

Markets, Morals and Policy-Making: A New Defence of Free-Market Economics. By Enrico Colombatto. New York: Routledge, 2011. Pp. x, 285. \$140.00 (Hardcover).

“I abandoned free market principles to save the free market system.” Those were the words of then President George W. Bush during a 2008 interview discussing his administration’s economic interventions in the wake of the financial crisis. Indeed, capitalism has come under renewed fire in the wake of the crisis with politicians and “experts” offering a wide menu of interventions and regulations which they claim will cure the ills of the capitalist system. For the most part, a large majority of the general public is supportive of such interventions and view government as *the* solution to economic and social problems—e.g., business cycles, unemployment, inequality, poverty, etc. Given the hostility toward capitalism, what is the advocate of free markets to do? This is the central motivating question of Enrico Colombatto’s *Markets, Morals and Policy-Making*.

Colombatto argues that advocates of free markets are losing the battle because they are unable to adequately defend their position. This inadequacy, he argues, is due to the reliance on consequentialist arguments for the efficiency of markets. Similar to the opening quote by Bush, in times of crisis those who hold a consequentialist position will find themselves supporting government interventions to maximize the “common good.” The solution, according to Colombatto, is a return to moral principles, or as he puts it, “abandoning the standard of “efficiency (‘it is good because it works’) and replacing it with that of justice (‘it is good because it does not violate natural rights’)” (p. 9).

Colombatto develops this core argument over the course of ten chapters. In doing so he covers a lot of ground including economic methodology, the ethics of policymaking and economics, the history of economic thought, economic development and transition, and state

legitimacy. Given the breadth of topics covered, I cannot hope to cover them all in a single review. Therefore, I will briefly summarize what I see as the major strengths and weaknesses of the book.

I see three major strengths in Colombatto's book. First, he does an excellent job reminding us that policymaking requires value judgments and, hence, an underlying defense of the fundamental values held by analysts and policymakers. Even though economists claim to be value free and scientific, they often smuggle in their value judgments when moving from analysis to policy recommendations. But policymaking requires judgments of what is good and bad and what is right and wrong. Colombatto provides a valuable service in reemphasizing this point and calling for an honest and open discussion of the value systems underpinning calls for government interventions.

A second strength is Colombatto's treatment of the evolution of the discipline of economics. This includes a detailed history which can be broken into three stages. The first was the period when economics was not yet a social science. During this period, which Colombatto argues lasted until the end of the seventeenth century, there was no systematic study of economics and economic issues as a separate discipline. In the second stage, the distinct discipline of economics emerged from the Scottish Enlightenment. During this stage economics was seen as primarily having relevance as a tool for understanding the world. The third stage consists of the transformation of economics from a means of understanding to a tool of control. Colombatto places the origins of this third stage at the beginning of the nineteenth century.

During this third stage, economists began to abandon the political economy foundations of their discipline with the goal of transforming economics into a hard science. In doing so, the fundamental focus of study shifted from understanding how imperfect people coordinate their

actions with others, to an exercise in modeling representative automatons as hyper-rational, maximizing agents. This shift drained all reality from the study of economics. There was no longer room for human learning, discovery, and experimentation. Formal rules and informal conventions, which are so crucial to effective coordination in reality, were also discarded. Of course these models allowed economic “experts” to identify a host of market failures and design government policies to correct for the imperfections of man and the markets within which they act. Colombatto’s history of the evolution of economics is well executed and does a good job of explaining how the discipline evolved and got off track given its early commitment to understanding and explaining human action.

Finally, Colombatto highlights the important link between policymaking and state legitimacy. As noted, a large majority of citizens view government intervention as the only legitimate solution to the various problems they attribute to capitalism. A similar sentiment is held by many economists who believe that government policy has a legitimate role to play in addressing market failures. Why does this legitimacy exist? Part of the answer can be found in the approach of modern economics which views economic science as means of social engineering and fine-tuning. In this context, the solutions provided by economic models serve as the fodder for policymakers who then implement enlightened plans to improve the human condition. An activist government requires activist economists, and there is no shortage of economists willing to confidently offer solutions to what are deemed to be society’s ills.

