

Smith have revised his work so significantly? According to Raphael it is because he had to answer his own question. In the beginning of the final section of *TMS* in every edition every published, Smith writes that ethics must deal with two questions: "First, wherein does virtue consist, or what is the tone of temper, and tenour of conduct, which constitutes the excellence and praiseworthy character, the character which is the natural object of esteem, honor and approbation? And, secondly by what power or faculty in the mind is it, that this character, whatever it be, is recommended to us?" (*TMS* vii.1.2) Of these two questions – what is virtue and how do we come to know it – Raphael argues that Smith only answered the second question adequately. The sixth edition is the attempt to remedy this, he argued, thus the addition of part VI. In the end, Raphael suggests, Smith failed. His account of the *content* of morality is unconvincing even if his account of how we come to know moral rules still wields power.

In this spirit, I offer a similar claim regarding Professor Raphael's book. Of his two questions: how ought we read Smith and whether Smith is correct, his first account, that we must juxtapose the six editions in order to truly understand his theory is indisputably correct. It is a major addition to the literature and will be a force in Smith scholarship for a long time to come. Regarding the second, however, as to whether Smith is correct, Raphael is no more persuasive than he thinks Smith is. His challenges are problematic and inconsistent and his objections are, please pardon the pun, unimaginative. What is exciting about this aspect of the book, however, is that it exists in the first place. If the time has come for scholars to critique or defend Smith on his merits then it means that Smith has returned to his rightful place in the canon, and I can think of no more appropriate herald for this announcement than D.D. Raphael.

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Deirdre N. McCloskey, *The Bourgeois Virtues. Ethics for an Age of Commerce*. Chicago: University of Chicago Press, 2006. xviii + 616 pp.

Deirdre McCloskey has embarked upon the ambitious project of writing an apology for capitalism. The project entails four volumes of which the first one, *The Bourgeois Virtues – Ethics for an Age of Commerce*, has been published. In this voluminous but comprehensible book, McCloskey does not only elaborate Adam Smith's insight that virtues support the functioning of markets, she also takes a far more radical position, arguing

for the reverse: “that the market supports the virtues” (p. 4). I will focus my discussion of the book on these two claims, because they are the book’s foundation for the defence of capitalism, and a response to critics of capitalism who maintain that markets, and in particular capitalist markets often ignore, undermine, or outright destroy moral behaviour.

The core of the book discusses the seven virtues which McCloskey judges as the key virtues of commercial society: love, faith, hope, courage, temperance, prudence, and justice. The last two parts discuss the connection between the seven virtues in relation to the theory of ethics (part five) and the bourgeoisness of these virtues, arguing that capitalism thrives both on ‘the profane’ and ‘the sacred’.

The book begins with a brief exposition of capitalism, as McCloskey sees it: “I mean by ‘capitalism’ merely private property and free labour without central planning, regulated by the rule of law and by an ethical consensus” (p. 14). More precisely, McCloskey says, “I am going to use the word ‘capitalism’ here to mean, usually, *modern, European-style* capitalism” (p. 15). This significant addition shows her background as an economic historian who has worked in particular on British economic history. Although an American and trained as a Chicago school economist, her identification with capitalism is not, at least not in the first place, with today’s corporate America. McCloskey does show some patriotism for American capitalism with her claim, on p. 27, that the decrease of inequality in the US after the second world war until the 1980s should be attributed to capitalism. What matters, though, for such a claim, is the primary, not the secondary income distribution. According to NBER study, over the period 1966–2001, only the top ten percent of the income distribution enjoyed a wage growth rate equal to or above the average rate of productivity growth. The authors of the study explain the increased wage inequality by key capitalist phenomena such as winner-takes-all rewards, escalating CEO compensations, de-unionization, labour migration, and free trade (Dew-Becker and Gordon, 2005).

