Book Reviews

Monopoly and Free Enterprise. By GEORGE W. STOCKING and MYRON W. WATKINS. With the Report and Recommendations of the Committee on Cartels and Monopoly. The Twentieth Century Fund, New York. 596 pages. 1951. $4.00.

AGRICULTURAL ECONOMISTS should find this competent presentation, by outstanding authorities in the field, of particular interest.

In 1933, Mordecai Ezekiel and Louis Bean, in their pamphlet, *The Economic Bases of the Agricultural Adjustment Act,* published by the U. S. Department of Agriculture, pointed out that many farm commodities were sold on markets where free competition still prevails, while a substantial number of the products of industry were sold under conditions of partial or total monopoly. By providing information on production and trade, this new book should assist the agricultural economist to view the conditions underlying agricultural production and marketing in better perspective.

Unfortunately, this work presents insufficient data and analysis to show how our economy would operate without large-scale industry and it does not indicate in what ways a return to more complete competition would be superior to our present organization. Moreover, the capacity of unrestrained competition to organize our complex structure of production and distribution without economic anarchy is not explored in any detail.

Predilection in favor of free enterprise leads the authors to view with jaundiced eyes the efforts of the Government, since 1933, to improve the economy by raising farm income through agricultural adjustment and by improving labor's economic position through more orderly collective bargaining.

Unexplained also is America's predominant economic position among nations in spite of partially monopolistic industry with its attendant restraints upon production. Perhaps our relative economic well-being can be explained, in part, by the size of our national income and the pattern of its distribution. Improved farm and labor income may have played important roles.

The authors' apparent contention is that there would be more goods at lower prices if restrictive monopolistic practices were curbed and that our economic strength, relative to that of other nations, may be due to the greater prevalence of competition here than abroad.

We still do not have enough material to know how far along the road of competition we can go with the greatest profit. The authors have done excellent work in ferreting out the available information, digesting it, and presenting it in logical form.

There is no doubt that any economy could be improved, and in many chapters the authors seek to show how this improvement could be attained. The chapters on patents and monopoly, incorporation policy, the basing point system, and trade associations, are particularly good in this respect.

The book has two parts: Fifteen chapters on aspects of monopoly and free enterprise, prepared by Stocking and Watkins and an obviously competent but anonymous research staff; and another chapter, A Program to Promote Competition, which is the Report of the Committee on Cartels and Monopoly of the Twentieth Century Fund. A Supplementary Comment, written on a note of dissent by one member, is appended, which states:

"An objective study is urgently needed that will concentrate, not on the shortcomings of American business, but on what it is that has enabled American companies, both large and small, to grow, to achieve commercial success, and to contribute to giving the American people the highest living standards in the world."

This point is well taken, for the bulk of the professional literature on monopoly is not free from prejudice against big business. This attitude derives from the bias present in the data upon which this literature is based; court records and proceedings in antitrust suits and investigations by regulatory bodies, committees, and commissions interested in the social control of business.

The spirit of self-examination which this book reveals is one of the reasons for America's success. We are never so well off that we cannot see our faults and nothing is ever so good that it cannot be improved. Works such as this contribute to our improvement by making for enlightened public opinion and action.

Max J. Wasserman

American Capitalism. By JOHN KENNETH GALBRAITH. Houghton, Mifflin Co., Boston. 217 pages. c1952. $3.00.

A FACILE PEN and a much better than average vocabulary have produced for the intelligent layman a much more accurate description of American capitalism than has thus far been written by an equilibrium economist. Besides serving the purpose of promoting a better general understanding of the American economy, it should serve as a further aid in giving American economists a better perspective for appraising classical, neo-classical, and Keynesian economics.

Following Lord Keynes, Galbraith points to Say's Law as the Achilles heel of classical theory. Then a major concession is made to Veblen and Commons when he says quite correctly that economists have made a fetish of the neo-classical concept of "social efficiency," and goes on to explain that the American level of living has constantly risen in the face of persistent violation of the competitive model because of improvements in another type of social efficiency which he calls "technical development."

More influence on modern economic history is attributed to Keynes than to Roosevelt. This can be dismissed as a pardonable exaggeration of the merits of the Lord by a disciple. There can be little doubt that the volume of deficit spending endorsed by Roosevelt would have been essentially the same if Keynes had never written his formula.