But this doesn’t explain why many economists who claim to advocate free markets also advocate government interventions which ultimately undermine the dynamism of markets. It is here that Colombatto returns to his fundamental critique of consequentialism. For Colombatto, consequentialism is fundamentally incompatible with individualism and therefore with economic

freedom and free markets. This is because consequentialism requires choosing what ends should be pursued for the common good which necessarily trumps the notion of individuals. It is precisely this logic that leads Colombatto to reject consequentialist defenses of markets and instead argue for a defense of markets grounded in individual rights. The key strength of this line of argument is that it highlights the connection between government intervention and state legitimacy. That said, it is Colombatto's ultimate conclusion—the rejection of consequentialism—that I find to be the greatest weakness of the book.

In dismissing consequentialism as an appropriate defense of free markets, Colombatto overlooks important work by free-market economists who provide a consequentialist ethical foundation for the market system. Specifically, there is no citation or discussion of Henry Hazlitt's, *The Foundations of Morality* (Irvington-on-Hudson, NY: The Foundation for Economic Education, Inc., 1964 [1998]) or Leland Yeager's, *Ethics as a Social Science: The Moral Philosophy of Social Cooperation* (Northampton, Mass.: Edward Elgar Publishing, Inc., 2001). Both books are important contributions to the very topic that Colombatto is engaging. Similar to Colombatto, both Hazlitt and Yeager recognize that policymaking requires value judgments about what is desirable and undesirable. And like Colombatto, both wrestle with the proper grounding of the ethics of a free market system.

However, in contrast to Colombatto's rejection of consequentialism, both Hazlitt and Yeager embrace a utilitarian ethic (Hazlitt preferred the name "cooperatism") as the foundation of a free market system. In doing so they differentiate between "act-utilitarianism," which they reject, and "rule-utilitarianism" (what Yeager refers to it as "indirect utilitarianism") which they embrace. Act-utilitarianism is focused on how specific acts affect the total sum of a society's happiness. According to this standard, it is morally right for a person to pursue that act which

maximizes net happiness. This appears to be the same brand of consequentialism that Colombatto rejects, although he never explicitly makes the distinction between types of consequentialism. Rule utilitarianism, in contrast, focuses on the general rules and conditions that are likely to contribute to the well-being of members of society. Under this variety of consequentialism, what is morally right is following general rules, the observance of which yields the greatest good.

Of course, to determine what general rules should be followed one still needs to determine the ultimate end or “good.” In this regard Hazlitt and Yeager, following Hume and Mises before them, contend that the relevant criterion is social cooperation which refers to peaceful interaction between individuals. Social cooperation allows for human flourishing because it allows people to take advantage of the economic gains from specialization, the division of labor, and entrepreneurship, as well as the non-economic gains from the development of community. Given this criterion, the issue then becomes engaging in comparative institutional analysis to understand the general rules and institutions that facilitate or prevent social cooperation. It is here that economics has a crucial role to play.

It is unfortunate that Colombatto did not engage Hazlitt and Yeager’s arguments for it would have strengthened his own position by further clarifying how exactly his moral defense of free markets is “new” compared to existing ethical defense of free markets. For example, Yeager dedicates significant space to addressing many of the critiques of consequentialism raised by Colombatto—e.g., that it is at odds with individualism, that it fosters collectivism and government intervention, etc. It would have been interesting to see whether Colombatto agreed with these arguments and whether his critique of consequentialism applied only to act utilitarianism. Further, the same aforementioned strengths of Colombatto’s book are also

strengths of Hazlitt and Yeager's work. All three authors recognize the importance of ethics and value judgments for policymaking, how economists, and other social scientists, often make implicit value judgments without making their underlying ethical systems explicit, and the importance of economics for explaining and understanding how a free society grounded in property rights contributes to human flourishing. But in rejecting all forms of consequentialism without directly engaging Hazlitt and Yeager, Colombatto has also discarded a powerful ethical defense of the free market system that he seeks to defend.

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