

Denis O'Brien Collected Papers

Methodology, Money and the Firm

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D.P.O'Brien, *Methodology, Money and the Firm*, 1994, 2 volumes, Economists of the Twentieth Century, Aldershot, Edward Elgar. Pp. xxv + 440, viii + 445, ISBN 1-85278-2
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These two hefty volumes comprise much of the non-book *oeuvre* of Denis O'Brien, the well-known British economist and historian of economics. The 36 papers included cover methodology (4), the industry (6), the firm (3), money and the currency principle (3) in volume 1; classical macroeconomics and trade (5); English economics 1660-1860 (10) and English and Austrian economics after 1870 (5) in volume 2. By far the majority of the papers included have a historical perspective, so that this collection fully deserves review in a history of thought journal, irrespective of the strong reputation of the author as a historian of economics. Many readers of this journal will know O'Brien as the rehabilitator and editor of John Ramsay McCulloch, the editor of Lord Overstone, the statistical investigator of the authorship of anonymous tracts and articles, the expositor of Joplin and the methodologist who discussed the various theories of the history of science (Popper, Kuhn, Lakatos) within the scientific framework of economics. Many of the likely readers of these volumes will also recognise some of their favourite pieces in this rich collection, whether in methodology, industry economics and economics of the firm or the evaluation of aspects of classical economics.

There is a heavy concentration on individual authors in these pages, reflecting O'Brien's high degree of specialisation. McCulloch features in the title of five of the 36 papers, Alfred Marshall and Robert Torrens in four each; Lords Overstone and Robbins in two each; and Petty, Ricardo, Ravenstone, Joplin and Hayek in one. If Marshall stands partly for Cambridge economics, then some of the history of the theory of the firm articles fall within this particular grouping as well. Entries in indexes can often give clear indication of concentration of contents. For these volumes, five authors have over ten lines of entries devoted to them in the index: Ricardo leads the pack with 14; Smith follows with 12, then John Stuart Mill and Torrens (11) and Marshall with ten. Maynard Keynes and McCulloch have 8 lines each. This shows the classical orientation of the subject matter and the emphasis on British authors in O'Brien's studies of the development of economics. This, and an aspect of the Cambridge focus in these volumes is commented on later in this review.

There is much wisdom in these pages which can be savoured again and again, particularly when it relates to the current weaknesses of economics. Following a major influence in his work, Terence Hutchison (5 lines in the index), O'Brien tends to deplore the essentially non-empirical practice of contemporary economics. This subject is specifically addressed in the two concluding papers on methodology: 'theory and empirical observation'

and 'economics and data'. Persons who with O'Brien deplore such tendencies in their subject, will delight in some of the quotable quotes these articles provide. My favourite is one reported from Nobel Laureate, Ronald Coase: "if you torture the data long enough, they will confess" (I p. 77), a telling (and chilling) description of much of what passes for econometric testing. O'Brien also raises the issue of market failure in economics research orientation, given the tremendous flow of resources poured from 'competitive' research funding agencies into projects which have often turned out to be dubious pieces of rather useless empirical research (I p. 101). Fashion in economics is another explanation for this research failure, particularly when the latest trend is not directed towards "the aim of providing reliable knowledge" (though O'Brien unfortunately fails to explain the meaning he assigned to this qualifying adjective). O'Brien reports that only five percent of the "empirical" articles in the *American Economic Review* involved data generated by the authors' initiatives during 1982-86, concluding more generally that the journal literature is far too often little more than "mock-physics", even though it has, just as frequently, substantial "rhetorical" elements which the physics journals seem to avoid (I pp. 103-4). Likewise, in the context of chaos theory, O'Brien approvingly quotes former *Economic Record* editor Turnovsky on the desirability of developing non-linear dynamic analysis (p. 109), a field which, incidentally, had been practised well before for some time by that maverick, mathematical economist, John Blatt, who for several years plagued gatherings of Australian economists with his sharp criticism of their mathematical, linear, non-modelling. Medicine, O'Brien suggests (p. 111) is perhaps a better role model for economics than physics, recalling here Petty, Quesnay and Juglar as noted physicians who contributed to economics in the past, to which the names of Locke, Barbon and Mandeville could perhaps have been added. Perhaps he could also have reminded his readers of Maynard Keynes's plea that economists should imitate humble citizens like dentists in silently, unobtrusively, but not always painlessly, serving humanity. The section on methodology virtually ends with a plea most readers of this journal will applaud: "economists would be wise to lay more emphasis on what is to be learned from history and less on what can be copied (and parodied) from physics" (I p. 114) a lesson which the American Economic Association report on postgraduate studies has likewise imparted to American economics graduate schools, though not so far, I believe, with a great deal of success.

