BOOK REVIEWS

Beyond Economic Man: A New Foundation for Microeconomics, H. Leibenstein. Cambridge, Mass.: Harvard University Press, 1976. Pp. xiv, 297. $US13.25.

In 1966, Leibenstein wrote in the *American Economic Review* that improvements in allocative efficiency had been the goal of economists for too long. By "allocative" efficiency, Leibenstein meant whether or not markets conformed to the basic postulates of neo-classical micro-economics-large numbers of consumers and producers all of whom are price takers, perfect knowledge, *etc.* In that article, Leibenstein drew upon a number of empirical studies which showed, *inter alia*, that the elimination of monopoly in the United States would raise income by no more than 1/13 of 1 per cent. Leibenstein also showed why such results could be expected on *a priori* grounds.

At the same time, Leibenstein argued that there were grounds to suppose that the increased efficiency of resource use within the firm could lead to significant income increases in the economy. Numerous examples of these potential efficiency gains were subsequently discussed in the economic literature. It could also be added that new technologies adopted by firms are one means of improving efficiency of resource use within the firm. In contrast to "allocative" efficiency (efficiency of markets) Leibenstein postulated the existence of "X-efficiency" (efficiency of resource use within firms).

All this is hardly new; after all, economists have been chasing efficiency in all its guises at least since Adam Smith. Leibenstein's 1966 challenge was to assert that, the Industries Assistance Commission and the textile, clothing and footwear industries notwithstanding, the major efficiency options in an economy lie in increased resource use efficiency within, not outside, the firm.

Beyond Economic Man is an essay by Leibenstein into *why* there are likely to be major resource use inefficiencies within the firm. In other words, Leibenstein examines why profit-maximization or utility-maximization are inadequate concepts. Again, this is nothing startlingly new: Bernoullian decision-theorists, for example, have extended the notion of profit maximization by allowing for risk.

What is new in the present book is that Leibenstein gives a coherent account of microeconomics based on the individual in both consumption and production. Rather than relying on the theory of the *firm* and its inputs, or the theory of *households* and their consumption and production behaviour, Leibenstein produces a series of psychological postulates to challenge profit/utility maximization, and examines the implications of these postulates for explaining economic behaviour. Leibenstein shows that individuals can be expected to have a large number of variables which are used to determine their actions. More importantly, the actions determined by such variables are likely to be stable for even relatively large changes in variable values; this gives rise to "inert areas" from which individuals will only move as a result of sufficiently large traumas. The "inert areas" of individuals also interact to give rise to inert areas within groups, e.g., within the firm. This is Leibenstein's key explanation for X-inefficiency. Even if a firm is initially set up so that it maximizes profits, subsequent shifts in prices, for example, may not be sufficient to result in a change from the initial "inert area" of the producing group; hence the firm will not necessarily maximize profits in any subsequent period. Indeed, the compromises necessary to reach an "inert area" in the initial setting-up of the firm may not have resulted in profits being maximized even in the initial period.

Leibenstein also goes beyond the theory of the firm to show how his theory of "inert areas" explains observed behaviour in duopoly and monopolistic competition. He also discusses the existence of X-inefficiency in consumption behaviour as well as in production behaviour.

Beyond Economic Man is a profoundly satisfying book for the student brought up on a strict diet of perfect competition. Not only does it bring the economist closer to the real world, but it also bridges the gap between economic theory and particular offshoots of economics such as Bernoullian decision theory. (In Leibenstein's terms, Bernoullian decision theory as taught in Australia, dealing predominantly with the risk behaviour of one-man firms in a rural environment, is one narrow aspect of his more general theory of economic decision-making.)

While Leibenstein's book is greatly stimulating, it has a small number of disappointing aspects. Firstly, at a mundane level, it needs to be read with a great deal of care since there are a number of production errors, particularly in the diagrams. Secondly, the author has failed by and large to link the increasing of X-efficiency within the firm to the allocative effects of such increased efficiency, as discussed for example in the voluminous literature on technological change. Thirdly, one chapter (4, Bandwagon, Snob, and Veblen Effects in the Theory of Consumers' Demand) seems to belong with the later treatment of X-efficiency in consumer behaviour rather than early in the book.