The heart of the book is the explanation of why the Keynesian formula fits the facts during peacetime, when the purpose is to protect the economy from excessive depression or deflation, and why it will not be allowed to protect the economy from inflation during wartime or when the Nation is preparing for war. This explanation is built around what the author calls a theory of "countervailing power."

When employment is less than full, politicians are willing to reduce taxes and increase spending, and the economic power of oligopolies is checked by the countervailing power of other groups such as trade unions. In wartime, politicians are unwilling and unable to raise taxes as much as they are willing to increase spending. Fuel is added to the flame of inflation at this time because trade unions and other countervailing powers gang up with the oligopolies against the public. There is no answer to this but "centralized decision" or government control. Hence, if capitalism is defined as "decentralized decision," its future in wartime is bleak indeed.

This is essentially what the publishers of the book mean when they label it "A bold new concept of the balances of power in the last refuge of avowed capitalism." No doubt it is new to those who have never heard of it before. What it means, of course, is that the longer we remain in a state of war or fear of war the more certain it is that we shall have to continue changing our avowed meaning of capitalism.

A defect of the book, in the opinion of this reviewer, stems from the author's preconception of economics as an equilibrium of forces or a self-generating *mechanism* instead of a volitional process. Under this preconception he can characterize the development of countervailing power as "normal." He can say that it was not John L. Lewis or Phillip Murray who developed the power of their unions but U. S. Steel—which is not essentially different from saying that Providence or Nature developed U. S. Steel and the human or "artificial" purpose of a Gary or a Fairless had nothing to do with it.

Such connotations also blur his otherwise realistic conception of government or the State. He holds that "the" major domestic function of government is to develop countervailing power as a means of approaching ideals not attainable by free competition. But the State *is* an organization of powers, and any change in the exercise of those powers can only be achieved by those who are interested and are politically or economically powerful enough to force the issue—not merely by some definition of *proper balance* formulated by a government official. He seems to waver between a clear understanding of this fact and the notion that the State is something wholly rational and acting apart from the conflict itself.

Yes, ideas are powerful forces for change, but in social science they include ethical ideas of equality, democracy, and justice—not merely the ideas of a self-regulating mechanism so characteristic of natural science.

What the author calls countervailing power is a part of the economics of collective action, and includes what is usually called collective bargaining power. That he should say the concept "has gone unrecognized in economic and political theory" suggests that he may be following the advice usually given to amateur duck hunters to shoot like blazes and claim everything that falls. Even so, progress is being made in social science when an economist realizes that "In a book like this the line between economics and politics must truly be an imaginary one—it is a parallel that must be crossed and recrossed without consultation even with the reader."

This book should be valuable as a text to teachers interested in clarifying the limitations, as well as the usefulness, of orthodox theory.

Bushrod W. Allin

The Economics of Mobilization and Inflation. By SEYMOUR E. HARRIS. W. W. Norton & Co., Inc., New York. 308 pages. c. 1951. $4.50.

THE BULK of this treatise is a very competent analysis of the problems arising in a mobilization economy, their magnitude under varying assumptions, and methods for meeting them. Major emphasis is on monetary and fiscal problems, with such physical aspects as allocation, rationing and efficiency of production dealt with in global terms and somewhat slighted. The limitations placed on increases in the Gross National Product by our resources and by possible increases in efficiency are carefully examined. On balance, Harris is cautiously optimistic. He projects a substantial increase in GNP, but one insufficient to meet all military needs. The text then takes up the extent of the inflationary potential expected from estimates of the magnitude of the mobilization effort and of these productivity projections. In the light of this problem Harris considers Government expenditures, taxation, savings, and monetary policy. Also discussed are direct controls as supplements and substitutes for some monetary and fiscal measures. The final sections point out the dangers and welfare aspects of a failure to deal with inflationary and related problems of a mobilization economy.

A major theme of the book is the difference between World War II and a current defense effort. Harris convincingly documents his belief that, although the last war effort was supported largely out of increased output and was accompanied by an increased level of living, any substantial defense effort would now be possible only at the expense of current consumption. This necessity for civilians to share economic hardships rather than benefits would vastly complicate most facets of a defense program.

