oughly committed to the author's views on (1) the nature of economic theory, (2) the history of economics, (3) the insightful and illuminating character of very simple Marxian economic analysis, (4) the ideological nature of all social thought, and (5) the impossibility of testing any theory with reference to facts, I would counsel strongly against the attempt. No sensible economist who reads this book would assign it for an introductory course.

My comments will be directed to the first, third, and last of the views just listed. I have spent a little time in Australian universities and suspect that academic economists in Australia try harder than economists anywhere else to make the undergraduate degree a professional degree. But even they, so far as I know, don't begin with formal general equilibrium theory and all the unrealizable conditions it assumes.

There are versions of introductory economics that owe more to F. A. Hayek, Ronald Coase, and Douglass North than to general equilibrium advocates like Leon Walras and Gerard Debreu. Whatever might be true of advanced economic theory texts, introductory ones do not have to be "monotonous and austere." Textbooks modeled after the pioneering efforts of Armen Alchian and William Allen induce more students to go on to advanced work in economics than do books that confine themselves to technicalities remote from the students' experience and without application to the issues of the day.

The Marxian perspective Varoufakis prefers to the "austere" theory he first presents is one that has the capitalist appropriating all the surplus value produced by the laborer and thereby causing every economic ill from business cycles through decreasing real wages and the stifling of economic progress. His Marxian outlook renders him oblivious to anything that has happened in the twentieth century except perhaps the Great Depression. But Varoufakis, because he does not believe that theories can be either confirmed or refuted by facts, allows himself to make sweeping assertions about what's wrong with the world and what must be done to repair it on the basis of a theory that is far more melodramatic than plausible.

Varoufakis quotes none other than Ludwig von Mises in support of his claim that we cannot use facts to test economic theories. Mises maintained that the basic theorems of economics were a priori truths, not derived from experience and therefore incapable of empirical refutation. Whether or not one agrees with that position, Mises was decidedly not saying that the basic theorems of economics are arbitrary assertions grounded on nothing more than the political or ethical preferences of the economist. It is frightening to encounter people who, like Varoufakis, assert that there is no truth (which Mises never claimed), while vehemently demanding radical changes in long-established institutions.

Recall that the author intended this book as a testimonial. Its publication is an unintended testimonial—to the fact that a significant number of economists are still unaware of all that has gone on in economics in the past quarter century to transform the mainstream from a "monotonous and austere" collection of theorems to a powerful framework for understanding society. □

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**Limited Government, Individual Liberty and the Rule of Law: Selected Works of Arthur Asher Shenfield**

edited by Norman Barry

Edward Elgar Publishing • 1998 • 378 pages • $100.00

Reviewed by William H. Peterson

How well I remember Arthur Shenfield (1909–1990), an unforgettable man learned in law and economics and a keen student of a free society. We used to debate privately about who was the greater economist, Mises or Hayek. I chose Mises, he Hayek. I had the good fortune to hear Shenfield lecture, usually without notes, at the Philadelphia Society and the Mont Pelerin Society (where he served a term as president).

And what a lecturer! Those lectures—most are captured in articles reprinted in this insightful book—were impeccable, perceptive, witty, rich in history and philosophy.

Shenfield recognized the stark fact of scarcity and the need for sound economics and the rule of law to cope with it. He saw capitalism as the way to generate widespread social cooperation as well as engage each individual's pursuit of happiness. No easy trick, but it is done, if hardly infallibly, daily around the globe.

Shenfield thus saw capitalism as a system driven not just by competition but also, again hardly infallibly, by moral principles such as trust, honesty, equal rights, and personal responsibility—including responsibility for charitable acts.

Shenfield was enthralled by Adam Smith's concept of the invisible hand by which self-interest, under the rule of law, translates into the public interest, which is to say, into rising living standards for the sovereign consumer. As for competition, he found himself at odds with the early Chicago school, especially with the late George Stigler and his long-time embrace of the Sherman Antitrust Act of 1890 as a means of precluding monopoly, collusion, cartels, and predatory pricing. Shenfield confesses that at first he embraced the Sherman Act for its supposed protection of competition, but was won over by the arguments of Mises and Hayek. They led him to conclude that the natural corrective forces of the marketplace are far superior to bureaucratic agencies, such as the Justice Department's Antitrust Division, which seek to bully competitors into behaving as the regulators think they should. In his excellent treatment of antitrust, Shenfield quotes fellow Mont Pelerin member Henri Lepage of France: "Let us not kill competition in the name of competition." Certainly Shenfield would have opposed the federal goverment's competition-numbing case against Microsoft.

