

## History of economic thought

*Economics Evolving: A History of Economic Thought.* By Agnar Sandmo, Princeton, NJ, Princeton University Press, 2011, 489 pp., \$45.00/paperback.

In *Economics Evolving*, Agnar Sandmo sets out to cover the history of economic thought from its 18th-century beginnings to the 1970s. His approach is to use both a “relativist” perspective, examining the work of individual economists in the context of their times, and an “absolutist” perspective, revisiting older theories through the lens of modern insights into the workings of the economy. His general principle is that development in economic theory occurs as an ongoing attempt by contemporary economists to address perceived weaknesses in the theories of their predecessors. His stated intent is to present his history in nontechnical language, accessible both to the specialist and to the reader with little formal training in economics.

Somewhat surprisingly, Sandmo dedicates a section of his opening chapter to convincing readers that the study of economic thought is a worthwhile pursuit—in particular, those readers (economists among them) who regard economics as a cumulative science in which new insights tend to refine, improve, or even refute the views of earlier economists and in which the process itself works to retain valid elements and discard the invalid. For these readers, the author provides three reasons to continue reading: first, it’s “fun;” second, knowledge of the history of economic thought

should form part of the education of an economist; and finally, familiarity with the history of economic thought highlights the fact that the discipline is constantly evolving.

As early as chapter 2, there are clear signs that this book may not be an ideal choice for the general reader. In the chapter, the author provides a brief overview of the economic thinkers who paved the way for Adam Smith, including mathematicians Daniel Bernoulli and the Marquis de Condorcet. Sandmo cites several of their complex formulas and arguments here to explicate their contributions. Mathematical formulas are scattered through several other chapters of the book as well, giving the work more of a textbook, rather than a descriptive, quality that one would expect from a book written with the general reader in mind.

Sandmo achieves his goal of providing a relativist perspective of Adam Smith by presenting a biographical sketch of his life, placing him in the context of his times, and highlighting his critical view of mercantilism. The author also satisfies his goal of providing an absolutist perspective by discussing Smith’s limited understanding of demand and its relationship to price formation, a concept that would be understood at its most elementary level by a contemporary student with a basic formal introduction to the field. In addition, the author gives a thorough and critical analysis of Smith’s use of the three-word phrase most often associated with him: “the invisible hand.” Sandmo points out the qualifications and subtleties of Smith’s phrasing in the only instance in *The Wealth of Nations* in which he uses the phrase, leading

the reader to believe that (contrary to what is commonly understood about him) Smith was not suggesting that governments avoid regulation and leave everything to the free play of markets. Rather, the author says, Smith’s understanding of a free market holds that it is a market in which there is essentially free entry and exit of producers and an absence of monopoly. According to Smith, when this ideal is achieved, prices will tend toward their “natural level” and will be beyond the control of individual market actors.

Chapter 5 focuses on John Stuart Mill, a figure perhaps better known as a philosopher and author of *On Liberty* and *The Subjection of Women* than for his contributions to economic theory. Again, Sandmo provides a solid biographical sketch of Mill’s life, placing Mill in the context of his time. We also begin to see the aptness of Sandmo’s chosen title. In his discussion of Mill, the author demonstrates how Mill’s contribution begins to address the classical economists’ weakness in demand theory. In Mill, we get a sense of the development of basic equilibrium theory, with prices determined by the interaction of supply and demand. Here again, the author satisfies another of his goals: examining the history of economic thought by demonstrating how the discipline advanced even as economists addressed the perceived weaknesses in the theories of their predecessors.

The text advances chapter by chapter across a timeline, with similar examinations of the work of more or less well-known economists from Karl Marx to William Stanley Jevons, from Alfred Marshall to Vilfredo Pareto, and from John Maynard Keynes to Ragnar Frisch,

to cover the major economists, the schools of thought, and the theories. In his final chapter, the author discusses long-term trends in the discipline, with some emphasis on the trend toward the use of mathematical and statistical models that became increasingly accepted after World War II and are widely used today. The author gives the reader a sense of the views on both sides of the argument as to whether or not the increased formalization of the discipline is indeed progress. On the one hand, proponents of formalization claim that mathematical formulations make both the underlying

assumptions and the reasoning behind those assumptions more transparent; on the other, detractors claim that mathematical models oversimplify the complexities of economic life.

Each chapter concludes with extensive suggestions for further reading. The index includes references to the economists, major theories, schools of thought, and commonly used terminology, making the text a handy reference tool. Throughout the work, Sandmo's coverage is extensive and his analysis is insightful. The author achieves his stated goals of balancing the relativist and

absolutist perspectives and of demonstrating the ever-changing nature of the discipline. Although less successful as a work accessible to the general reader, *Economics Evolving* is useful as a reference tool and would make an excellent addition to the library of an economist or well-read and highly interested reader from a related discipline. □

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