

Adam Ferguson, who in his *An Essay of the History of Civil Society* (1767) forged the Hayekian dictum of “human action, but not human design,” is certainly more aware of the dangers of commercial society. In other words, he is more republican. The standing army debate was a hotly debated issue that put Smith and Ferguson on different sides. Ferguson was a leading advocate of the militia cause. Smith, in his *Wealth of Nations*, defended the merits and convenience of a professional army. Ferguson felt that Smith had betrayed their cause, so he wrote him a letter after the publication of his *Wealth of Nations*. This fascinating story is a symbolic representation of the clash between economics and politics, and the pre-eminence of the former. It is not a coincidence that Smith would refer, in the last book of his *WN*, to the “revenue” and “expenses” of the “commonwealth.” In a way, the republican political discourse was overshadowed by economic facts. Berry goes through the context of this debate, arguing that Smith would finally incline for commercial society.

The book is, as Berry argues, “about” improvement. The emergence and superiority of commercial society, with its pros and cons, are the underlying theme of Berry’s book. The luxury debate is in the background. And Smith’s defense of true liberalism, with its complexities and nuances, is the final message. Liberty, rule of law, and institutions are the key concepts to understand what is actually meant by ‘improvement.’ The Scots were aware that commercial society was not an ideal world, but they knew it was the best possible world.

Berry’s book reflects the maturity and elegance of somebody who knows his subject. Complex ideas are expressed in simple language. Although most of recent scholarship is used, and incidentally criticized, Berry does not need to show off his intellectual command of the literature. He navigates through the context of the Scottish Enlightenment, writing with the simplicity that only the knowledge of the original sources provides. After reading this story of improvement and commercial society, one wonders how little things have changed in the twenty-first century. The true liberalism of the Scottish Enlightenment faces the same challenges, and the same threats. Similar intellectual debates and dilemmas linger disguised in our society. If we are living a fifth stage of improvement—our society of knowledge and information—the pragmatism and realism of the Scottish Enlightenment are still relevant for contemporary social sciences. Especially for economics.

Leonidas Montes
Universidad Adolfo Ibáñez

Wayne A. Leighton and Edward J. Lopez, *Madmen, Intellectuals, and Academic Scribblers: The Economic Engine of Political Change* (Stanford: Stanford University Press, 2013), pp. 209, \$29.95. ISBN 978-0804-78097-1.

doi: 10.1017/S1053837215000267

In *Madmen, Intellectuals, and Academic Scribblers*, authors Wayne Leighton and Edward Lopez provide an economic framework to understand the role of ideas and interests in political change. The title itself borrows from Friedrich Hayek and

John Maynard Keynes, two adversaries who agreed on the importance of ideas, each providing a framework to understand political change. In a discipline that has almost exclusively emphasized the role of interests, the authors bring back the role of ideas, an idea long forgotten in modern economic analysis of politics.

The authors ask three important questions that political economists must ponder. Why do democracies generate policies that impose net costs on society? Why do such socially wasteful policies persist over long periods of time, even in the knowledge of better alternatives? And, why do some wasteful policies eventually get repealed while others endure? Modern public choice offers, for the most part, convincing answers to the first two questions. It is, however, the third question that is most interesting, and cannot be solely explained by analyzing vested interests of individuals in politics.

The authors attempt to juggle multiple goals in their endeavor: (1) they offer a brief history of political and economic thought; (2) they answer the three questions on the issues of existence, persistence, and repeal of socially harmful policies in democracies, using the lens of intellectual history; and (3) they attempt to provide a framework to discuss the role of ideas in political change.

While the book is about madmen, intellectuals, and academic scribblers, it is the academic scribblers who have the most lines in the Leighton–Lopez narrative. In the first part of the book, chapters 2 to 4, the authors offer a glimpse of the big ideas that academic scribblers have offered over centuries.

Chapter 2 takes us through the journey of the history of Western political thought starting with Plato, through the Romans, the Middle Ages and Renaissance thinkers, to the Scottish Enlightenment, the American constitution framers, to Marxists and Progressives. While the intellectual exercise of discussing the big ideas starting with the Greeks and Romans up to modern-day political economists is both interesting and important, the authors take a very long road through intellectual history to answer the initial questions on socially harmful policies. This part is fascinating and the intellectual history well summarized, but it is perhaps the least connected to the main questions asked and answered in the book.

The book picks up pace with chapter 3, where the “economists join the battle of political ideas” and the authors begin setting up the rules–incentives–outcomes framework to answer the first two of the three questions. They set up two competing paradigms. The first is the market-failure welfare economics paradigm best represented by Pigou–Keynes–Samuelson. This is countered by the second paradigm emphasizing exchange economics best represented by Hayek–Coase–Buchanan. Studying the neoclassical emphasis on market failures and government intervention sets the stage perfectly for understanding government failure and the public choice revolution.

The Pigou–Keynes–Samuelson world of omniscience and benevolent policymakers should not witness policies that impose net costs on society. Then, the authors ask, why do they exist? In chapter 4, the authors meticulously go over the literature in public choice to explain the existence as well as persistence of wasteful policies generated by democratic institutions. Anthony Downs’s rational ignorance model, coupled with James Buchanan’s and Gordon Tullock’s framework of politics as exchange, goes a long way to explain why rationally ignorant voters get stuck with socially inefficient policies that concentrate benefits and disperse costs.