Another important issue Shenfield raises is the so-called "third way" embraced by President Bill Clinton, British Prime Minister Tony Blair, and numerous intellectuals. The third way attempts to meld the best of capitalism with the best of socialism. Shenfield forcefully attacks this perennial delusion. The trouble with the concept of "the best of socialism," Shenfield argues, is that there is no "best"; it is an illusion, a will-o'-the-wisp that socialists sell to a gullible public with emotional, envy-laden arguments that capitalism is based on selfishness, domination, and income inequality. Socialists foretell disaster if atomistic individualism is allowed free play without the cement of "social justice" to hold society together and if private property, especially "undemocratic" ownership of the tools of production, is not controlled by the state.

Shenfield and his wife (Dame Barbara Shenfield) spent much time in Sweden investigating the truth about the third way. His findings are reported in these pages. He maintains that the ruling Swedish intelligentsia is guilty of what Hayek called "the fatal conceit" for its encouragement of a virtually complete welfare state.

Not only was the third way economically ruinous, but Shenfield also indicted welfarism for inducing social breakdown. He cites approvingly Nobel economist Gunnar Myrdal's surprisingly honest description of his countrymen as reduced by welfarism to "hustlers and criminals." Crime rates for robbery, burglary, prostitution, street violence, car theft, drug trafficking, public drunkenness, and welfare fraud are on the rise. Suicide has also increased, most notably among younger people bored with life in the welfare paradise. Concludes Arthur Shenfield: "The true cause of Sweden's failure is socialism itself."

There is far more wisdom on a broad array of subjects to be found in this book than a review can possibly do justice to. Shenfield's writings will prove to be worthwhile reading for anyone who is a friend of liberty. □

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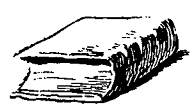

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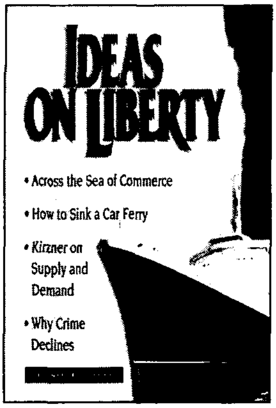


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Economics

# Capitalism and the Common Man

There are some arguments, having a faint measure of plausibility, that have served politicians, charlatans, and assorted do-gooders for well over a century in their quest for control. One of those arguments is: capitalism primarily benefits the rich and not the common man. That vision prompts declarations such as Representative Richard Gephardt's assertion that high-income earners are "winners" in "the lottery of life." Then there's Robert Reich, former secretary of labor, who calls high-income earners the "fortunate fifth." This nonsensical vision leads to calls for those who've been "blessed" to "give back" either voluntarily or coercively through the tax code.

While demagogic statements like these have high emotive worth, they reflect resolute, nearly incurable stupidity about the sources of income. Listening to some of the talk about income differences, one would think that out there somewhere is a pile of money. People who are wealthy just happened to get there first and greedily took an unfair share. Justice requires that they give back. Or there's talk about unequal income distribution. The way some people talk, you'd think there's a dealer of dollars who shells out $1,000 to one person, $100,000 to another, and a million dollars to yet another. Thus the reason why some people are wealthy while others are not wealthy is that the dollar dealer is a racist, sexist, or multi-nationalist—or just plain mean. Economic justice requires a redealing of the dollars, income redistribution, where the ill-gotten gains of the few are returned to their rightful owners.

In a free society, for the most part, people with high incomes have demonstrated extraordinary ability to produce valuable services for, and therefore to please, their fellow man. Sam Walton, founder of Wal-Mart; Bill Gates, founder of Microsoft; and singer Michael Jackson provided services deemed highly valuable by their fellow men who voluntarily took money out of their pockets to purchase those services. Their high incomes stand as unambiguous proof of that service. Their high incomes also reflect the "democracy" of the marketplace. For example, millions upon millions of independent decision-makers decided to fork over $200 for Gates's Windows 98 operating system. Those who think Gates is too rich and want to redistribute his income are really registering disagreement with the "democracy" of the marketplace and want to cancel or offset the market "vote."

Indeed, we might consider the dollars people earn as certificates of performance. Think of it in the following way. You hire me to mow your lawn. After I have completed the task, you give me $20. I go to the grocer and demand a pound of steak and a six-pack of beer that my fellow man produced. The grocer says, "You're demanding something that your fellow man has produced. What have you done to serve him?" I reply, "I have served my

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