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Book Reviews

The Economics of John Kenneth Galbraith: A Study in Fantasy, F. McFadzean, London: Centre for Policy Studies, 1977. PP. vii, 51, £1.75 (plus £1.10 for postage and packing), soft covers.

In his Foreword to this monograph, Sir Keith Joseph of the Centre for Policy Studies writes the following of Galbraith with reference to the television series *The Age of Uncertainty*: "His views are idiosyncratic and partisan. He does not support them with any evidence. No other economist, as far as I know, has supported them. Yet he is the guide whom the B.B.C. has invited to conduct viewers on a ramble through economic and general history, arbitrary and partisan in its treatment of the past and the prescriptions it draws for the future". These views are not unchallengeable, although Galbraith is no doubt capable of defending himself concerning them. However, it should be noted that the premises on which this monograph is founded are highly disputatious and polemical.

So much for the background to the monograph. What does McFadzean have to say about Galbraith?

Firstly, he claims to hoist Galbraith with his own petard on a number of general issues — "one searches in vain for evidence to justify his lofty claim that he is actuated by a spirit of scientific enquiry and is above the time-serving motive he attributes to his fellow economists. Scientific enquiry implies a careful weighing of the evidence, the formulation of testable hypotheses and respect for the rules of logic — but these are not the brightest stars in the Galbraithian firmament". Further, since Galbraith claims that " 'the ultimate test of a set of economic ideas is whether it illuminates the anxieties of the time' ", he can be criticised because "He does not elucidate, much less resolve or relieve, the anxieties. He exacerbates them." In methodology "Part of his technique is to make sweeping generalisations, then admit some qualifications, which he then submerges completely as he deploys the generalisations in their full polemical splendour". Thus "Gailbraith's form of presentation can in *no* way be regarded as a source of illumination on *any* topic" (emphasis added, and not a bad sweeping generalisation either).

Secondly, McFadzean is extremely critical of Galbraith on a number of particular issues. Of most concern to McFadzean is Galbraith's rejection of conventional analysis of the firm — presumably perfect competition, monopoly, oligopoly, monopolistic competition and all that — in favour of a dichotomy of "entrepreneurial corporations" and "mature corporations". In the former, "management and capital invested are substantially in the same hands"; in "mature corporations . . . management is in the hands of professional operators (the planners) with little or no financial stake in the business". McFadzean draws on an impressive list of *neo-classical* economists (Solow, Demsetz, Friedman, Meade, Stigler) in arguing against Galbraith's dichotomy. The issues against which McFadzean argues with regard to mature corporations are that the planners, in "aiming to eliminate uncertainty, can insulate a company's fortunes from the fickle forces of the market and give it powers which make some of them 'conceivably

omnipotent' ". Such omnipotence could be achieved by vertical and horizontal integration, by manipulating the consumer through advertising and by incestuous relations with other firms and government. Most of Chapter III is a theoretical examination and subsequent rejection of Gailbraith's methodological structure.

Much of the rest of the monograph is an empirical rebuttal of Galbraith's notions about the nature of mature corporations. McFadzean shows that mature corporations cannot eliminate uncertainty in the manner he alleges Galbraith claims, McFadzean argues that mature corporations do not refuse to go to the capital market for funds, nor do they seek to be entirely independent of other corporations, and that the degree of symbiosis between government and business is not as close as Galbraith asserts.

Finally, McFadzean argues that Galbraith's answer to the alleged problems arising from mature corporations — *viz.* a greater degree of government regulation of business — is not a suitable vehicle for solving those problems even if they existed.

How adequate is McFadzean's critique of Galbraith? Firstly, it must be noted that McFadzean apparently writes from within a positivistic scientific framework and also from within a neo-classical economic framework. It is not at all clear that McFadzean has seen the implications of modern decision analysis for general economic theory: if, for example, every individual is a utility maximiser, then it does not necessarily follow that the central tenet of neo-classical economics — viz. profit maximisation — is an adequate *empirical* approximation of business firms' objectives, let alone a satisfactory theoretical notion.

Second, in deriding Galbraith's dichotomy of "mature" and "entrepreneurial" corporations as artificial, McFadzean fails to note that traditional economic wisdom relies on correspondingly artificially delineated models of perfect competition, monopoly and so on.

Third, McFadzean indulges in polemical exuberance in dismissing some of Galbraith's notions. For example, "one of the major aims of the corporate planner, says Galbraith, is the elimination of uncertainty". McFadzean argues that, since commodity prices continue to show marked fluctuations despite the rise of mature corporations, planners are unable to eliminate risk. There is however some difference between aiming to eliminate risk *ex ante* and actually eliminating risk *ex post* (in the same way as there is some difference between aiming to maximise profits and *actually* doing so!).

Fourth, McFadzean rejects *both* Galbraith's theory of how modern business firms operate and Galbraith's prescription for eliminating the evils the latter sees in their operations. It should be noted, however, that there is not necessarily a logical connection between Galbraith's theory and prescription. In particular, it is logically possible to reject the prescriptions of an economy with substantial central planning (if that is what Galbraith is arguing for) while retaining his theory of the business firm (perhaps with some modifications).