The value of this book to the administrator is as a background work which succeeds admirably in sifting and relating in a meaningful way a vast array of data. No outstanding contributions to either economic theory or methodology are made, nor is there an analysis of specific problems that administrators would face in developing a particular program. It represents rather the application to the problem of mobilization of a wide range of economic techniques and theory. Especially valuable in this respect is the implicit reminder of the many facets that need to be considered in the formulation of the problems and plans for their solution. Another important contribution is the tremendous volume of current and historical facts and statistics here assembled. In fact, one sometimes has the impression that the author could not forbear to include some data not directly relevant to his main thesis. His detailed discussion of price supports for agriculture, for instance, is not important to the problem he discusses, but the data and opinions on this subject may have been at hand and therefore included gratuitously.

The projections of economic developments in mobilization, which constitute the bulk of the book, could be criticized for either their assumptions or the data used. The latter is impossible for one who is not actually operating with these data, when an experienced practitioner like Harris has employed them. The assumptions are always clearly identified and alternatives are presented. As assumptions in formulating mobilization policy are inevitably based on high-quality guess work, the author's are probably as valid as any that could be made without access to the plans of the Kremlin.

The basic assumptions of the book may be more directly controversial. The premises are, to a considerable extent, those of the present Administration. While the author evaluates alternative control methods, he accepts controls as necessary evils and does not doubt the need for them even in a mobilization economy short of total war.

It is a minor point to note that in his discussion Harris ignores underemployed agricultural and other workers as potential sources of manpower for defense production.

There is no question that the book is extremely timely and addresses itself directly to some of the major problems we face today. A corollary of this timeliness is that substantial portions of it will quickly become obsolete.

Gustav F. Papanek

Economic Mobilization and Stabilization. By Lester V. Chandler and Donald H. Wallace. Henry Holt and Company, New York. 610 pages. 1951. $4.50.

FOR THE MOST PART, Professors Chandler and Wallace have drawn on existing publications for this volume, which has the subtitle, "Selected Materials on the Economics of War and Defense." The authors' declared purposes in writing the book were (1) as a text, or a set of materials, for a college course in the economics of war and defense, and (2) as a reference work for administrators, legislators, editors and commentators, leaders of organized groups, and the general public. These purposes are admirably served.

The book is divided into six parts. Part I, prepared by the authors, presents the basic economic problems of war and defense programs. Professor Wallace discusses economic controls in full war and makes some pertinent proposals for their development should the United States become so engaged.

Parts II to IV are concerned with the economic problems of full war, such as the problems of production and allocation, manpower, finance, price and wage controls, and rationing. A large part of the materials in this section was drawn from Government reports on World War II experiences including, "Industrial Mobilization for War: History of the War Production Board and Predecessor Agencies, 1940-45" (1947); "The United States at War," U. S. Bureau of the Budget (1946); "Problems and Policies of Dispute Settlement and Wage Stabilization in World War II," U. S. Bureau of Labor Statistics (1950); and "A Short History of OPA" (1949).

Part V is concerned with the economics of a limited defense period. It contains the Fifth Annual Report to the President by the Council of Economic Advisors, December 1950, and articles by A. G. Hart, J. K. Galbraith, and others. Part VI evaluates several programs for economic control during a full-scale defense period. This section appraises the traditional system of economic controls—traditional in the sense that it was used during World Wars I and II—the so-called "disequilibrium system," which tolerates large excesses of incomes over permissible consumption, with prices restrained by ceilings. The pay-as-you-go program is also appraised and found wanting, mainly because the tax program necessary to pay for a full-scale defense program would have to be so large as to restrict the incentive to produce. The authors of this section, E. S. Shaw and L. Tarshis, present their own program, which involves expenditure rationing and neutralization of all funds in excess of the level of consumption available. There is some mention of the constant purchasing power bond as a means of encouraging the diversion of income into savings channels. Under this program, the authors contend that price controls would not be necessary. Part VI and much of Part V were drawn from the March 1951 issue of the *American Economic Review*.

It is clear from this set of materials that economists know what inflation is, how it arises, and what tools are necessary to prevent it, although some of the proposals suggested by economists are not easily acceptable politically. Perhaps the major differences among economists relate to the importance allocated to each of these tools. It is also clear that no single tool, such as pay-as-you-go taxation, will suffice. We need only to go back to the period following the Korean outbreak when one of the sharpest price rises in modern times occurred despite the fact that the Federal Budget was not operating at a deficit. The price impetus was generated largely by spending that was taking place in the private sector of the economy which was fed by large amounts of liquid assets.