The next volume of the collection, McCloskey announces, will be about capitalist ethics in Britain and the Netherlands in the seventeenth and eighteenth centuries, and will probably elaborate on what she means by modern, European-style capitalism. Nevertheless, the present volume would have benefited from a somewhat less sweeping definition of capitalism. First, the book nowhere distinguishes between markets and capitalism, as if every market today in Europe is a capitalist market. What about markets that involve trade in collective property, such as goods produced and sold by cooperative firms? Or what about markets in societies that have a mixed system of social-capitalism, with a relatively large role of the state, such as the Scandinavian countries and the Netherlands, a country she regularly refers to and with which she is quite familiar – holding the Tinbergen Chair at Erasmus University

Rotterdam? Second, there is no distinction made between styles of capitalism within Europe, differences which are apparent even in the same country. The Dutch historian Geert Mak (1999), for example, has made the point that in the Netherlands the master craftsman, a figure to whom McCloskey sometimes refers, usually hired just one or two workers in a quite egalitarian relationship as co-workers, and was, as a capitalist, very different from (and indeed did not like at all) the factory owners who maximized profits by chasing economies of scale, exploiting labor, controlling value chains, and thereby accumulating market power. Both groups – the craftsmen and the factory owners/managers – are part of modern European capitalism, but each operating with rather different values, institutions, and goals. The craftsmen (and –women of course) operated on and supported highly institutionalized markets. These are very different from central planning, but include, next to some extent of state regulation, many widely supported informal institutions such as norms, habits and shared beliefs. The factory owners on the other hand, were driven by what David Ellerman (1973) has referred to as the capitalist prerogative¹: the appropriation of the surplus, and its expansion, whether for the sake of the game or for status or power, usually treating labour as a cost to be minimized.

These unclaritys in the definition of capitalism in *The Bourgeois Virtues*, unfortunately provide a somewhat unstable ground for the argument of the book. For example, it is not clear to what extent the seven virtues that are discussed extensively should be seen as being supported by markets – that is, by various forms of exchange – or more specifically by *capitalist* markets.

In the first four parts of the book that follow on the introductory pieces, McCloskey provides an insightful discussion of the virtues that she believes make up the moral fabric of commercial society. Each of the seven virtues receives ample attention and her discussions connect to a wide variety of sources, from Greek philosophy to English literature and from psychology to economics. McCloskey has a wonderful style – she generously acknowledges help in writing from her brother but the text is clearly recognizable as her own style we know from her other writings: sharp, witty, polemic, and honest.

The first virtue that is examined in *The Bourgeois Virtues* is love. It is traced back to St. Paul's teachings in which love – spiritual love – was judged to be the most important of the three Christian virtues (faith, hope and love). Love is, therefore, presented as a transcendent virtue, through not in an abstract way. Love is very particularistic, McCloskey notes, as Smith's characterization of moral sentiments already pointed out.

¹ I am grateful to Des Gasper for referring to the capitalist prerogative in his speech at the World Congress of the Association of Social Economics, 9–11 June 2007, Amsterdam.

Love escapes the usual economic means-end logic, which McCloskey characterizes as 'prudence only', because loving an end goes beyond means. Unfortunately, she notes correctly, many economists confuse love with prudence, by colonizing love, and other virtues, in utilitarianism. The mainstream assumption that rational agents strive to maximize their utility reduces love and other virtues to a preference that satisfies one's own utility through someone else, which she aptly labels as "altruistic hedonism" (p. 115). This critique gains force by her confession that she once was a believer too: "I've written whole books, scores of professional papers, going further, triumphantly concluding that all you need for historical explanation is 'maximum utility'. But I was wrong" (p. 110). Now, she recognizes that the economy cannot function without virtues. She gives the example of an office and asks the readers how their offices operate – with monsters of prudence all around or also with some love, including trust and friendship. She admits that when an office is led badly, it does become a bit like a prudence-only environment. And, obviously, badly led offices are not very good for business. But this does not yet build the case for the reverse argument, that capitalism would actually generate loving people. Or that people would be less loving without capitalism. However, that appears, on page 138, to be exactly the conclusion that is drawn from the discussion of love in offices and other economic organizations. "Markets and even the much-maligned corporations encourage friendships wider and deeper than the atomism of a full-blown socialist regime or the claustrophobic, murderous atmosphere of a 'traditional' village" (p. 138). What this statement shows, however, is a biased comparison, namely of idealized markets embedded in a coherent set of shared values, with the worst thinkable forms of central planning and community life. This comparison ignores the widespread reality of imperfect markets and non-market clearing perfect competition, manipulated by powerful agents who could not care less about ethics, and it also conveniently ignores well-functioning, respectful communities and the benefits of state provisioning².