The second question raised by the authors is why policies pandering to special interests prevail over a long time even though there are better alternatives. To answer this question, the authors almost entirely rely on Tullock's transitional gains trap of political change. Per Tullock, and endorsed by the authors, the gains to steering a policy in the direction of any one interest group are transitional. However, once the special interest group incurs the cost, the repeal of the policy will reduce the demand and therefore the value of the assets in which they have already invested. Protected firms favor the status quo, not because they may earn high profits, but because they will suffer huge losses due to the repeal.

This long set-up brings us to the third, and most interesting, question posed by the authors. While some inefficient policies get repealed, others prevail; and the prevailing literature in public choice theory fails to explain this aspect of political change. To answer this question, the authors create a framework analyzing the role of ideas in pushing political change.

The mechanism for the transmission of ideas is laid out in the second part of the book. The authors start with the simple framework economists mostly agree upon, that political actors driven by their incentives—which in turn are determined by the institutional rules—determine political outcomes. The authors add one more layer—the role of ideas—to this established rules–incentives–outcomes framework. In their explanation: ideas, written by academic scribblers, are transmitted by intellectuals, and inspire madmen in positions of political power to change the rules of the political game. It is now an ideas–rules–incentives–outcomes framework.

There are two parts to the main argument of the authors: first, *that* ideas matter; and, second, *how* ideas matter. In chapter 5, the authors create a framework for political change, using the shorthand of Hayek's structure of production. Ideas are far removed from economic outcomes just as some capital goods are far removed from final consumption.

The way ideas influence economic outcomes is through institutions and incentives in their framework, but ideas themselves emerge through dynamic processes affected by various factors. One process is the creation of new ideas by academics, which are publicized by intellectuals and embraced as a collective belief. The second is the influence of culture, biology, and social context on the individual, which is transmitted into popular culture or collective belief through agents and memes. These two forces, one top-down, and another bottom-up, interact and create collective beliefs about market and government in society. Once a new idea emerges through this dynamic process, it alters the institutions or the rules of the game, and therefore incentives, finally affecting outcomes.

After devoting most of the book to academic scribblers, intellectuals, and madmen take the spotlight in chapter 6, where the authors offer four stories highlighting their ideas–rules–incentives–outcome approach. The case of the Federal Communications Commission auctioning licences makes the best case for the authors' framework. It describes the journey of Ronald Coase's ideas written in his 1959 paper titled "The Federal Communications Commission," popularized by intellectuals over the next three decades, which, after many failed attempts by political entrepreneurs, finally resulted in convincing madmen in authority in the Clinton administration to auction spectrum use rights in 1993. The authors further highlight their

ideas–institutions–incentives–outcomes framework using the examples of airline deregulation, welfare reform, and the financial crisis led by the collective beliefs of homeownership.

There is one important aspect missed out in the book. The authors use Hayek's structure of production to explain factors far removed from economic outcomes. Ideas are at the top of this structure and therefore the farthest removed, as they trickle down through institutions and affect incentives and therefore outcomes. However, ideas may directly affect interests, or changing ideas may change the interests of individuals or groups (Mises 1959; Rodrik 2014), bypassing any institutional change before affecting economic outcomes. In fact, ideas may actually change institutions by changing the interests of individuals. This mechanism is left unexplored in the framework offered by the authors. Their framework must accompany some explanation for why ideas *only* affect outcomes in a far-removed way.

Overall, this book is an important contribution, both to public choice theory and to the newly developing literature emphasizing the role of ideas in political economy. The book's biggest strength is that the arguments have a strong foundation in the intellectual history of both economics and politics, and the authors demonstrate the importance of ideas by example.

Shruti Rajagopalan

State University of New York, Purchase College

REFERENCES

- Mises, Ludwig von. [1957] 2007. *Theory and History: An Interpretation of Social and Economic Evolution*. Auburn: Ludwig von Mises Institute.
- Rodrik, Dani. 2014. "When Ideas Trump Interests: Preferences, Worldviews, and Policy Innovations." *Journal of Economic Perspectives* 28 (1): 189–208.

Ryuzo Kuroki, ed., *Keynes and Modern Economics* (London: Routledge, 2013), pp. 270, \$145. ISBN 978-0-415-46977-7.

doi: 10.1017/S1053837215000358

This book consists of the proceedings of a conference that took place in 2006 at Rikkyo University, with the view to celebrate both the centennial anniversary of Rikkyo's college of economics and the seventieth anniversary of the publication of John Maynard Keynes's *General Theory*. For this occasion, the organizers of the conference invited four major economists: Yoshiyasu Ono (from the University of Osaka), whose main focus of interest applies to dynamics in Keynesian economics; Edward Nell and Willi Semmler (two recognized Keynesian scholars from the New School of New York in the United States); and Heinz Kurz (from the University of Graz in Austria), best known for his interest in capital theory and classical economics. Needless to say, the environmental disaster faced by Japan in 2011 drew attention to far more important matters of concern than an editing process, and this