Book Reviews

The Economics of Collective Action. *By* JOHN R. COMMONS. The Macmillan Company, New York. 414 pages. c1950.

THIS VOLUME by a man who spent most of his life on the battlefronts of economic conflict is the last of three significant books in which he undertook in his later years to construct a science of political economy that gave due weight to what he had seen with his own eyes. Along with all other economists, he found the economy complex and changing; in fact, he found it even more complex and changing than did most of them because he participated more in efforts to change it. The first two books explaining his volitional theory of economics (*Legal Foundations of Capitalism* and *Institutional Economics*) were not easy reading. But this was due in no way to any inability on his part to state clearly a simple idea; it was due rather to the fact that he was dealing with ideas that are not simple. Partly because of the understanding and untiring efforts of the editor, Kenneth H. Parsons, the present volume is much more easily read, and for this reason alone should result in a more widespread understanding of the work of this really great American economist.

The book consists of 17 short chapters, organized into four parts, as follows: (1) Economic Activity, (2) Simplified Assumptions, (3) Relativities, and (4) Public Administration in Economic Affairs.

Under Economic Activity, Commons starts again with the fact that must be evident to all thinking economists. The fact is that collective action is now dominant in America and in all other important national economies throughout the world. Its principal forms in America are corporations, labor unions, and political parties.

If economic analysis is to be directed to real problems of policy instead of merely to the solution of logical problems of mathematics, it cannot escape the analysis of collective action and the choice of alternatives available under collective action. Commons understands economic policy to be purposeful political economy, not merely automatic atomistic economics. Purposeful political economy is a volitional process, not a natural equilibrium. The mental tools required for investigating and understanding this process can be reduced by abstraction to no less than five, which he calls "Simplified Assumptions." He names them Sovereignty, Scarcity, Efficiency, Futurity, and Custom.

In his discussion of "Relativities," he says in effect that any economic theory that is intentionally restricted to the analysis of scarcity deals with only one of these five functional variables and usually results in what he calls a "part-whole fallacy." It blurs the vital distinction between use-value and scarcity-value, between wealth and assets, between goods and ownership of goods. The real practical truth is the whole truth; not an abstract part-truth. Not all forms of collective action can be identified as monopoly. He calls "reasonable value" the "ethical culmination of economics"—by which is meant that most actual or real prices in the modern world do not have merely economic dimensions, but also objective ethical and political aspects. This means that to understand them and the policies responsible for them the economist cannot wall himself off from the other social sciences.

In a period characterized by control economics, the most serious blindness is the illusion that it is possible to return to the individualism of the eighteenth century. "Instead of the traditional equilibrium between equal individuals of economic theory, the alternatives today are between an economic government based on balance of power between self-governing corporations and unions, and a suppression of both organizations, or their leaders, by military power." Commons agrees with neither those seeking extreme individualism nor the advocates of dictatorship. He holds that the first goal is an inaccessible alternative; and that the latter, whether of the right or the left, is not the only remaining available choice. Another is what he calls "collective democracy," as distinguished from the individualistic democracy of Adam Smith. In his discussion of Public Administration, he recommends the device of the advisory committee of the leaders of groups having conflicting interests as an effective means of retaining democracy in the governmental process.

Believers in economic law, or in simple solutions like either laissez-faire or the deficit spending formula, will get little comfort from this volume. The laissez-faire boys generally have already become pessimists who see America headed straight down the road to serfdom. The extreme Keynesians are already extreme optimists who seek only the authority to regulate the money switch. Commons' students are neither pessimists nor optimists. They are serious but not without hope, because they see nothing inevitable about serfdom, they have never had any illusions about the inexorability of the price mechanism, and know that the extreme Keynesians (not Keynes himself) are guilty of the part-whole fallacy. They know, also, that they have to work for the kind of economy they want—that it will not result from any automatic natural forces.

Agricultural economists who seek "to implement the search of mankind for liberty, security, just[illegible] and equality" cannot afford to be without t[illegible] volume. It is the one to read first in order to become acquainted with Commons. Economists of the future will be reading it when most of the current products that represent a cultural lag from an outmoded past are forgotten. Besides the four parts, too briefly described in this review, the book includes: (1) A biographical sketch of Commons by Selig Perlman, (2) an editor's preface by Kenneth H. Parsons, (3) an appendix on Commons' Point of View, also by Parsons, (4) two additional appendices, and (5) an extended bibliography of Commons' writings. Finally, those who knew him will appreciate the excellent reproduction in color of his portrait by Christian Abrahamson, which is also included by virtue of the generosity of a friend of Commons.

Bushrod W. Allin

Economic Fluctuations in the United States, 1921-1941. By LAWRENCE R. KLEIN. John Wiley & Sons, Inc., New York. 174 pages. 1950. (Cowles Commission Monograph 11)

THE TITLE of this book is misleading, for the nonmathematical reader will not find a recognizable description or explanation of business cycles during the interwar period. Even the mathematically sophisticated are given little basis for appraising the significance of the author's complete model. Its relevance to the field of discourse of Schumpeter, Mitchell, Slichter, and Hansen is by no means obvious—primarily because the author himself does not indicate such a connection.

Actually, the book is an exercise in econometric model building. The first chapter is a very brief exposition of the Cowles Commission approach to economic analysis. The economic system is regarded "as describable by a set of simultaneous equations expressing all the inter-relationships among the measurable economic magnitudes which guide economic behavior." In addition to "endogenous" variables which are mutually determined at a given time, the system includes values of the same variables for previous periods and "exogenous" variables, which may be determined by "natural, technological, sociological, political, or institutional forces which are assumed here to be noneconomic." In principle, the system as a whole cannot be accurately described by calculating least-squares estimates of the separate equations. For one thing, different least-squares estimates are [illegible]tained for different choices of the "dependent" variable. Furthermore, unless we know a good deal about the other equations in the system and are willing to make some assumptions about the nature of the unexplained residuals or "disturbances," we shall not be sure whether an equation containing (for example) price and quantity variables is a demand curve, a supply curve, or some uninterpretable combination of the two. This is the "identification problem," which has received much attention from members of the Cowles Commission staff in recent years. The terminology is new and the current mathematical treatment more elegant, but the basic problem was well known to agricultural price analysts in the 1920's (see especially Elmer Working's article, "What do 'Statistical Demand Curves' Show?", *Quarterly Journal of Economics,* February 1927).

In view of these difficulties which are inherent in a single-equation approach, the author concludes that it is necessary to use a maximum-likelihood method of estimation which treats the set of equa-