McFadzean's monograph is a useful set of idiosyncratic notions for testing one's grasp of logic and critical skills in evaluating economic arguments. A better evaluation of the wide range of ideas encompassed by Galbraith and others is to be found in Lindbeck's *The Political Economy of the New Left.*

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Survey of New Zealand Farmers' Intentions, Expectations and Opinions, April-May, 1976, J. G. Pryde. Agricultural Economics Research Unit Report No. 82, Canterbury: Lincoln College, Nov. 1977. Pp. 81. $NZ2.

"You Can Never Plan the Future by the Past" (Edmund Burk, 1729-1797, Letter to a member of the National Assembly)

The custom for many Australian rural policy decisions to be based on historical cross-sectional survey data is well entrenched within the system. Certainly, future-oriented surveys have to date tended to be confined to sociological areas. The Agricultural Economics Research Unit at the Lincoln College has attempted to provide a document which will provide sufficient input data to be used at a policy decision-making level in the field of basic macro-economics, as well as in sociology.

In the author's introductory words:

> "If effective policy making is to be achieved, a knowledge of likely happenings in the future is necessary. Surveys of decision makers' intentions can provide a direct source of forecasting information and contribute to greater forecasting accuracy."
>
> ". . . From information derived from surveys of farmers' intentions, expectations and opinions, marketers, transport operators, processors, shippers and others can assess the likely flows of produce from farms while suppliers of inputs can gauge more accurately likely demands for their goods and services. In addition, Government and other policy making groups can be better informed before they make important agricultural policy decisions".

Unfortunately, the study does not satisfactorily indicate that the survey technique used will provide sufficient appropriate data to achieve these ends. Particularly is this the case with the financial aspects of the study.

The author used a postal survey of 3,000 producers representing approximately 7% of the estimated full-time producers throughout New Zealand. Over 2,000 responses were received of which some 1,980 were accepted as satisfactorily completed.

Respondents were asked 18 questions covering future expectations and intentions on parameters such as flock and area management; investment; fertilizer; on-farm employment; product prices; and farm incomes. Some data was also sought relating to current produce marketing policy; motivation (what is your aim as a farmer); obstacles to output expansion, and use of advisory services.

Those questions deemed not to require an explicit answer were internally ranked by the respondent on a purely subjective scale (e.g. 'more', 'substantially more' or 'fairly efficient', 'so-so' or 'not very efficient').

Interpretation of the data presented in the report is most difficult, and certainly no attempt to do so is made by the author. Indeed, the question must be asked whether the data in the form in which it was collected, is in fact capable of meaningful interpretation in terms of the originally stated aims, *viz.*, as an input to decision making.

The basic problem lies in the non-specification of the ranking orders. The different perception that each respondent is likely to have of the magnitudes represented by 'more', 'substantially more', *etc.*, particularly when dealing with factors such as product-prices, farm incomes and capital expenditure confuses any interpretation considerably. These orders of magnitude will of course be related to and affected by the physical size of the property, flock, herd, *etc.*

Of some interest however, is the survey data on 'the most important single factor limiting an expansion in output' (cost of capital being ranked 13th out of 28 common answers); use of advisory services by producers

(64% use that provided by the Ministry of Agriculture and Fisheries); and the age classification of respondents (32% over 50 years of age).

The use of future intentions and expectation patterns of producers is an important, though relatively unused, tool for planning in both the policy and advisory fields. Whilst the Agricultural Economics Research Unit, Lincoln College, are to be commended for their efforts to produce a policy document using this approach, it does not meet their objectives.

The parameters chosen for inclusion in the questionnaire, the qualitative nature of the data received and its inherent interpretation problems would provide a useful basis for any researcher contemplating a study with similar aims.

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Agricultural Decision Analysis, Jock R. Anderson, John L. Dillon and Brian Hardaker. Ames, Iowa: The Iowa State University Press, 1977. Pp. ix, 344 $US 17.50.

> . . . Why, it's a theory yes; you can't see it; can't touch it; it's a theory. But what matters to me is not whether it's true or not but that I believe it to be true, or rather not that I *believe* it, but that *I* believe it . . . I trust I make myself obscure?

Sir Thomas More to the Duke of Norfolk in *A Man for All Seasons* (Act II) by Robert Bolt.

Decision analysis — Bernoullian or Bayesian, call it what you will — is something you believe. Anderson, Dillon and Hardaker believe and their "evangelism attests to (their) conviction". Their creed is presented in this powerful and persuasive book. Like other evangelists, they invite you to make your own judgment on the value and validity of the approach. The book is, however, more than a statement of faith. The authors make it clear (as Sir Thomas More knew) that to apply one's beliefs in a messy world is a taxing task, destined to produce conflict between principles and practice.

