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The Economics of Control: Principles of Welfare Economics. by Abba P. Lerner

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*Political Science Quarterly*, Vol. 60, No. 1 (Mar., 1945), pp. 113-115

Published by: [The Academy of Political Science](#)

Stable URL: <http://www.jstor.org/stable/2144462>

Accessed: 02/06/2014 18:47

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## REVIEWS

### *The Economics of Control: Principles of Welfare Economics.*

By ABBA P. LERNER. New York, The Macmillan Co., 1944.—xxiv, 428 pp. \$3.75.

The subtitle of Professor Lerner's book indicates only slightly better than the title the nature of its contents. The volume is a compound of an elementary exposition of the principles of a price system and a plea for some undefined economic system. For reasons which will soon become evident, these elements will be discussed separately.

The exposition of price theory is admirably lucid and penetrating. Attention is focused upon the logic and principles of competitive (optimum) pricing, and only rarely is the student diverted or confused by the customary embellishments of geometry, elasticities, and the like. The discussion is nevertheless adequately rigorous and consistent with accepted doctrine. At some points the author has exercised great ingenuity to bring out fundamental points, and the performance as a whole is first-rate.

Only two minor blemishes call for mention. The first is the heavy use of abbreviations, which invite formalism and repetition rather than confer brevity.<sup>1</sup> The second point is substantive: the "scientific" arguments (in chapter 3) for greater equality of distribution of income, which rest on an obsolete hedonism and a dubious probability theory, are as unconvincing as they are unnecessary.

In his preface Lerner says that he has abandoned orthodox socialism because it confuses abolition of property as a means with maintenance of democracy (and economic efficiency) as the end; hence the controlled economy: ". . . control does not necessarily mean collectivism. It suggests the deliberate application of whatever policy will best serve the social interest, without prejudging the issue between collective ownership and administration or some form of private enterprise" (p. viii). The emancipation is too complete. The orthodox socialist told us at least the general type of political and economic system he sought;

<sup>1</sup> The volume abounds in sentences such as: "Paying the same price for the factor as the government and selling the product at the same price as the government (which makes  $vmp = vmf$ ), any firm that is less efficient will find its  $m\bar{p}c$  (which is equal to  $vmf$ ) greater than  $m\bar{p}r$  (which is equal to  $vmp$ ), so that it would gain (or reduce its loss) by reducing output" (p. 86).

the reader must glean his picture of the controlled economy from vagrant observations and from corollaries of Lerner's theory. His fundamental rule for efficient production is that the value of the marginal product of a factor must equal the price of the factor. If this rule is not fulfilled, and under private enterprise it is fulfilled only in the competitive industries, the state must secure its realization by (i) socializing industries where competition is technologically impossible, and (ii) counterspeculation (roughly, clever price fixing) where many firms exist.

This picture is too vague: its details depend entirely upon the spirit in which the rules are to be applied. Every new product is produced for a time by a monopolist—will the industry quickly be socialized? If an industry is not *perfectly* competitive, will it be socialized? If such questions are answered affirmatively, soon the entire economy will be socialized. If the answers are in the negative, Lerner's position does not differ fundamentally (except with respect to fiscal policy) from that of the classical liberal.

Another consideration suggests that the correct interpretation is that Lerner is a classical liberal. He is wholly certain that central direction would require unattainable concentration of information and soon bog down into an inefficient, undemocratic bureaucracy (pp. 61 *et seq.*, 119). If numerous industries are socialized, however, such central direction must emerge on a large scale, although Lerner does not make this clear. The "managers" may be able to follow rules in routine conduct of their plants, but who will determine whether new firms should be opened? Intelligent decisions must obviously be made centrally, and just as obviously this central authority requires detailed knowledge of demands, techniques and resources (including ability of applicants for managementships) in all industries. If Lerner is consistent, he is a liberal.

But it is not at all clear that Lerner's views are consistent. In early chapters (7 and 15) it is pointed out that under certain conditions and simplifying assumptions competition is unstable; eventually this becomes the categorical statement that the tragic failure of the classical liberals was their failure to recognize "the tendency of perfect competition to destroy itself" (p. 354). If this be true, that omnipotent but not omniscient central board is back in control of the economy. When Lerner is discussing unemployment, the controlled economy virtually disappears and the collectivist economy becomes the efficient weapon, and the implications of functional finance are in the same direction. This is not the first time that an author of a book on eco-

conomic policy has failed to state his position, but the practice seems to involve something of an oversight.

At least brief mention must also be made of Lerner's well-known scheme of functional finance, under which the maintenance of full employment and stable prices become the only objectives of fiscal policy. Functional finance has an attractive simplicity, but it is purchased at the high price of avoiding real problems. It is not shown that because of continuous deficits the consequent fear by business men of higher future taxes does not discourage private investment; it is merely argued that the fear is irrational and can be extirpated by even larger deficits. The ability of the central monetary authority to avoid both unemployment and inflation is not demonstrated. What statistical indices will guide the authority's policies, and precisely how will they be followed? How is unemployment in a variety of industries, but not in business generally, to be eliminated by fiscal means? Is the fundamental Anglo-Saxon tradition that spending and taxing must be directly controlled by elected representatives in order to maintain responsible government rendered obsolete by some unmentioned modern development?

Once an economist enters the terrain of policy he must be detailed and comprehensive in his analyses and proposals: it is essentially irresponsible to jump from a textbook on theory to Capitol Hill. There is more than a lawyer between classroom arithmetic and legislation, and more than a "manager" between legislation and the achievement of the ends listed in its preamble. A nonpolitical treatise on economic welfare is a Hamlet with only one gravedigger.

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*The Sinews of Peace.* By HERBERT FEIS. New York and London, Harper & Brothers, 1944.—xi, 271 pp. \$2.50.

In this timely and scholarly volume Mr. Feis portrays with both clarity and courage the basic economic issues that must be taken into account if post-war responsibilities are not to be shirked.

Throughout the book Mr. Feis emphasizes the fact that the countries of the world, however diverse they may be in background and economic resources, and however grievously handicapped by the ravages of war, must nonetheless somehow "contrive to build between them an economic life that will nourish them all, and draw them together" (p.