History and Theory in the Time of Economic Rationalism

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There is nothing new under the sun. (Ecclesiastes 1:9)

In his examination of the microfoundations of macroeconomic theory (1979), E. Roy Weintraub devotes a chapter to what he facetiously labels the 4,827th reexamination of Keynes' system. He wisely refrains from assuming that his will be the ultimate interpretation. In a similar spirit, this new book of collected essays edited by John Creedy might be initially identified as the 5087th critique of economic methodology. It certainly will not be the last. The only confident prediction a thoughtful reader can make is that like all its other predecessors, this volume has very little chance of having an impact on the way economics is conducted or on the type of problems it analyses.

The analysis of economic thought, whether methodologically or historically oriented, remains the Wilkens J. Micawber[1] of the profession. The interesting question in this regard is not why such writing exists, anymore than a dissertation explaining the existence of Mr. Micawber would at first glance not seem to be addressing the most compelling of possible issues. Such existential questions are best sublimated to the more critical question of basic ineffectuality. Why should such a quantity of scholarship reduce to the intellectual equivalent of drawing in honey? To put it even more pessimistically, the task of investigating economic methodology is a task that might make one envy the punishment of Sisyphus. At least Sisyphus got to roll the ball to the top of the mountain.

Methodologists must face the realisation that few practicing economists are keen to question those very techniques which underpin their analysis and thus their years invested in being a professional economist. Major reforms arising from such critiques are remarkably few. As a rule of thumb, those innovations such as rational expecta-

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tions or transaction costs, which strengthen the case for market efficiency are more likely to be adopted than those which either supply a critique in the fashion of the Cambridge controversies or lead one to support greater intervention in economic matters.

This does not mean that there is no possible justification for Creedy's project which turns out not to be an explicit critique of prevailing methodologies. Rather, he asks us to reexamine some very basic economic concepts. So basic in fact that the controversial nature of these concepts lies buried beneath a conspiracy of silence. By pretending to understand what such words signify, we avoid the difficult task of carefully defining what many common, but not entirely intuitive, terms mean. We go on as if these questions had long been settled. Thus since the time of Adam Smith, economists have repeatedly used the word competition as a concept too obvious to require careful consideration. In such cases an investigation into the nature, quality, and extent of the Emperor's acquired wardrobe is not wasted despite the probability that no effect will be immediately achieved. This constant prodding at accepted dogmas is not a simple minded attempt to reinvent the wheel. To go back and to question basic concepts has a definite appeal and potential usefulness. Too often, economists simply assume they know what such terms mean. But in effect, this apparent comprehension is only a gentleman's agreement not to embarrass each other by asking dangerous questions.

The contents of the volume consist of the following contributions:

Economic man	M.C. Casson
The State and economic activity	D.A. Reisman
Competition	R.E. Backhouse
Marginalism and the margin	L. Mainwaring
Value	P.C. Dooley
Social Welfare	R.G. Holcombe
Income and capital	G.C. Harcourt and G.Whittington
The firm	B.J. Loasby
Productivity	D.F. Heathfield
The debt burden	B. Hillier and M.T. Lunati
Liquidity	M.K. Lewis
Unemployment	D.A. Collard
Equilibrium and explanation	H. Dixon

Since the immediate impact of such a work may be negligible, even under the most favourable circumstances, a collection of essays, such as these, needs to take a nearly optimal approach, guided by a strong minded editor rather than by the exigencies of publication deadlines. There's often an initial charm in organising colleagues to work on a particular project. Why not let a group of economists rethink basic economic building blocks. It's reminiscent of those Mickey Rooney/Judy Garland films where a bunch of friends decide to put on a show in a conveniently empty barn. Without a reasonable script and effective direction, such attempts tread dangerously near the edge of self indulgence. The audience will consist only of friends, relatives, and other well wishers.

To move away from these ambiguous regions which border the realm of vanity, publishing such a collection must provide material not easily obtainable elsewhere. Thus no matter how competent, if the end result provides nothing that is not already easily available, both the justification for such a work and its potential effectiveness will be negligible. For example, each topic or concept employed in this volume has at least one counterpart, and in most cases multiple counterparts in the nearly contemporaneous *New Palgrave Dictionary of Economics* (1987). Whether this volume goes beyond the overviews prevalent in the now standard *Palgrave* formulations can be taken as an arguably sufficient standard and justification for its existence.

In a very short introduction, Creedy does claim that the purpose of the volume is not directly to examine methodological issues, nor is it to review the historical development of the subject (1990, p.2). But the possibility of dealing with these deliberately labelled foundation topics without grappling with methodological issues seems unlikely. Moreover, one obvious and effective way to deal with these topics is from the viewpoint of historical development. The past is prologue to the present if only as a way of demonstrating how current conventions and norms formed as a reaction to past standards. As the questions and the focus of the economic profession changed, so did the way in which it characterised the firm or thought about value. The more successful essays in this collection in fact use a historical approach to help define the current status of these concepts.

