presentation of their arguments. Indeed, the only good traits that he finds in Smith are that he wrote well and was probably a good teacher. I find it hard to reconcile this with other more balanced accounts and anecdotes about Smith, who usually emerges as a loveable if eccentric bachelor, trying—not always succeeding—to do the proper thing.

Rashid concentrates far too much on the *Wealth of Nations*, virtually ignoring its preceding, essential complement, *The Theory of Moral Sentiments*. He makes no mention of the influence of the *Wealth of Nations* on Ricardo and Ricardo's *Principles* which, as Piero Sraffa showed us, are a running commentary on and critique of the *Wealth of Nations* itself. Nor does Rashid mention Sraffa's reading of the classicals who used their concept of the surplus as their organizing principle in their exposition of what William Baumol called their magnificent dynamics, their main preoccupation in contrast to the modern preoccupation with static allocation puzzles.

Rashid is not happy either with Smith's sympathy for the wage earners, the poor and the powerless generally, as opposed to those who have wealth and power; no matter that Smith argued that property and the hierarchy which comes with it are necessary for the natural progress of society.

Rashid is much better read than I am on these matters; but I feel I know enough of the background literature and of the originals to say that on the whole I am not convinced by him, that I think that his first enthusiastic response to Smith was nearer the mark than his later bitter reevaluation. Differentiated products enhance well being, over-differentiation is a mistake.

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An Empirically Based Microeconomics. By Herbert A. Simon. Raffaele Mattioli Lectures. Cambridge; New York and Melbourne: Cambridge University Press, 1997. Pp. x, 223. $59.95. ISBN 0–521–62412–6. *JEL 99–0439*

It would be no exaggeration to state that economic theory is in a methodological mess. The main problem is the vague connection between economic theory and reality. Economic theories are meant to be about the real world. But economic models do not fit or even approximate any reasonable picture of that world. Worse still, economic theory uses assumptions that are easily refuted. Thus, the relevance of the conclusions seems to depend on whether the theory miraculously produces accurate predictions, which it usually does not. In class, students often ask questions that we reject as "unintelligent" but that are actually expressions of our confusion about the meaning of microeconomics. Only a few economists have paused of late to address the question "What is economic theory trying to accomplish?" Herbert Simon, unique among economists of our generation, does so in this book.

The book is based on three lectures given by Herbert Simon at the Universita Commerciale Luigi Bocconi in 1996. The text of each lecture is accompanied by questions raised by Simon's knowledgeable audience, followed by his answers. After the lectures, there are five detailed comments by Italian professors, concluding with Simon's responses. This arrangement makes the book lively. I am likewise impressed with Simon's youthful and frank style.

Simon's position appears rooted in a lack of sympathy for the way that economic theory developed. Simon does not appreciate the surplus of mathematical sophistication, nor the fact that models of economic theory are often judged by their elegance and total remoteness from reality. For years he has emphasized the need to look at facts about human behavior as a necessary condition for economics to progress and be relevant. In this book, he declares: "I am pleading here for an economics that seeks out facts of how people do react to situations and tries to base economic theories on these effects rather than on speculations made in an armchair" (p. 26). This sounds like a reprimand of most economic theorists, who are characterized as builders of models from comfortable positions detached from reality.

And, elsewhere, Simon states: "If we are managers, or if we are giving advice to managers, we need a theory of firms that encompasses a great deal of detail about their operation. And it must be a theory that describes them realistically, not an 'as if' theory" (p. 63). I am not sure that economic theory is in the business of giving advice to managers, but in any case, the call is clear: Let's begin by describing human processes of reasoning and build economic theory from there.

Simon is not especially sympathetic to empirical work in economics: "This method of providing an empirical basis for theory is as old as human experience. Nowadays, we are very suspicious of it because it appears so much less accurate and specific than controlled experiments or systematic observations guided by careful sampling" (p. 20). And, Simon continues, "We have seen that the principal kinds of data available to Adam Smith were his own experiences, his ability to empathize with people placed in various situations, and a miscellany of published anecdotes and historical accounts of economic institutions and events. There were a few, very few, quantitative data available to him" (p. 71).

The book is missing a chapter with a detailed example where Simon demonstrates the implementation of his approach, starting with data about human reasoning, and ending with its valuable conclusions. Without it, we are left with a call for economists to be more receptive about the world. This is a position that one can hardly object to; however, by itself, it does not provide a coherent description of a methodology.

Do we economists simply need to be more receptive and sensitive to reality or do we need to describe reality more systematically? To my knowledge, Simon objects to theoretical models where realistic elements are introduced into the analysis—unless they are anchored in data about the way that people really reason. Stated differently, he is not impressed by models unless they are backed up by empirical or experimental study regarding real-life decision mechanisms. Conversely, he admits that Adam Smith's contributions to economics were based on little more than casual observations and he is very much aware of the difficulties of observing those details more systematically. Would it be legitimate to continue doing our formal models, like those that economic theory or game theory do and just replace the rational man with more realistic decision procedures? I do not feel I have received an answer to these questions.

I believe that there are other approaches to providing content to what we do in economic theory. In particular, I believe that what we really do in economic theory is to study arguments. Understanding what sort of arguments could be made about a situation does not guarantee our understanding of when this or any other argument will be made. And understanding arguments that people use is very far from predicting the kinds of things that economists attempt to predict or at least try to understand.

In any case, this is a valuable and delightful book that presents an important position in contemporary economics.

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D Microeconomics

Politics By Principle, Not Interest: Toward Nondiscriminatory Democracy. By James M. Buchanan and Roger D. Congleton. Cambridge; New York and Melbourne: Cambridge University Press, 1998. Pp. xv, 170. $44.95. ISBN 0–521–62187–9. *JEL 98–1317*

This valuable little book is written as an antidote to the discomfort stemming from *politics by interest.* The authors wish to construct a viable constraint on democratic politics to lead to *politics by principle*. Such is their ambitious—nay, utopian—task. That they do not fully meet their own challenge is to be expected.

They propose to constrain constitutionally all governmental agencies and legislatures to choose only from among those alternatives that have both universal benefit and universal cost sharing. They hope this would prohibit