Judged against the background of the book's message, however, these are minor criticisms. Leibenstein has produced a diagrammatically operational theory, even if it is not as yet susceptible to elegant mathematics; as an added bonus, it accords well with at least this reviewer's perceptions of society.

There is one final bonus. In order to establish a philosophic basis for his theory, Leibenstein feels compelled to overthrow Friedmanite predictability as a test for rejecting a theory à la Popper. His treatment of the philosophy of economics is both thoughtful and thought-provoking.

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Design With Nature, I. L. McHarg, New York: Doubleday/Natural History Press, 1973. Pp. viii, 197. $US6.95 (paperback).

It might appear ill-chosen that an economist should attempt to review a book concerned with principles of conservation and the environment. But McHarg, himself, proposes a "challenge" when he suggests that

> ". . . the economists, with a few exceptions, are the merchant's minions and together they ask with the most barefaced effrontery that we accommodate our value system to theirs. Neither love nor compassion, health nor beauty, dignity nor freedom, grace nor delight are important unless they can be priced. If there are non-price benefits or costs they are relegated to inconsequence. The economic model proceeds inexorably towards its self-fulfilment of more and more despoliation, uglification and inhibition to life, all in the name of progress—yet, paradoxically the components which the model excludes are the most important human ambitions and accomplishments and the requirements for survival". (p. 25).

An examination of some of our economic beliefs should follow this statement, rather than indignation. McHarg is probably right when he proposes that economists have not involved themselves in land use planning, or if they have that they failed to be flexible in their thinking and did not encompass biophysical processes and human aspirations.

This book has had a great impact on planners and is now used as reference in tertiary architecture and town and country planning courses. McHarg achieved most by helping to give credibility, expertise and a methodology to the conservation and environmental lobby. Planners still have the same problems, but they now see them in a different way and can approach them with a more rigorous methodology.

Design With Nature represents the work of the University of Pennsylvania's Department of Landscape Architecture and McHarg's experience over 10 years of graduate student projects and actual practice. McHarg's case studies are excellent illustrations of the method of ecological determinism. They are taken from all the major city regions in the northeastern U.S.A., except Boston, and presented in order of increasing complexity. What was sought throughout was the "intrinsic suitability" of each locale for certain activities, while maintaining the balance associated with the processes of nature. McHarg discusses these latter concepts, using the projects to demonstrate their use in practice. Whatever the area or specific objective—building on the seashore, choosing the best route for a highway, determining optimum locations for open space—respect for nature is paramount and a major factor in directing proposed growth. His analysis of Staten Island land uses for the still largely undeveloped New York City borough demonstrates his approach. McHarg starts with the proposition that the place is the sum of historical, physical and biological processes. These are termed dynamic and are said to constitute social values. Identify the processes and the values, evaluate them, and one can then fix the intrinsic suitability of the different parts of the place. The data used to identify the processes are familiar in the natural sciences: climate, historical and surficial geology, physiography, hydrology, soils, slopes, forest cover. What is significant in McHarg's thesis is assigning social value to these data, measuring such worth not only in terms of how the information may serve the immediate needs of man, but also to find which modifications of the land least affect the balance of nature.

Design With Nature is an important book; Mumford in his introduction calls it "a notable addition to the handful of important texts; beginning with Hippocrates". There is a definite need for the new thought on environmental design and development which this volume has provided, and which economists need to be a part of.

Finally, the book is fascinating reading. The author has great power as an advocate for nature. His ideas are well-illustrated with photographs and coloured maps. So, McHarg makes good food for thought, good sense and good reading.

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Economics of the Family: Marriage, Children and Human Capital, T. W. Schultz (Ed). Chicago: University of Chicago Press/National Bureau of Economic Research, 1974. Pp. ix, 584. $16.20 (RRP).

