics as such is mentioned only briefly and the stochastic (random) element embodied in the mathematical models is largely ignored.

The author is on firmer ground with regard to the omission of ethics and emotions from the existing economic models. Economists were already jolted in this respect for not accounting for the presence of toxic assets in the sale of financial packages by the banks in 2007 and 2008. As for the usefulness of mathematical models as such, one of their major advantages is that they help us in organizing our thinking. It was precisely the invocation of the “ceteris paribus” clause in the verbal economic discussions that clouded the debates. (There is no “ceteris paribus” in the economic structural equations)

The above notwithstanding, Sedlacek’s book deserves a high recommendation. It is thoughtful, educational and at times entertaining. It is not suitable to be used as a textbook but it is a great book to read for erudition and for stimulated thinking by anybody interested in economic thought.

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