Readers of this *Review* could be forgiven the suspicion that Dillon's masterly review of Bernoullian decision theory[1] provided the skeleton of this volume. From this possible beginning, the skills of the trio in both the literary and quantitative arenas have produced one of the most important books in agricultural management since Heady's *Economics of Agricultural Production and Resource Use.*

The book is both comprehensive and detailed in its treatment of the theoretical and empirical aspects of normative decision analysis. A good working knowledge of mathematics and statistics will help the reader but it is not essential. The verbal and arithmetic treatment of most topics is excellent. Every one of the book's nine chapters is accompanied by a set of problems ranging from simple illustrations of concepts to potential Ph.D. dissertations. For those who have grown fond of Armidalian humour many old friends, including O. N. Theball and O. K. Shambles of Willigobung, re-appear to brighten the exercises. Nevertheless the exercises and textual examples have an international flavour. The chapters are also appended with an annotated list of references and selected further reading. For a book about a discipline in which the literature is growing rapidly this commendable approach minimises the number of citations in the text. This is in

1. Dillon, J. L. 1971, "An Expository Review of Bernoullian Decision Theory: Is Utility Futility?", this *Review*, 39 (1):3-80.

keeping with the high standard of writing and editorial work which is evident throughout the book.

The authors do not attempt to render reviewers obsolete by nominating the book's audience. I would suggest that it is truly a book for all readers. It will be invaluable as a reference for researchers and advisors (including policy advisors) in many applied fields of economics and agriculture. For classroom use it is well suited as a text for graduate students, while judicious use of 'skippy' (a symbol which designates difficult sections and resembles either a pregnant possum or a lactating llama) will give it undergraduate appeal in both economics and agricultural science courses.

The major article of faith which must be embraced is the concept of personal probability. This is treated in chapter two where the main concern is with the practicalities of discovering the decision maker's probabilities for random variables. This topic, including the use of historical data in forming such judgments and the possible biases in them, is extensively treated; the difficulties, particularly in the case of many random variables, are not disguised. The history of the probability controversy is treated lightly, but the generous reading list allows the interested reader to pursue this topic.

In this chapter (p. 18) is the most provocative statement of the book:

> . . . 'objectivity' in science is a myth, in life an impossibility, and in decision making an irrelevance. Its loss need not be regretted.

So little support is given for this contention that it resembles a conclusion in search of an argument. Such global pontification is prejudicial to otherwise sound reasoning. Possibly the authors are also unsure of the question because the statement is given as a problem for comment.

Chapter three, about the revision of probabilities from new information, is the shortest of the book. It completes the initial discussion of probability with a sketch of Bayes' theorem and its applications. Chapter four is about the concept of utility, its theoretical bases and estimating the utility functions of individuals. The algebraic specification of utility functions and the more difficult topic of multi-dimensional utility are treated in some depth.

Chapter five has two distinct parts which may have been better organised as two chapters. The first part presents the general model of decision analysis in which prior probabilities, Bayes' theorem and the utility function are brought together to produce a decision strategy. Discussions of the 'decision tree' approach to analysis, and decision analysis with normal distributions are also presented. The first part closes with a very short and slightly confusing note on sensitivity analysis. The second part breaks away from the major theme of the book, namely decision analysis for individuals, and provides a welcome consideration of decision making groups and some aspects of risk sharing. It is my hunch that these topics are very important in an agriculture characterised by family-farms, partnerships, companies and markets in which risks can be traded. There is nothing new in this short section but maybe it will provide the stimulus for more work in these under-researched areas.

Chapters six, seven and eight are particularly interesting because in these the Bernoullian 'package' is used to re-write the theory of production economics; to analyse the organisation of whole farms; and to appraise long term investment. Throughout these chapters we see the immense difficulties confronting the quantitative analyst. Commendably, the authors pursue their approach in the qualitative analysis of these questions, with some interesting insights into the complexity of every-day decisions. The reader shares their disappointment that quantitative techniques, as they exist, cannot accommodate the preferred theory, and in some cases, the feasible techniques

do not have a basis in any theory. Also it is conceivable that some components of decision problems, such as a person's utility for money to be received ten years hence, can never be known. These are very readable chapters which discuss some old problems and techniques in a challenging framework. They are a 'must' for practitioners in the fields of investment analysis and mathematical programming.

The last chapter, entitled 'Decision Analysis with Preferences Unknown', discusses the various concepts of stochastic efficiency. These are applied to questions of crop selection, fertiliser rates, and whole farm planning. Besides drawing some implications of this form of analysis for the study of decision analysis, research and extension, and agricultural policy, a useful computer program for stochastic efficiency analysis is listed. The subject matter of the chapter has not had the same public exposure as the remainder of the book. It is valuable to have it in a textbook suitable for agriculturalists at this early stage of development.

Finally, there is not a great deal in this book which is new. The great appeal of the book lies in its clarity, completeness, and its ability to take the reader to theoretical frontiers with understanding.

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