taken in a way consistent with the free market. Mr. Phelps is perfectly willing to have the subsidy take the form of a remission of payroll taxes. Further, though he himself favors a graduated program of subsidies–the higher your wage before the subsidy, the lower your subsidy–he also thinks that subsidies for all workers would be beneficial. This cuts out governmental efforts to direct the proportion of skilled to unskilled work.

The author has, with a roundaboutness that would do credit to Rube Goldberg, arrived at a free-market position.

Translating this latter version of the proposal into a payroll tax remission, what our author says comes to this: if the government reduces taxes on wages, wages will tend to rise. Mr. Phelps has, with a roundaboutness that would do credit to Rube Goldberg, arrived at a free-market position.

It would, of course, not do to end on a note of praise for an economist who rejects laissez-faire. Let us note, then, that like John Rawls, whom he here follows, Mr. Phelps gives no argument for his view that fairness demands that the surplus generated by economic cooperation benefit the least well-off to the greatest extent possible. ✦

The Return of Lord Robbins

A History of Economic Thought: The LSE Lectures

Lionel Robbins
Edited by Steven G. Medema and Warren J. Samuels
Princeton University Press, 1998,
xxviii + 359 pgs.

Austrians have sometimes been very hard on Lord Robbins. He at one time embraced the views of Mises and Hayek; and in *The Great Depression*, he presented a resolutely Austrian theory of the business-cycle. But, sometime during the 1940s, he fell from grace. He repudiated his book on the depression and loudly proclaimed the greatness of Lord Keynes. Although by the standards of the 1950s he remained a classical liberal, he was anxious to let everyone know that he was not a fanatic who favored laissez-faire.

After reading *A History of Economic Thought*, I incline to think that Austrians ought to view Lord Robbins with much greater favor than they customarily do. (I cannot believe it–am I saying that *others* have been too severe?) The book, which consists of transcripts of lectures that were recorded between

1979 and 1981, is filled with insights, many of strongly Austrian character.

Before turning to the substance of the book, I must say a few words about its style. The editors, in order to retain to the fullest the inimitable flavor of Robbins's personality, have wisely not tidied up the text.

With regret, I shall confine myself to one example of Robbins's humor and charm: "I recommend in my bibliography a book by a man called Father Divine [1959]–not that rather brash man who used to make terrific broadcasts in the interwar period, but a man

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who studied for a PhD at the London School of Economics" (p.34). I should explain to younger readers that the Father Divine not recommended was an American leader of a religious cult who thought he was God.

A central theme that emerges in Robbins's lectures is the conflict between subjective utility and cost of production theories of value.

Like Murray Rothbard and Raymond de Roover, he stresses the importance of the fourteenth-century writer San Bernardino of Siena. He clearly recognized that the economic value of a good is determined in large part by its desirability. "Well, to continue with San Bernardino, the usefulness or the desirability as a deciding factor is not absolute. 'Otherwise', he says, 'a glass of water would be almost priceless', but it's 'abundant'.... He doesn't actually solve the so-called paradox of value as you get it in Adam Smith and some of the classical economists, but he gets pretty near to it" (p. 30). Incidentally, our author, a scholar of enormous erudition, was well aware that San Bernardino borrowed heavily from Pierre Olivi.

Unfortunately, economics in the line that began with Adam Smith and continued through Ricardo and John Stuart Mill approached value in a different way. Adam Smith, in a famous passage of *The Wealth of Nations*, argued that in primitive conditions, quantity of labor determines price. Concerning this, Robbins remarks: "Well, I hope that that's obvious to all of you. When you have an economy in which the only scarce factor service is unskilled labour, then the ratio of the quantities of labour expanded provides a key to what Adam Smith calls the natural, and what we should call the normal, price" (p. 136).

Here Robbins concedes too much. No doubt Robbins is right that under the indicated conditions, price can be directly correlated with the quantity of labor. But it does not follow the quantity of labor causes price. Rather, a subjectivist would say that the quantity of labor is allocated to each good in a way that corresponds to the subjective valuations consumers give the goods in question. True enough, the figures come out the same whether one adopts the labor theory approach or its subjectivist rival. But for the Austrian School, the issue of causation is crucial.