Space prevents an equally detailed appraisal of the other six parts of the two volumes. Most of the essays on industry economics and the firm are well worth reading since they, generally speaking, stress the practical and empirical side of the subject, if they are not devoted to its history. For example, the centenary discussion of Marshall's industry analysis dwells lovingly on the factual side of the work of this realistic economist who, incidentally, is one of the few who actually thought it worthwhile to visit factories before writing on their economics. However, in the context of Marshall's analysis of "the firm", his theoretical side is explored with reference to monopoly, in a paper written with John Creedy which will be familiar to readers of *Australian Economic Papers*. Skipping over the subsequent four parts devoted to O'Brien's many essays on the British classical economists (currency and banking school, monetary theory, theory of the customs union, value theory, wages, taxation and classical economics as a school of thought with special reference to Ricardo) I wish to focus briefly on the last three papers dealing with Robbins and Hayek as an intellectual historian. None of these I had read previously, and needless to say, I found all three highly informative. What is particularly striking about these essays is that in addressing both these important economists so long involved with the London School of Economics, O'Brien always does so

critically. An example is Robbins's embarrassing book on the great depression published in 1934 in the wake of his highly successful *Nature and Significance of Economic Science*. Although Robbins later tried to suppress its existence when he realised how right Keynes's discussion of the matter was as compared to his own diagnosis, O'Brien evaluates this lesser contribution at some length (II pp. 368-70) noting its analytical structure continued to inform Robbins's macro-economics in the post war period even if its Austrian content was jettisoned. O'Brien handles Robbins more harshly on his Austrian (Wicksteedian) treatment of costs and markets with its refusal to deal with the aggregate theory of production (II pp. 394-6) a message which is even more strongly presented in the context of Marshall's approach to the subject (I p. 221 n.1). O'Brien's discussion of Hayek as intellectual historian is also very informative, by emphasising the enormous breadth of his interests and stressing the need for the historian to show "commitment" (II p. 414). Hayek did this, for instance, in his historical observation on the development of socialist thought and socialist planning, and in his treatment of the Scottish monetary theorist and banker, John Law. O'Brien is also almost envious of Hayek's linguistic abilities which gave him "encyclopaedic knowledge of literature in German and English", while he reports Hayek as able to read extensively in French, Italian, Latin texts (though not Swedish, probably not Dutch while his classical Greek is noted to have been limited). I found it a stimulating essay on a controversial figure in the world of twentieth century thought.

