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Review of *Profit and Enterprise: the Political Economy of Profit*

John B. Davis

Marquette University, john.davis@marquette.edu

Profit and Enterprise: The Political Economy of Profit. By David Parker and Richard Stead. New York: St. Martin's Press, 1991. Pp. xiii, 201.

David Parker and Richard Stead detect a curious lacuna in past and contemporary economic theory: though capitalism is very much about profit, and mainstream economic theory very much about profit maximization, there seems to be little serious reflection upon the nature of profit in economics. Worse, perhaps, what thinking there is in this regard rarely seems well connected to the practice of enterprise, the business of seeking out opportunities for profit. *Profit and Enterprise* seeks to address this situation. Written at a level accessible to upper division undergraduates (and including recommendations for reading and comprehensive references), but meant to be of interest to professional economists as well, the book takes the liberalization and privatization trends of the eighties in the West and now the East as a sign that interest can now be focused upon the question of the origins of profit. Arguing from a modern Austrian point of view, the authors re-evaluate the history of economic thought, comment upon the methodological difficulty of competing research paradigms in economics, and briefly discuss the embodiment of these different paradigms in contemporary economic policy.

Their five chapter review of the history of economic doctrines constitutes the basic contribution of the book. Chapter Two on Mercantilism and the French Physiocrats traces the emergence of rudimentary thinking about the market at the end of the eighteenth century after a centuries-long reliance on customary economic relationships.

Most of the pre-Classical thinkers failed to distinguish profit, interest, and rent; Cantillon was an important exception with his emphasis on the entrepreneur as a risk-taker. Chapter Three considers the important Classical period (the 1770s to the 1870s). Capital accumulation was a central notion for the understanding of markets and growth, but emphasis was more on class determination of the economic surplus, and little attention was devoted to the concept of enterprise and entrepreneurship. Profit was often confused with interest and wages paid to management; and in the labor theory of value tradition, profit was but a value created by labor. The Neoclassical tradition, the subject of Chapter Four, almost counts as a step backward for the authors. With its emphasis on equilibrium and shift away from growth and accumulation, neoclassical thinkers were to argue that competition erased above-normal profits, whose temporary existence were thought to constitute market imperfections. They also tended to confuse entrepreneurship with the marginal contribution of capital to output as a factor of production, and left a conception of the economy as static as perhaps their chief legacy. Chapter Five gives friendly treatment to the Austrian tradition in which the entrepreneur is the prime mover in capitalist market economies. The Austrians emphasize the creative role of the entrepreneur in recognizing and taking advantage of opportunities that produce profit, and entrepreneurial 'alertness' is central to Austrian theory's emphasis upon information as a fundamental problem in economics. Chapter Six treats Marx and the radical traditions in economics. Profit is typically related to labor exploitation, and though capitalists are thought to be the agents of technical change, the entrepreneur is of little or no importance. Against the Austrian view that free markets are necessary to a dynamic economy, radical thinkers invest more significance in the direction of the state or, in Galbraith's case, the 'technostructure.'

The authors' position on the methodology of economics is that the existence of distinct research paradigms makes the resolution of disputes between schools of thought all but impossible. Because each school is "organized around a central idea which is taken by its adherents to be *incapable* of being tested against empirical evidence," they are each continuously able to produce "immunizing stratagems" against evidence that might falsify their principal claims (p. 137). This view, popular in the early eighties, has been increasingly criticized by economic methodologists. Essentially, it mistakenly implies that ideas are not susceptible to rational criticism in and of themselves; in suggesting that ideas are only evaluated empirically, it implicitly authorizes dogmatic defense of ideas as a given school's 'entry points' that may nonetheless be vulnerable to a variety of reasonable criticisms and objections. Here it might be added that because such views also tend to produce monocausal views of the historical-economic process for the authors, entrepreneurship as the "prime mover" (pp. 98ff), they are ever immune to criticism on account of the impossibility of ever disproving (or proving) that history has a single causal force. Given these methodological difficulties, the authors' free trade recommendation is overly bold. Profit and enterprise are no doubt central to the economic process, but the importance of other considerations must also be noted.