To begin to evaluate this volume as a whole it might be useful to hypothesise a benchmark, an ideal to which editors with the sort of aims that Creedy professes might aspire. First it should be clear why the particular foundation topics chosen were the logical ones to include. There should be at least a common link between them. At best, the volume should be perceptibly diminished by the exclusion of any of the existing chapters. Further, the chapters should relate to one another. The insights gained by considering one issue could then clarify the analysis of a subsequent topic. In which case, the order of presentation would have some significance. In essence, reading the chapters in the order presented should create the semblance of a dialogue between authors rather than a series of unconnected monologues.

Judged against such ideal standards, the collection expectedly falls short. There is no discernible reason why these particular topics were chosen. A common measure uniting them all would be difficult to devise. The exclusion of a few chapters or the inclusion of some additional ones would not conceivably make a difference. Nor is the order of topics anything but arbitrary. Rearrange them alphabetically or peruse them at random and nothing is lost. The selection of topics thus remains a mystery. Nor has the editor ostensibly provided any real guidance to his contributors other than by imposing a page constraint of roughly 30 pages. One is left with the nagging suspicion that the number of topics was a function of a preconceived page limitation for the entire volume.

Though the topics are rightfully characterised as key economic concepts, they vary in nature. Some are pure techniques such as the use of marginalism or equilibrium analysis. Others are questions of definition and measurement: income and capital, unemployment. There are the expected examinations of the major actors of economic dramas (economic man, the firm, the state), economic action (competition), and goals (social welfare). Plus an assortment of oddlots, some to be expected (value and productivity) others a bit more curious (the debt burden and liquidity).

Since we do not get the sort of coherence which we would most hope to see, the only chance for redeeming this collection depends on the intrinsic worth of each contribution. Generally they are no worse than competent overviews, or topic summaries. Which means they are potentially most useful for an advanced or graduate student who has sufficient training to ponder some of the more fundamental questions of the discipline. Although as largely summaries they present nothing startling or new, most of the chapters contain a largely non technical and fairly comprehensive discussion of the assigned topic. Though here some inevitable difficulties arise for the very readers who would benefit most from this volume. Because the breadth of each topic necessarily has to be constrained within a limited number of pages, there are often unexplained throw away lines that remain as puzzles left to the reader. This reproduces the unfortunate impression that the authors all know much more than they are currently relating and would in fact share more insights if only space and modesty did not intervene.

Considering the target audience, it would be wise not to take too much for granted but to explicitly spell out connections when possible. For similar reasons, if the general approach is to be non-technical, why allow such a departure from that benchmark as the chapter on debt burden. Certainly there is no excuse for the rather sloppy notation in the chapter on productivity.

At its best, the chapters are thought provoking and informative. Brian Loasby's essay on the firm stands out as an example of what can be accomplished given the constraints of the task. Though one must admit that Loasby has presented similar analysis elsewhere. Using a historical approach, Loasby starts with the less formal, more intuitive understanding of the firm which supported much of classical economics. The concerns of rigorously formulating notions of competitive equilibriums reduced the concept of the firm to a one dimensional point of production. Then as economics moved away from the strict atomistic world of perfect competition, theorists rediscovered the world of Coase on transaction cost, or of Penrose on the growth of the firm. What Loasby succeeds in demonstrating is the way in which a changing agenda redefines key economic concepts.

In a similar manner Mainwaring succeeds in following the progress of marginalism as a technique and way of thinking that shaped the course of economics. What is common to the most successful of these chapters is that each author is willing to put forward a viewpoint, to try to make some sense out of why and how economists accepted certain working definitions of the firm or of competition. It eschews the studied blindness that results from merely summarising the current prevailing conventions of economists.

This is to be sure a task not easily accomplished. Though Holcombe strives for this effect in explaining economic ideas of social welfare, he is himself hobbled by a somewhat naive acceptance of a textbook division of positive versus normative economics. In a comparable way, Dooley stumbles in his overzealous attempt to point out the shortcomings of classical theories of value by too often failing to keep clear the distinction between exchange and use value. Often by simply using the term value, the reader is left puzzled as to which of these terms he refers.

The point of this review though is not to belabour individual faults present in the essays. To repeat, they are all competent attempts. The fault, insofar as there is fault in this volume, must lie in the selection and organisation of the essays. The idea which initiated the project is a good one. It is understandable that too many constraints or editorial guidelines might be seen as detrimental to the contributors efforts. Yet in this case a much more valuable collection might have resulted in the presence of a stronger editorial hand. Even the general circulation of the chapters amongst the contributors could have borne some useful fruit. Collections of articles such as these continue to proliferate, many of them sinking virtually unread. To succeed, such volumes will have to cease to rely on serendipity but rather depend on the skill and vision of those who conceive such projects and latter bring them to fruition.

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1. Those unfamiliar with the work of Charles Dickens will find Micawber to be one of Dickens' more memorable creations. Appearing in *David Copperfield*, he is an improvident member of the lower middle classes, much given to keeping up genteel appearances but largely ineffectual at keeping out of the grasp of his creditors. His optimism of "something turning up" verbally supported by florid and lengthy reasoning has no factual credibility. Curiously, he only escapes debt and poverty by migrating to Western Australia where he gains great success as both a farmer and politician.

References

Weintraub, E. Roy. *Microfoundations*. Cambridge: Cambridge University Press, 1979.

The New Palgrave - A Dictionary of Economics. Eatwell, John ; Milgate, Murray; and Newman, Peter editors, London: Macmillan Press, 1987.