This book, although hardly essential reading for the potential spouse, gives a comprehensive summary of research in population and family economics undertaken up to its date of publication. It consists of papers discussed at conferences in 1972 and 1973 of the National Bureau of Economic Research. There are seventeen articles and associated comments on them in the book which is divided into five parts: "In Search of New Approaches", "Economics of Family Fertility", "Economics of Marriage", "Family Human Capital" and "Household and Economy".

Essentially simple mathematical models are sought on marriage and the family based on males and females seeking mates who will satisfy their needs for given household produced commodities such as meals of quality, children, love and so on.

The assault on marriage with slide-rule and cash register is somewhat ameliorated by the more humanitarian approach in the comments which follow each contribution. The foray by economists into the territories of sociology or social psychology seems to be welcomed, with some reservations, by the traditional pundits of those fields. This intrusion can be justified on two grounds, according to the editor. First there is already a large amount of information collected which deserves co-ordinated attention. Second, the concepts of human capital, the value of human time, the household production function and the family as a decision-making unit in consumption and household production, promise new insights in understanding many social/psychological phenomena.

The general theme of this book could be summarized by a statement by one of the commentators who says that "we must be careful not to prove too much. Human reproduction will continue, I suspect, even if all women are college-educated".

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Economics of the Product Markets of Agriculture, H. F. Breimyer. Ames, Iowa; Iowa State University Press, 1976. Pp. x, 208.

The basic attitude which is expressed in this book is that, with increased complexity in the marketing sector, the functional approach to the analysis of agricultural markets is becoming increasingly inadequate. This approach is concerned with the services provided in the flow of goods from the producer to the consumer. It needs to be extended to allow consideration of the firms and industries in the processing sector as relatively autonomous organizations having behaviour patterns that substantially influence that flow of goods. Thus Breimyer notes that "more and more the techniques of marketing products of industry are being introduced into the markets associated with agriculture" (p. ix). While this perspective may make for greater realism, the appropriate economic models are in the intractable area of imperfect competition. In addition, a recurring theme in the book is that with vertical integration and conglomerate business increasing in importance the market is being replaced.

In terms of subject matter, the book provides a useful contrast to those books on agricultural marketing which are implicitly or explicitly written with the perfectly competitive model in mind. However, it also seems clear that much theoretical development is required before this extension makes a significant impact on policy formulation.

The first four chapters deal with the relevance of general economic concepts to the analysis of agricultural markets, or conversely, how marketing fits into and modifies the economic system. Alternative interpretations of marketing are discussed first, with the proposition being advanced that marketing is moving beyond an exchange mechanism to being a force in modifying both production and consumption behaviour. Breimyer then turns to a brief review of the implications of welfare economics for establishing goals in marketing. Chapter 3 describes alternative marketing and pricing strategies for the individual firm, while chapter 4 summarizes a number of standard models of markets.

Chapters 5, 6 and 7 deal more explicitly with agricultural marketing. Chapter 5 sets out something of the structure of agricultural markets, including the components of the U.S. "food marketing bill", the distinguishing features of the different stages of the marketing sequence, and a description of common price discovery mechanisms. Chapter 6 deals with the performance of agricultural markets. While much work on technical or operational efficiency is cited, very little is given on performance of imperfectly competitive market structures, indicating the most unsatisfactory status of this subject. Chapter 7 reviews government policies in marketing which range from policies to increase competition through the provision of market information or the use of trade practices legislation, to those concerned with demand expansion, to those which enhance producers' bargaining power.

Each of the last three chapters is concerned with a specific area, namely the economics of transportation, the influence of location of marketing enterprises, and the role of marketing in economic development. While these aspects may give agricultural markets some of their distinctive characteristics, they could have been omitted in order to give more attention to earlier chapters.

The scope of the book is comprehensive, and so it is not surprising that most topics receive only superficial treatment. The author recognizes this in the preface where he states that "this book is truly written as a textbook . . . Basic ideas are presented in summary form and rapid order, without detailed elaboration" (p. ix). This, however, may not produce a useful textbook for many courses. The discursive nature of the text will make it unsuitable for those who wish to study certain topics in depth. On the other hand, the breadth of coverage does help to place agricultural marketing in the perspective of the economic system. As an overview it may be useful, especially since a number of more detailed references are listed.

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