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**A review of**  
**Enrico Colombatto, “Markets, Morals and Policy-Making. A new defence of free-market economics”<sup>1</sup>**

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Enrico Colombatto's *Markets, Morals and Policy-Making. A new defence of free-market economics* is a rich and dense and invaluable 200-page long book. Obviously, it would not be easy to review honestly its multiple dimensions - the methodology, history and ethical foundations of economics, and the interactions between economics and other social sciences - and the many important questions - social change and how institutions and ideas combine in the functioning of human societies, poverty, growth and economic crises as well as the moral principles on which our societies are based - it deals with. I will rather focus on one of its main aspects: the book is not just another defence of free-markets and free-market economics. On the contrary, I believe and insist that Colombatto weaves around the three keywords of the title a provocative but truly original thesis about free-market economics and he relates his claims to the issue of the foundations of economic policy-making.

Colombatto starts with the idea that, as one can observe, "the large majority of the population does support substantial government intervention in most areas of economic activities" (p. 82). Therefore, to him, the relevant attitude towards state intervention through policy-making should not consist in examining the virtues of specific rules - for instance, asking whether rule A is better than rule B or how to devise even better rules. More fundamentally, the question bears on the legitimation of government intervention itself. From this perspective, the claim Colombatto puts forward is rather negative. He thus argues that "the economic way of reasoning prevailing today is mostly *inadequate* for understanding the nature and legitimacy of policy-making" (p. 3; emphasis added); in which adequate means *from a free-market perspective*. Thus, the book is aimed at explaining what is a free-market approach and, as a corollary, at emphasizing the differences with what the views developed and promoted by those who claim to be free-market scholars.

About the latter point, upon which I will come back later, I already stress what one of the central and fascinating claims of the book: even those who are viewed and view themselves as pro-market scholars are not able to adequately defend their views: "a free-market approach built on consequentialism or

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wishful thinking will falter whenever a crisis strikes and necessarily force its advocates to acquiesce to some version of the third way" (p. 3). Thus, at best, the standard and well-known free-market approaches that are used in economics are only able to defend a third way between socialism and liberalism. The reason is that there is only one way to legitimate policy-making from a free-market perspective and it consists in adopting a moral principle: "the foundations of free-market thinking originate from moral philosophy" (p. 3). It is because economists have forgotten this fundamental principle that they are now incapable of envisaging a form of policy-making that would not imply more state intervention for the common good. It seems that free-market supporters and pro-state advocates all tend towards a similar - if not exactly the same - way of founding policy-making. They all share "a fairly peculiar notion of economics" (p. 32) which "consists of an enlarged version of the original Keynesian proposal, according to which the technocrat has explicitly replaced the politician" (p. 28).

Colombatto dates the origins of its incapacity in the evolution of the discipline since the beginning of the 19th century - "economics went the wrong way at the beginning of the nineteenth century" (p. 209). It results from a slow drift away from the political economy approach of the founders of the discipline and towards a "hard" science, interested only in modeling mechanical systems, in understanding under which conditions interactions between rational utility functions maximizing "robots" produce order (peace), stability, efficient allocation of resources and general (or partial) equilibria.

Why such an evolution has produced the incapacity that Colombatto observes and emphasizes in his book? To explain it, one may refer to the role and place individuals occupy in economics and in economic modeling. Colombatto devotes a part of his book to explain that economic analyses are - despite the appearances - non-individualistic; these are analyses in which individuals have disappeared or they are ignored by economists. Actually, as we have shown it elsewhere (Khalil and Marciano, 2010) in a slightly different approach, most of economists have developed analyses in which *individuals are no longer necessary* because the focus is essentially put on outcomes and consequences; on what happens at the global, social level. This is exactly where Colombatto's approach is innovative and fascinating. He does not only complain and demonstrate, as others have done before him, that economics has progressively turned into something very different from what it was at its origins, that it now amounts to social engineering, that most economists believe that the economy and the society is a machine that can be modeled through mathematical as a machine and that can be fixed by more intervention each and every time a problem occurs. Colombatto goes beyond that, by emphasizing the fact that economists are essentially concerned with outcomes; that economics is essentially a consequentialist (hard) science. The problem, Colombatto adds, is that this is also the case with free-market economics. More than that, free-market economics were not and would not be able to adequately explain what kind of policy-making has to be adopted as long as they remain consequentialist. Consequentialism is

