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BOOK REVIEWS

Steven G. Medema, *The Hesitant Hand: Taming Self-Interest in the History of Economic Ideas* (Princeton: Princeton University Press, 2009), pp. 272, $35.ISBN 978-1-4008-3077-0.

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Steven Medema's latest book, delightfully titled *The Hesitant Hand*, is destined to become the go-to reference for all economists and historians interested in the weighing of market failures and government failures.

The book's subtitle is *Taming Self-Interest in the History of Economic Ideas*, and Medema begins his story with Adam Smith, who tamed self-interest by channeling it to the commongood, via his system of natural liberty. Medema contrasts that view with those who came before, from the Greeks and Scholastics, with their open suspicion of interest, to Bernard Mandeville's open embrace of vice. Perhaps it might have served Medema's purposes here better if, instead of working with various opinions about a single stable concept—self-interest—over time, he had, with Hirschman (1977), emphasized the Enlightenment's innovation of invoking self-interest itself to tame our wilder passions, as well as Smith's emphasis on the taming role of self-command and fellow feeling, as we try to appeal to one another's interest. But this is a small omission. In setting out various views of self-interest, in its tame and untamed forms, in businesspeople and in politicians, this opening chapter foreshadows future developments quite well.

Those developments begin in earnest in Chapter 2. After briefly introducing the utilitarian philosophy of Bentham and the elder Mill, the chapter quickly moves on to John Stuart Mill (1806–1873) as one of the key transitional figures in the modern theory of externalities. In Medema's reading, Mill introduced critical doubts about the harmony of self-interest and the public interest, including what, with only slight danger of anachronism, we might now call "externalities and behavioral anomalies." But, by the same token, Mill doubted the ability of government to do much better. By his reckoning, the utilitarian calculus thus continued to come out in favor of liberty and markets. A generation later, Henry Sidgwick (1838–1900) adopted the same approach, but tended to see more externalities and was more optimistic about the potential for government to overcome them. Thus, in contrast to the standard history, which points to Pigou as the transitional figure in the theory of market failure, Medema clearly shows that the turning point lies in Mill and especially Sidgwick. This chapter of Medema's story covers a period I have sorely neglected in my own education, and I found it an indispensible introduction.

After a brief introduction of the Marshallian paradigm, Chapter 3 then comes to A.C. Pigou (1877–1959) himself. Medema summarizes Pigou as one who put "Sidgwick's ideas into a Marshallian theoretical framework" (p. 60). Of particular interest to those who know the basics of Pigou, Medema provides a fascinating account of how, after establishing in *The Economics of Welfare* the "prima facie case" for government intervention in the economy on the basis of market failures,

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Pigouthen went on to consider practical solutions to these theoretical problems in an essay titled "State Action and Laisser-Faire" (1935). Many readers who thought they knew a thing or two about Pigou will be surprised to learn, as I was, that in that essay Pigou was far less sanguine about the role of government than most people assume. He wrote that "'[e]very public official is a potential opportunity for some form of self-interest arrayed against the common interest,'" and that, moreover, new bureaucracies soon develop their own interests likewise arrayed against the commonweal (p. 70). In this respect, Pigou's skepticism not only echoes Smith's, it also anticipates the public-choice schools introduced in the second half of the book. It appears that Pigou might well have exclaimed, "*je ne suis pas Pigovian*."

Chapter 4 turns, somewhat abruptly, to the Italian public finance tradition, from Pantaleoni's naïve view of Parliament setting out to maximize national welfare to Montemartini's view of it as subject to rent seeking. It then switches to Wicksell's views on government failure and his proposal to use super-majorities to limit state actions to true Pareto improvements. Before reading this chapter, I knew next to nothing about this material, and I read it with profit. Yet, to my taste, this chapter is the weakest link in a strong chain. The abrupt change in schools struck me as somewhat jarring and hard to place in the larger narrative. The connection becomes somewhat more clear in Chapter 6 (which might have been better placed immediately after this chapter), when we learn that James Buchanan (b. 1919) was influenced by both literatures. That chapter then develops the Virginia school's more modern rebuttal to the Pigovians. In this public-choice literature, we have a continuation of the theme that self-interest is everywhere, and that the visible hand of the government may do a poorer job than the invisible hand of the market of channeling it to the common good.

Chapters 5 is an excellent summary of Ronald Coase's (b. 1910) *Problem of Social Cost* and his views on "'the emptiness of the Pigovian analytical system'" (p. 114); Chapter 7 picks that theme back up again along with the development of the Chicago school of law and economics. Medema is on his home turf here, and it shows. In a very clear exposition, he explains how Coase emphasized the importance of transactions costs as the critical reasons for divergence between private net benefits and the theoretical net benefits on the blackboard, which assume those costs away. But transactions costs are as real as any other (analogous to transportation costs, as Dahlman [1979] put it), and so institutions for coordinating production and allocation of goods and services must account for them.

This brings me to one of the few points in the book over which I puzzled. A section of this chapter is labeled "Preaching Pragmatism over Pangloss and Pigou." Who Pangloss is supposed to be in this simile is not clear, nor which world is the best of all possible ones. Presumably the best of all possible worlds is what Coase called the "blackboard economics" of Pigou. But Medema appears to be unaware of a certain irony here, for E.J. Mishan, in an essay titled "Dr. Pangloss on Pollution," actually satirized the Coasian transactions cost approach as developed by Alchian, Demsetz, and others as Panglossian in just that way (Mishan 1971). Essentially, Mishan's critique is that when the transactions cost approach is combined with a strong no-arbitrage condition, then the costs of addressing an externality *must* always be higher than the potential gains, or institutions to address it would have already arisen. It would have been interesting to have continued the discussion into that later literature.

There is something about a great book like this that causes one, no matter how satisfied the impartial spectator would have us be, to become greedy for more. The later transactions cost / property rights literature, just mentioned, is one such place where there might have been more. Another is the local public goods theory of Tiebout (1956). Couched explicitly as a rebuttal of Samuelson, Tiebout's argument that local public goods are bundled with real estate and so are effectively private goods would have been a nice complement to Coase and Buchanan, forming a trilogy of reactions to the Pigovians: such a threefold cord is not quickly broken. But no doubt Medema has more for us on the way. In the meanwhile, we will just have to settle with what is already the most comprehensive historical examination of the subject.

The book is made all the more enjoyable by Medema's writing, which is strong and clear. If there is one fault, it would be that, on occasion, Medema lapses into overly cartoonish summaries of his own history. For example, in the occasional weak moment, Medema summarizes his story as if it were a football match between one side that views self-interest as good (hence, markets as good too) and another that views it as bad (and governments good), with first one moving the ball forward and then momentum switching to the other. But Medema is walking a fine line here, and to nitpick in this way would be churlish; indeed, it would be blind to the true achievement of this book. For, in fact, at the same time, Medema provides a story that is much richer than that, bringing out the conflicts within generations and within even the same individual. Thus, the true achievement of this book is to speak so successfully at so many levels at one time. That is why, at a price of $35, I am putting it in my syllabus and making a gift of it to more than one accomplished scholar.

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Thomas A. Stapleford, *The Cost of Living in America. A Political History of Economic Statistics 1880–2000* (Cambridge: Cambridge University Press, 2009), pp. 421, $34.95. ISBN 978-0-521-71924-7.

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"Hey, honey, what happened? How is it that we eat meat so rarely? Have prices risen lately?" These questions, when generalized to every American household, have extremely important political implications. Thomas A. Stapleford's very detailed and