The next two virtues which the book discusses are faith and hope. Hope is portrayed as the virtue of the forward-looking entrepreneur. The discussion of the virtues of faith and hope moves to a plea for some sort of "economic theology". But the author does not reveal much about how these virtues play a role in actual economic behaviour, or how economists have dealt with these. Keynes should have been mentioned at least, because he pointed out that, under conditions of uncertainty, investors rely on their

² In the eastern part of Germany, people give nostalgic parties complete with the dull communist-era clothing, food and music, to escape from some of the disadvantages of today's market society, including high unemployment rates, too many consumer choices, or the insecurities about one's pension investments.

'animal spirits' – either profane or spiritual sources of hope – when making investment decisions.

Next come courage and temperance. McCloskey notes that traditionally courage was identified with ideal masculine identity, a masculine virtue. Just like love used to be regarded as a feminine virtue. In both cases, she rejects this gender stereotyping of the virtues and contends that all the virtues are important for women and men alike. This critique helps her to move her discussion of courage beyond the battle field, just like her discussion of love moved beyond the confinements of motherhood and women's appropriate role in marriage. But for such wider use of courage, McCloskey argues, it needs to be balanced by other virtues, in particular temperance, which, in turn, is not very recommendable when it is one's only virtue. In capitalism, she explains, it was the bourgeoisie that reanimated the heroic value of courage, not by striving for endless accumulation, but for the game itself as Schumpeter had noted, with a "delight in ventures" and for the sake of "exercising one's energy and ingenuity" (p. 243).

The last two virtues that the book ascribes to the bourgeoisie and argues to be central for commerce are prudence and justice. Prudence is the practical knowledge of means, and explained by Aristotle as the obligation to self-development or by Aquinas as the obligation to use God's gifts, as McCloskey reminds us. In a later chapter she turns back to the definition of prudence and relays that Aristotle regarded prudence more generally as good reasoning: "reason rightly, rightly deliberating, judging, and commanding" (p. 316), not necessarily for the self. The author defends prudence as a virtue, quite convincingly, referring, among others, to Kant who indeed not only said that we should treat others in a human way, but also ourselves. I cannot agree more. Prudence is a virtue and quite helpful for flourishing in economic life, making the right production decisions, finding and keeping buyers for your produce and making sufficient revenues to feed and cloth yourself and your beloved ones, without ignoring to save for bad times and to invest for the replacement and technological improvement of your working capital.

It therefore comes as a surprise, and appears to be a rather disturbing inconsistency throughout the book, that she at the same time defines prudence as self-interest (in "fancy-English" as she says on p. 253), just like in the mainstream economic notion of rationality (although not the utility maximisation variant of it). She does say that prudence should not be confused with self-centredness (on p. 258), but does nowhere distinguish between self-interest and self-centeredness, just like this distinction is unnecessary in neoclassical economics where altruism can be perfectly rational as long as it contributes more to your own utility (through a warm glow for example) that an alternative act would do. To make matters even

more confusing, in discussing prudence's opposite, the author mentions selflessness – but why not carelessness or incompetence? Prudence is clearly not only about the self – one can be imprudent in caring for someone, or in formulating or implementing policies for the common good, for example. Indeed, as she mentioned earlier, prudence is about right reasoning, in order to apply good means to good ends, not necessarily self-serving ends. She gives the example of not leaving a room with a candle burning. I think she would agree that it is equally prudent not to leave a candle burning when leaving a hotel room – this doesn't make blowing out the flame suddenly into an act of altruism.

However convincing I think her defence of prudence as a virtue is, and indeed a virtue that is key for economic life, I disagree with McCloskey that it should be narrowed down to self-interest because it fails the Aristotelian test that a virtue is a means between two extremes, each of these being vices. A candidate for one extreme would be selflessness – agreed – but there is also another extreme. Here, a candidate is likely to be found in self-interest or self-centeredness, or however one wants to label the opposite of selflessness. This would make prudence, as Aristotle already recognized, a virtue of competence, applying the right means to the right end, which may be for one's own purposes, but may as well be for the sake of someone else or the common good. Just like selflessness is not a virtue (but modesty and temperance are), self-interest is not virtuous either (but courage and prudence are). Amartya Sen (1987) has reminded us in his *On Ethics and Economics*, that Adam Smith already distinguished prudence from self-interest. Instead, Smith contended, says Sen (1987:22), that prudence is a combination of (a) reason and understanding and (b) self-command.