Perhaps the major weakness of the book is that the section on the economic problems of a limited defense effort (Part V) is not so well rounded as the other sections, because relevant materials were scarce. Furthermore, the materials included were prepared against an economic background in which the inflationary process was clearly evident and practically all anti-inflationary devices appeared to make sense. This is not true today. Prices in many wholesale markets are lower than they were a year ago. Consumers have slackened their spending and increased their savings voluntarily, which did not appear probable a year ago. In some areas unemployment has developed, not wholly due to material shortages. In the light of these developments, stabilizing the economy today is not entirely the one-sided, anti-inflationary program that seemed appropriate at the time the book was written.

Nathan M. Koffsky

Linear Computations. By PAUL S. DWYER. John Wiley and Sons, Inc., New York. 344 pages. 1951. $6.50.

Statistical Methodology Reviews, 1941-50. Edited by OSCAR KRISEN BUROS. John Wiley and Sons, Inc., New York. 453 pages. 1951. $7.00.

PROFESSOR DWYER'S book is written "for the purpose of aiding the many workers in a variety of fields who have the general problem of finding numerical solutions for sets of simultaneous equations." Agricultural economists encounter this problem most commonly in connection with multiple regression (correlation) analysis, as in deriving statistical demand or supply curves and various types of estimating equations.

The textbooks on economic statistics with which this reviewer is familiar describe the solution of "normal equations" in terms of elementary methods with which high-school graduates are presumed to be familiar. Typically, the students work out a correlation problem on obsolete calculators, recording each individual cross-product, and finally solve the normal equations by the textbook method. At the end of this process, all but the most ardent have concluded that regression equations are prohibitively difficult to come by, and that "research" reports can be written more rapidly if the data are merely described and not analyzed.

As a result, many economists fail to realize three major sorts of efficiencies which can make regression analysis a relatively easy and inexpensive research tool. The first of these efficiencies lies in proper use of the calculating machine itself. With modern desk calculators, the results of many individual operations of multiplication or division can be cumulated in the machine, and the work of recording greatly reduced. On page 45 of his book, Dwyer lists 13 "operational units" (combinations of basic arithmetical operations) which can be handled on modern calculating machines, including the relatively familiar one of cumulating the cross-products needed in regression analysis.

The second sort of efficiency lies in abbreviated methods of solving the normal equations. Earlier chapters of this book give abbreviated methods based on elementary algebra. For handling problems involving more than four variables, or problems in which variables may be added to or dropped from the original set during the course of an investigation, the most efficient methods involve use of the inverse matrix. Chapter 12 gives a 10-page introduction to the algebra of matrices, and Chapter 13 relates it immediately to the solution of simultaneous equations. Numerical examples are carried through in this and the following chapter. These three chapters provide a rare opportunity for non-mathematical economists to find out what matrices are about, and to obtain some insight into "what goes on" in modern econometric articles in which matrix notation is used freely.

The third sort of efficiency so far as the professional researcher is concerned lies in turning over the routine labor of regression analysis to clerical assistants. The ideal situation, of course, is to have a special computing unit with expert supervision that can take over the entire work of calculation, using compact methods, adequate checks, and first-class equipment. If a computing unit is too expensive for a single department to maintain, it may be feasible for a group of departments or divisions at the same location. Failing this, a clear set of instructions, possibly with mimeographed forms for recording items that must be written down, should make it possible to use less specialized clerical workers or student assistants. Such instructions and forms could be developed on the basis of Dwyer's examples.

The major new contribution in the book appears to be a systematic treatment of the problem of errors in linear computations, including an analysis of the effects of errors in the original data as well as those due to rounding and to outright mistakes in calculation.

This book is so organized as to serve as a text for a course on linear computation or for individual study. It is also intended as a reference book for workers in applied fields. Persons whose work calls for extensive use of regression analysis or involves other types of simultaneous linear equations will do well to examine it.