incompatible with individualism and with a free-market approach. Indeed, to Colombatto, assuming that one can defend individuals, that one can avoid threatening individual freedom by adopting a consequentialist approach is a mistake. Even under a non-collectivism and individualist form; even based on efficiency and the optimal allocation of resources, consequentialism cannot but lead to political expediency, compulsory solidarity and social rationality. Consequentialism, be it collectivist and pro-state or individualist and pro-market, requires value judgements about the outcome that has to be reached, about the objectives assigned to policy-making. These value-judgements - that are most of the time ignored and remain hidden - implacably lead towards more state intervention, more common good, more collective welfare, more coercion and less freedom: "once the primacy of the individual is denied, one requires ... to make clear the value-judgements on the outcome of market exchanges and therefore interfere legitimately with the market process" (p. 204). From this, it follows that, to Colombatto, the only way to avoid this types of justification of policy-making consists in starting with individuals. It consists in starting with a principle that consists in defending individuals and individual freedom. It consists in replacing "efficiency ("it is good because it works") with justice ("it is good because it does not violate natural rights")" (p. 9). It consists in replacing "theological" approaches - founded on consequentialist, ex-post and most of the time ad hoc criteria - with "secular" - based on fundamental rights - ones.

Reading Colombatto's book, one may, for instance, think to deontic approaches and even to Buchanan's focus on the need of an ex-ante constitution that would precisely prevent ex-post political expediency and the tendency towards more state intervention. Colombatto also explains why and how these approaches are different from his own analysis and why they fail. Thus, I might say that it is not exactly the moral or principle-based defense of free-market economics that I find innovative but the demonstration that this is the only credible defense of free-market views. And that most, if not all, other ways to defend free-market are flawed, including those that are usually viewed as totally credible defense of free-market. Quite interestingly, Colombatto proposes a deconstruction of some of the most well-known and most recent defense of free-markets and of individualism - such as constitutional economics, some social contract approaches and law and economics. He shows with a great clarity how, despite their claims and reputation, these analyses do not genuinely defend individuals and free-markets. In other words, and this can be stressed as one of the great merits of Colombatto's book, the convincing and detailed analysis that is provided obliges us to reconsider most of our opinions about law and economics, institutional economics, transaction cost economics and constitutional political economy. One may not always agree with the claims and developments; but one has necessarily to deal with them and to think about them.

Then, of course, the question is: where do we go from here? What does it mean and imply that even those who have the reputation for being free-market

scholars and who see themselves as such are not real free-marketers and are not able to oppose collectivists and socialists approach? Colombatto answer the question in his book, proposing an historical analysis of the functioning of our societies and of their evolution. He explains that we live in the age of social responsibility which is, basically, a rent-seeking society in which individual responsibility has disappeared being replaced with social responsibility. In such a society, there is no room for free-markets. It is not only that economists have drifted away from what was their discipline when the Scots founded it. Our societies have also evolved from what they were, from the values that made them successful - from "the rights-based notion of justice typical of the Western tradition". And, since we know what is this notion of justice, what are these principles upon which the success of the Western world rests, that we know what to do: "[t]he most important tasks of today's social scientists is to help people - policy-makers as well as those who elect them - understand the lasting case for free markets" (p. 210). A message of hope, so to speak, to conclude the book and a review that, as suggested above, does not render justice to the details of Enrico Colombatto's argumentation. There is even more to read and to ponder.

### References

- Khalil E. L., Marciano A. (2010), "The Equivalence of Neo-Darwinism and Walrasian Equilibrium: In Defense of Organismus economicus", *Biology and Philosophy*, **25**, 229-248.