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## BOOK REVIEWS

*The Australian Economy: A Volume of Readings.* Edited by H. W. ARNDT and W. M. CORDEN. (Melbourne: Cheshire, 1963.) Pp. 470, 30/-.

There are twenty-seven readings in this book. Ten are extracts from the series of 'survey' articles which have been a feature of the *Economic Record* since 1956; of the remainder, eight are articles reprinted from the *Economic Record* and nine mainly from the less accessible field of memorial addresses, occasional lectures, and so on.

The principal criterion for an article's inclusion was its contribution to the analysis of the workings and policy problems of the Australian economy during the 1950's and the opening years of the present decade, emphasis being given to the second half of the period. Consequently the book should provide an excellent basis for teaching economics in the context of actual economic events—the book was designed primarily to meet the needs of students—as well as providing a useful general reference to much of the economic history of the period. A disadvantage is that for the general reader the book will date, or will at least appear to do so. This applies particularly to the extracts from the 'survey' articles which constitute the first quarter of the book, even though the extracts selected, in the main, are discussions of more general policy issues.

For the student this limitation of being dated is less significant. Some of the articles, such as Professor Downing's contribution which began the 'survey' series and is reprinted in full, are excellent examples of the analysis of current economic events; others—such as those of Professor Arndt and Dr. Hall—illustrate the importance of critical examination of apparently simple explanations of movements in economic magnitudes. Moreover, although the basis of selection implies that, of those available, the articles included are not necessarily the ones of most enduring worth, many of those included must have qualified had this been the criterion.

The coverage of the readings reflects fairly accurately the attention given in economic debate to particular issues during the period: population growth and immigration, wage policies, monetary policy, public finance, restrictive practices, agricultural development, the balance of payments, and overseas investment are some of the subjects represented by specific contributions as well as being covered, in some cases, in the 'survey' extracts.

Agriculture is represented by Professor Campbell's 1956 *Economic Record* article, 'Current Agricultural Development and the Utilization of Resources', and by Professor Gruen's 1962 article in this *Journal* on the cost-price squeeze. Professor Campbell's article wears well, and much of what he said then—such as his discussion of the role of technical progress in agriculture—is well worth re-reading. Professor Gruen's contribution will still be familiar to readers of this *Journal*. It is hardly necessary to say that both merit their inclusion.

The economic problems of the 1960's will presumably differ from those of the 1950's and a collection of readings mainly from the latter

period will picture only imperfectly the economy as relevant currently and to the immediate future. Much of the analysis contained in the book will, of course, remain generally relevant even with changes in economic circumstances. On the other hand, some subjects dealt with only incidentally in the present readings—such as those concerned with productivity growth and its sources—might be expected to attract more attention in an economy which appears to have disposed, at least temporarily, of its balance of payments problem. As an example, the four articles dealing with the balance of payments reflect the considerable attention justifiably given to this problem in the 'fifties but each was written in the context of the direct control of imports. Even though one of these four is Dr. Corden's 1958 article on import restrictions and tariffs, it remains true that the re-emergent problem of tariff policy is covered in the readings largely as a by-product.

Nevertheless any limitations of the book are minor compared with its value not only as a teaching aid but for more general readers as well. Its usefulness is enhanced by the inclusion of a classified bibliography and by the addition—uncommon to books of readings—of an index. There is good cause to be grateful to the editors and to the publishers both for its compilation and for making such a well produced book available so cheaply.

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*The Establishment of the Department of Trade: A Case-study in Administrative Reorganization.* By R. P. DEANE. (Canberra: Australian National University, 1963.) Pp. 103, 25/-.

Mr. Deane has set himself two tasks in writing this book. One is to recount, and explain, the events that led up to the establishment of the Department of Trade and the stripping of the Department of Trade and Customs of most of its policy functions. The other is to inquire how useful are rational theories of the allocation of administrative functions, as either explanations of, or guides to, processes of administrative reorganization. Accordingly, the book falls more or less neatly into two parts. The first is a mainly historical account of events up to 1955, i.e. just before the establishment of the Department of Trade (and the associated upheaval in Commonwealth Government administration). The second begins with a brief critique of administrative theories (Ch. 4), and goes on to inquire whether they throw much light on the form of the reallocation of functions that was actually carried out, and whether principles of administration have much to offer those who are contemplating or engaged in, the reallocation of tasks among departments. At the end of his text Mr. Deane has added a number of appendices dealing with the functions, organization and staffing of the Department of Trade and of other departments affected by, or emerging from, the reorganization of 1956. There is no index.