BUROS' book contains excerpts from 842 reviews of books on statistical methodology that appeared during the last decade. Of the 342 books listed, more than 120 are merely noted and about 70 are represented by a single review. Often this reflects the specialized character of the method used and its limited area of application. Some of the more important and more general books are represented by 10 to 15 reviews, and a fourth of the total space is taken up by reviews of 10 books. The "master work" of the decade, judged by the review space given it, is Kendall's *The Advanced Theory of Statistics.* Considerable attention is given to Thurston's *Multiple Factor Analysis,* Kelley's *Fundamentals of Statistics,* and Cramér's *Mathematical Methods of Statistics* and to texts by Hoel, Peatman, Ezekiel, Weatherburn, and others. In addition to general works on probability and mathematical statistics, major areas of application are well represented. Quality control, education and psychology, business and economics, medicine and public health, biology and biological assay are among the headings in Buros' classified index.

The book is a useful starting point for any survey of recent developments in either theoretical or applied statistics. Serious students will profit by the higher criticism of such reviewers as M. G. Kendall, Joseph Berkson, John Tukey, Edwin B. Wilson, Harold Hotelling, and Abraham Wald, to name a few. As reviewers, the great statisticians of the decade take on human qualities seldom recognizable in their formal articles and books.

Mature workers in an applied field may get new insights from the reviews—and even the titles—of books in other fields. As a transient example of this, "probit analysis" (Buros, page 126), which normally deals with such matters as estimating the proportion of insects that will be knocked out by a given chemical dose, might have some value in conceptualizing the effect on potential purchasers of houses, automobiles, or tractors, of a given "dose" of credit regulation or price increase.

Karl Fox

The Transportation Economics of the Soybean Processing Industry. By EARL C. HEDLUND. University of Illinois Press, Urbana. 189 pages. 1952. $3.50.

THE OBJECTIVE of Mr. Hedlund's study is to evaluate the importance of costs and other aspects of transportation in the soybean-processing industry, with special reference to the influence of such factors on the location of processing plants. In a larger sense, it is an excursion into locational theory—economics of location; but the study seeks specifically to test whether, from the standpoint of that theory, the present organizational set-up of the soybean-processing industry can be economically justified.

Some attention is first given to the historical development of locational theory from its beginnings under Von Thünen to recent studies by F. H. Sparks in southern California. The author then formulates his own theory of location with a much greater emphasis on transportation than earlier statements of location economics gave it. Important elements in the author's "workable theory of location" are the degree of weight lost by the materials in processing, the transportation rate per ton-mile for moving raw material and product, and the degree to which the general rate level is based on the "distance principle." Other essential components include a complete analysis of market areas, availability of fuel and power, labor supply and costs, certain personal factors of a rational or irrational nature, and availability of capital.

A measurable amount of background material is provided concerning both the soybean industry and general transportation economics. A discussion of the location and growth of production areas and the utilization of the soybean is followed by a description of processing methods and product utilization. One who is not well informed regarding soybeans will gain from the book a new appreciation of this fourth largest cash-grain crop in the United States.

The most significant feature of the book is its detailed discussion of the institution of *transit*. Transit is defined as the privilege of stopping a shipment en route to enable a process or operation to be performed on the article, and of reshipping to final destination at the through rate applicable from the original shipping point to destination. The impact of this device is so great on so much of the American industry that it deserves the three chapters devoted to its analysis. Without specific application to any product, the transit problem is presented from its technical, operational, legal, and economic standpoints. This section of the book would be useful as collateral reading in a course in Principles of Transportation.

One has the feeling that while the author is far from convinced of the economic soundness of transit, he nevertheless recognizes that too much of our present industrial organization is built on it to encourage the contemplation of any drastic changes or departures from the present practice. In later chapters, the influence of the transit privilege and the general rate structure are given practical application to the soybean-processing industry.

The author concludes that the industry as now organized conforms with the transportation economics which condition it. The important transportation factors affecting the location of processing plants are given as: (1) Necessity of locating so as to be able to reach many widespread markets; (2) existence of the transit privilege; (3) the loss of weight in processing; (4) nonapplication of the through rate to soybean oil under transit; and (5) rate relationship between soybeans and processed soybean products. When he gets to the soybean-processing industry, the author gives little attention to the nontransportation factors included in his "workable locational theory." If he had, one wonders whether Mr. Hedlund would be as well satisfied with the present location of the plants.

Joseph E. Rickenbacker