O'Brien's detailed discussion of Hayek's linguistic proclivities points to one weakness of these volumes: their excessive anglo-centricity. No papers are devoted to non-British economists with the exception of Hayek who, as is well known, spent a very substantial part of his life in England and in the United States. Austrian economics, of which he was an important representative, is therefore the only recognition in the titles of these papers that an economics exists apart from the English speaking world. Excepting the Austrian economists (Hayek, Menger, von Mises, von Wieser, Schumpeter) the only non-British economists who score two lines or more in O'Brien's indexes are Wicksell, Marx and Say. This elimination of most non-English-speaking economists from his history colours especially O'Brien's approach to the development of classical economics. Not for him the view presented by Marx that classical political economy commenced with Sir William Petty in England and Boisguilbert in France, not to mention reference of the contending Milanese and Neapolitan schools of economics in Italy whom Marx discussed in this context. Marx's treatment of Petty is in fact adversely commented on (II p. 104) though it is true, as O'Brien argues, that Petty (unlike Cantillon) was never really forgotten in the centuries which followed his pioneering work in economics so that no Marxian rehabilitation was necessary. Marshall, after all, had called Petty a 'classical' economist in the sense in which he used that term, that is, referring to a writer whose work continued to influence the development of the subject for decades, if not for centuries, after his death. O'Brien also fails to mention Petty's role in developing a surplus approach to economics as the clue to the social division of labour, economic development and growth, public finances, and much else. There is an equally deep silence on the work of Quesnay and the Physiocrats despite the enormous influence they exerted on the development of British classical economics via Adam Smith. Quesnay in fact scores only two entries in the index (one as a doctor and already mentioned in this review, one as the leader of the Physiocrats in the introduction to the two volumes).

This brings me to another aspect of the book with which I am less than enamoured: the dislike it shows to post-war Cambridge economics and in particular the work of Sraffa.

This is something O'Brien also shares with his key influences in the history of economics: Terence Hutchison and Mark Blaug. Such influence is especially discernible in O'Brien's remark (II pp. 195-6) that the "Sraffa model, a purely mathematical model (originating in Ricardian and Marxian preconceptions but with no recognisable correspondence with the world) is deemed to have important policy implications - though not of a testable variety". O'Brien fails to raise the point that this purpose was never attributed to his work by Sraffa, who modestly described it as "a prelude to the critique of economic theory" and who also saw it, albeit implicitly, as a rehabilitation of classical economics to use the felicitous phrase of Ron Meek's review. Moreover, testability failure applies to most theoretical modelling, as O'Brien points out in detail in the same article. Sraffa is more appropriately criticised with respect to his famous article on Marshall (I pp. 251-2), but here again O'Brien fails to note how widely Sraffa's views on some of these issues was shared by authoritative Marshall scholars like Stigler, and how much it has been criticised by persons sympathetic to aspects of Sraffa's work (for example, Sylos Labini, 1990). Nor does O'Brien make the point that much of Sraffa's critique applied really only to the more dogmatic Marshallians (Pigou, Robertson) and that perfectly competitive games continue to dominate much of what passes for theory. Sraffa on Ricardo comes in for critique indirectly (II p. 112) as does Samuel Hollander to a far greater extent (*ibid.*, pp. 112-16, 144) but the resemblances between classical analysis and the surplus approach is never really critically tested by O'Brien. The last, among other things, requires the international horizon which his work so clearly lacks. Keynes's contributions in the *General Theory* are surprisingly disparaged as containing nothing new (I p. 347). Criticism also flows to the work of Joan Robinson especially with respect to her imperfect competition (I p. xvi, 277-89). On most of these structures about her 1933 wrong turning, she would have agreed from the late 1950s onwards, though not always for O'Brien's reasons.

Irritation on the part of the reader is not a bad thing in reading economics, especially when its causes are embedded in so much which is informative and enjoyable. More generally, these two volumes are very rewarding by bringing the work of a leading historian of economics more widely to the attention of potential readers. Like the work of his mentors, Blaug and Hutchison, there are invariably things in such a wide ranging collection with which to disagree. Equally, there is much to stimulate. By making O'Brien's work of three decades more accessible, particularly in newer universities without long runs of journals, the publishers have made an important contribution to the history of economic thought. This collection is a must for all libraries and should grace the bookshelves of those who can afford to pay its fairly high price.

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Reference

- Sylos Labini, Paolo (1990), 'Sraffa's Critique of the Marshallian theory of Price', in *Essays on Piero Sraffa*, Krishna Bharadwaj and Bertram Schefold, eds (London: Unwin Hyman), pp. 3-19.