Mr. Deane's conclusions on the theoretical issues are that an 'illogical' distribution of functions is, and indeed should be, only one of the considerations which may point to a need for administrative change (p. 80), and that once a reorganization is under way 'logic' should be given some attention but may need to be outweighed by other considerations such as the past experience and the relative capacities and interests of

existing departments, ministers and officials (p. 85). His thesis in the historical sections of the book is that while personal and political factors may have played a part, the decisive factor was Australia's post-war experiences in international trade, which ultimately made it clear that pressing problems 'could not be coped with, either at the Departmental or Ministerial level, under the existing allocation of activities between Departments'. (p. 81).

On both sets of issues the evidence is clearly marshalled, and the argument is well-sustained—but not necessarily conclusive. For example, I would contend, on much the same evidence as Mr. Deane uses, that the dynamic factors in what he calls the 'mounting pressures for reorganization' in 1953-55 were not the trade and payments problems of those years, but distinctive diagnoses of, and prescriptions for, those problems that had been developed in the old Department of Commerce and Agriculture. In partnership, the demand that import and export policies be brought under single control, to which Mr. Deane assigns a key place in the story, seems to me to reflect the policies of that Department rather than any objective 'needs of the situation'. Moreover, although Mr. Deane has had access to departmental files in writing his case-study, his narrative is not as closely linked to the files as is usual in administrative case-studies. His evidence, especially concerning the vital period just before and after the reorganization, is therefore not as consistently first-hand as one might have hoped.

Despite reservations that one may hold on points such as these, the book is clearly to be welcomed. It will be of most value, of course, to students of public administration, but many agricultural economists should also find it interesting and useful. The events it describes have greatly influenced the making of agricultural policy, especially marketing policies, in Australia since 1956. It provides, particularly in the Introduction and appendices, much incidental information about the exercise of the Commonwealth Government's functions relating to rural industry. Finally, it gives a good picture of the administrative environment within which rural policies are developed and the pressures and limitations to which policy-making is subject.

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*The Production and Distribution of Knowledge in the United States.* By F. MACHLUP. (Princeton Univ. Press, 1962.) Pp. 416, \$7.50.

In this book Machlup seeks to measure the contribution to U.S. total output of knowledge-producing industries and to compare their rates of growth with that of the rest of the economy. His principal numerical findings are that knowledge-production accounted for 29 per cent of G.N.P. in 1958; that incomes of workers in knowledge-producing industries represented 32 per cent of national income in the same year; that knowledge-production has increased more rapidly (at an average annual rate of 10.6 per cent between 1947 and 1958) than has the output of other goods and services (4.1 per cent per annum); and that the proportion of the potential civilian labour force engaged in knowledge-producing occupations has grown from 13.5 per cent in 1900 to 42.8 per cent in 1959.

What do these numbers mean? How does Machlup define knowledge-producing industries, and how does he face up to the many practical and conceptual problems involved in measuring their output and comparing it with output in the rest of the economy? In the space of a short review the answers to these questions can only be briefly indicated. Machlup's conception of knowledge-production is wide; it includes 'any human (or human-induced) activity effectively designed to create, alter or confirm in a human mind—one's own or anyone else's—a meaningful apperception, awareness, cognizance, or consciousness of whatever it may be'. Thus all knowledge is grist to Machlup's mill, whether it serves to instruct, to entertain, or even if, like advertising jingles which 'stick to the musical memory of some unhappy listeners like wads of chewing gum to the shoe soles of unhappy pedestrians and resist all efforts to remove them', it serves no purpose at all.

He distinguishes five main branches of knowledge-production, and devotes a chapter to each. These are *education, research and development*, the *communications industry* (which includes printing and publishing, radio and television, photography and phonography, stage, screen, spectator sports, conventions, telephone, telegraph and postal service), *information machines* (ranging from clocks and typewriters to electronic computers and including musical instruments) and *information services* (which include legal, engineering, architectural, accounting and some medical services, the services of some types of agents, and much government activity). To many readers this may seem an incongruous collection of 'industries'. Also, one may ask whether it is reasonable to argue that dentists are very skilled manual workers, while doctors, when diagnosing and prescribing, are purveyors of knowledge? That to watch a ball game or a prize-fight is to 'consume' knowledge, while playing a round of golf is not? That 'agents and brokers' belong on the list of knowledge industries while 'manufacturer's sales branches and offices' do not? On the other hand it must be admitted that Machlup applies his definition of knowledge production with consistency, and that reclassification of borderline activities would probably have little effect on overall magnitudes and trends.