So, agreeing with the author that prudence is a virtue, I disagree that it should be conceived (as in Chicago school economics and its siblings in the mainstream) as self-interest. Why then did McCloskey choose this interpretation of prudence? The only explanation I can think of is her strong identification with the Chicago school, even though she has parted with some of its dogmas such as Beckerian utilitarianism, Samuelsonian modelling, and the econometricians' hang-up with statistical significance. It is this Chicago school economics that Julie Nelson (2006), in her book on economics and ethics, *Economics for Humans*, holds responsible for the equation of prudence with self-interest, the all too human power-seeking driving force that is played out in politics, personal relationships, and the market.

Justice is the social balancing virtue, according to *The Bourgeois Virtues*, the social parallel to temperance. It is sharply defined as "the virtue of treating with respect whomever *should* be treated with respect" (p. 288). The bourgeois dimension is its underlying egalitarian belief, rather than aristocratic ideals – the conviction, already present in Smith, that all humans are equal.

When discussing the relationships between the virtues, the author groups them in two: virtues of autonomy, or P values (the profane, or prudence) and virtues of connection, or S values (the sacred, or values of solidarity) but this categorization is not crucial in the book, it merely functions as a way to show that these are the two broad categories that need to balance each other.

Towards the end of the book, McCloskey comes back to her thesis that capitalism not only thrives on virtues, but that it even generates them. On page 432, she claims, partly reacting to my position and that of others on the topic, that: "... markets have trust, fairness, symbols built into them ... 'generated' in them." Although it seems that she is attributing a rather reductionistic view of markets to her opponents, as if we would regard markets as driven entirely by utility maximisation and selfish cost-benefit calculations – the P values as she labels these – we seem to agree that markets are social constructs and "infused with S values", as she phrases it. The disagreement is not on whether markets include and rely on other-directed values. But disagreement remains about McCloskey's much more radical conclusion that markets would even "generate" such values. Alas, also here as above, this claim is not substantiated, not even with examples, stories, or references to empirical literature, as we find elsewhere in the book so helpful in supporting her other argument that virtues support markets.

This brings us to the final issue: in cases where markets do have negative social impacts (which she agrees they sometimes do), and when capitalism shows nasty characteristics (which she also agrees does happen), she attributes this simply to human vice. We find on page 494, that she claims that such all too human abuse of power has nothing to do with markets or capitalism: "... such sins, failures, cowardices are not peculiar to capitalism. They are human and political, and can be found everywhere in any era." I find this a too easy response to the critics of capitalism. Agreed, human vice and power seeking are to be found everywhere. But some institutional settings are likely to allow these more than others, while particular institutional settings may even, inadvertently perhaps, support such behaviour, sanction it, or at least, not discourage it. The example of badly ran offices, "without love" is not only applicable to capitalism, where such offices are bad for business, but also holds for bureaucracies, where they are bad for public service. If capitalism was generating virtues, why do we still see badly run offices in capitalist firms – abuse of employees and managerial exclusive concern with its own promotion (Wall Mart seems a telling example here)?

Capitalism, as the Post Keynesians have explained so well since Joan Robinson, has an inherent tendency to concentration, due to the economies of scale to be reaped from market power, and the protection from competition to be had from entry barriers and non-price competition.

Furthermore, even when, in the short run, there may be conditions of perfect competition, this does not necessarily lead to a market clearing equilibrium: even competitive labour markets, as they can be found in developing countries, show unemployment at very low wage levels: not because of wage rigidities, but simply due to a lack of effective demand, in combination with labour market segmentation leaving some with even worse chances than others. In other words, whereas markets in general, and even some forms of capitalism, may flourish thanks to the virtues, other forms of capitalism as well as those markets that are not kept in balance by some level of state regulation, seem to encourage (or at least not discourage) power-seeking, domination, exclusion and other forms of economic self-interest. This does not generate virtue, not even prudence, I would say.

The first book in McCloskey's series of four has clearly and convincingly shown how markets and capitalism require virtues but it has not convinced me that capitalism is also a moral source, generating virtues. Nevertheless, I recommend the book for everyone interested in the intersections between ethics and economics, and I certainly look forward to the other three volumes to appear.

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