If Robbins elides this point, he is nevertheless no partisan of the labor theory of value. He neatly skewers the theory in this way: "Then Adam Smith goes on to discuss differences of skill. And he doesn't really solve the problem, but he thinks that in the advanced state of society allowances must be made for superior hardship and superior skill. Those allowances, of course, are in value terms, and Adam Smith has begged the question by just casually treating it that way" (p. 137).

David Ricardo, with great expenditure of labor, produced a labor theory of value much more rigorous than that of Smith. But, as Robbins ably brings out, he too failed to solve the problem that defeated Smith: "Well, so far as differences of quality of labour are concerned, they were for the most part ignored. It was said that labour is determined by the higgling of the market, but that, of course, is circular reasoning. If you are trying to explain value by something other than value, by quantity of something, it's no use invoking value to explain value" (p. 189). With beautiful concision, this argument demolishes the labor theory.

Robbins has not yet finished with Ricardo. He dismisses Ricardo's attempt to eliminate rent from the cost of production by going to the rentless margin. To do so is to take a specialized situation as the norm: what if an area of land has alternative uses? Then rent surely cannot be dismissed from the calculation of costs. The problem of opportunity costs "just evaded" Ricardo (p. 191). Though Robbins treats Ricardo's system with much greater respect than does Rothbard, he razes its foundations.

Karl Marx no more than Smith and Ricardo met the problem of differences in the types of labor. Like them, he invoked the market to explain these differences and thus argued in a circle. "And in Marx you find that this is rather more pretentiously attributed to a social process which goes on behind the backs of producers, but what he meant was indeed the market" (p. 236).

With beautiful concision, the author's argument demolishes the labor theory.

At one point, I venture to suggest, Robbins misses a key weakness in Marx's theory. He rightly notes that Marx had a "cost of production theory of labourers" (p. 237). But, contrary to Marx's argument, his own labor theory of value does not entail this theory of wages. Without the cost of production theory of wages, Marx's entire analysis of capitalism crumbles, since he cannot show that labor for capitalists necessarily creates surplus value.

Robbins entirely supports the alternative that has supplanted the labor theory: he is a confirmed devotee of the marginal utility theory. Although he, like most English economists, bows low in worship of Alfred Marshall, he fully appreciates the genius of Carl Menger.

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Robbins is at great pains to emphasize the care with which Menger developed his account of value. "Whatever one may think of the virtues of brevity, he goes very deep and he's very thorough" (p. 271). Menger spurned the beguiling elegance of mathematics in favor of a causal account of how value arises from human action.

In their rush to algebra, the competing marginalist schools were less thoroughly subjectivist than Menger. William Stanley Jevons held that cost of production determines value; the Austrian account, especially as Philip Wicksteed developed it, avoids this regression to old mistakes. I am not at all sure that our author shares this opinion of Jevons's theory, but he ably sets forward the basis for a more consistent Austrian verdict.

It is good to see that he recognizes the great importance of Mises's *Theory of Money and Credit*. It "probably provides a more detailed linking up of the cash balance approach with the general marginal utility theory as developed by the Austrians than is to be found anywhere else in the literature" (p. 316).

The editors deserve high praise for making these fine lectures available. I have noted a few mistakes: on p. 37, two Latin words are misspelled; and on p. 82, the last lines should read "not only that which is necessary." *Ignis fatuous*, I assume, is a joke. ✦

SAINT MAX

Max Lerner: Pilgrim in the Promised Land

SANFORD LAKOFF
UNIVERSITY OF CHICAGO PRESS, 1998,
XXI + 323 PGS.

Sanford Lakoff admires Max Lerner greatly. As a student of Lerner's at Brandeis University in 1949, his "adulation soon became obvious and made me the butt of jokes" (p. xiv). Our author's hero worship for Max the Great has never flagged in the ensuing years; and he accordingly does the best he can for his subject. Yet the result is a portrait of utter emptiness.

Mr. Lakoff, try as he might, cannot dissolve the fundamental paradox of Max Lerner's career. This so-called