In assessing the value of output of the knowledge industries, Machlup supplements and adjusts official statistics in accordance with the dictates of economic logic. For example, among the costs of education he includes estimates of earnings foregone by mothers of young children, and by students, and of implicit rent on school sites and buildings, on the ground that these are real opportunity costs. A number of items which are treated as intermediate products in the national accounts (for example, revenues received by radio and television stations) Machlup reclassifies as final products, and, conversely, some items, such as government expenditures, are transferred from the final product to the intermediate product category. His estimate of the value of knowledge production for 1958 is \$136 billion; of this, no less than \$42 billion represents items either entirely omitted or treated as a cost of production in official statistics. Machlup's estimate is thus not directly comparable with G.N.P., defined according to the usual conventions. He recognizes this and expresses the value of knowledge production as a percentage of 'adjusted G.N.P.', the adjustment consisting of the addition of the sum of \$42 billion mentioned above, and the subtraction of \$6 billion for

items entering G.N.P. as final products but reclassified by Machlup as intermediate products. But this adjustment is surely incomplete, since it takes account only of the adjustments which Machlup found it necessary to make to that part of the G.N.P. represented by the knowledge-producing sector. If the same logic were applied consistently to G.N.P. as a whole—if, for example estimates of household 'production', earnings foregone by conscripted members of the armed forces, apprentices, etc., were included—a much bigger adjustment would likely have to be made, and the share of knowledge production in G.N.P. would be somewhat smaller than 30 per cent.

The above remarks probably convey a misleading impression of the work as a whole. The painstaking and often ingenious estimation of expenditures for knowledge, in Machlup's sense of the term, constitutes only the skeleton of the study, and even those who regard this as a highly dubious enterprise will find in the book much that is instructive and entertaining. The chapters dealing with the various branches of knowledge-production are each self-contained studies, containing a wealth of relevant information and perceptive interpretation. The chapter on education closes with a proposal for school reform which is clearly dear to Machlup's heart. He argues that by means of curriculum changes, the learning process in United States schools could be accelerated, and the educational objectives now attained in 12 years could be achieved in 9 or 10 years of school. Consequently the school leaving age could be lowered without any significant loss of educational attainment, but with very considerable savings in direct and indirect costs. Some indication of the flavour of the book is provided by the following quotation, in which Machlup outlines the consequences of compelling untalented and uninterested youths to stay at school beyond ages 14, 15 or even 16:

I. Effects upon the *untalented and uninterested students*:

- (1) They learn no more than they would have learned in less time.
- (2) They acquire a stronger distaste for education and an antagonism toward intellectual values.
- (3) They acquire poorer habits of work because, with the curriculum spread over more years, they have less to do per year and per week and get accustomed to more loafing than they could otherwise; these habits may lower their productivity for many years, perhaps for their entire working lives.

II. Effects upon the *talented and interested students*:

- (4) Their motivation and industry is lessened as the competition in the classrooms and for honour rolls of the school is reduced.
- (5) Their preparation for colleges and universities suffers because standards of achievement are inevitably lowered if the student body includes the less able and less ambitious.
- (6) Their educational opportunities are reduced by the spreading of the curriculum over more years, which becomes unavoidable with the forced inclusion of the weaker students.

- (7) Their prospective productivity in mathematical and scientific subjects is jeopardized by the delay in the completion of their studies beyond the age period in which peak capacity is reached in these subjects and the greatest contribution is likely to be made.

III. Effects upon *all* students:

- (8) The greater emphasis upon athletics—usually associated with an academically “slow” curriculum—in a group composed of a greater percentage of intellectually poorer students distorts the values system of the community, generally lowering the prestige of academic and intellectual achievement.

IV. Effects upon current output:

- (9) The reduction in the labour supply effected by keeping unwilling students in the classrooms and away from the labour market causes a current loss of output, an immediate sacrifice of national product quite apart from the long-run effects upon productivity listed in the first eight points above.
- (10) The need for additional teachers implies another encroachment upon current output. (If the supply of teachers is highly inelastic and the use of teachers for the added classes encroaches upon the availability of teachers for earlier grades, the resulting deterioration of teaching in all grades is another factor with deleterious effects on all students)'.

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