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Approaches to Business History in Canada: Business History and Economic Theory

I

MY special qualification for saying a few words on this subject is that I am neither an economic theorist nor a business historian. What is involved, you see, is a basic principle of communications theory. I have often noticed that I understand French very much better when it is spoken by an Englishman than when it is spoken by a Frenchman, but it only gradually dawned on me that Dick Overton was working on the same principle when he persuaded me to talk economic theory. I still haven't figured out whom he was insulting — me or you!

For the purposes of this discussion I shall define business history as the study of the histories of individual business firms. This "microscopic" definition of business history as the "histories of businesses" is only half the story, of course, since it leaves out the "macroscopic" view of business history as the "history of business" in the generic sense of the word. The macroscopic approach has informed a good deal of business history from the early work of N. S. B. Gras, who started his career at this university, to the entirely different views developed by Arthur Cole, who has contributed so much to the field in recent years. Nevertheless the nature of my present task leads me to slight this aspect of the subject and to stick closely to the micro unit of business history, the history of an individual firm.

In economics, too, I shall focus on the theory of the firm, and take cognizance of more general economic trends only in so far as they impinge on the individual unit of enterprise. Now it might appear that the history of the firm and the theory of the firm should complement one another beautifully, but the frequency with which business historians discuss the relationship between their field and economic theory suggests that co-operation has not been easy. My own view is that there exist only a few tenuous links between business history and economic theory, and that the opportunities for a mutually advantageous exchange of ideas between them are very limited. There are several reasons why I think this is so.

II

The basic reason is that economic theory is not in the market for either new ideas or new information. At least so far as static theory is concerned —

I shall speak about dynamics presently — the theory of the firm rests on such general assumptions (the "law of diminishing returns", and the proposition that the owners of firms would rather be better off then worse off) that its propositions are purely formal and have no content. The entire theory could be expressed in mathematical terms in a page or two of type. Empirical findings about an actual firm, or a dozen actual firms, that contradict the assumptions of the theory would, quite rightly, be viewed as idiosyncratic exceptions to the general rule; for if assumptions as general as those of economic theory were overthrown the social scientist's world would surely be reduced to rubble. For the same reason, empirical information that relates to the operations, as distinct from the aims, of actual firms is of little interest to economic theorists; their propositions are of course deduced from their very general assumptions and are therefore broad enough to ingest *any* information. Neither the German historical school nor the American institutionalists left any imprint on economic theory, and it would be a great pity if business historians ever decided that they should try to reform the theory of the firm. Many non-theorists display a good deal of exasperation with economic theory, but I have never been able to understand why anyone would want to attack formal principles. Without such principles our search for understanding would be reduced to intuition, revelation, and various competing brands of holistic philosophy; in this setting intellectual society would soon approximate the Hobbsean state of nature. As one who cannot live by formalisms alone, but knows that he could not live without them, I am personally very grateful to the logic-choppers and wish them long life.

Let me guard against a possible misunderstanding. In arguing that business history should not waste its energy in attempts to reform economic theory, I do not want to suggest that business history should jump to the other extreme and organize its work so as to exemplify the laws of economic theory. To make business history into a testing ground for economic theory would be a great mistake. There is no point in endlessly testing and exemplifying propositions that are known in advance to be formally correct. The main value of economic theory to the business historian, and also to the economic historian, is that it constitutes a warning as to what arguments he may *not* use in explaining his data. The propositions of economic theory are not always self-evident, even if they flow ineluctably from assumptions that are, and indeed they not infrequently confound common "truths"; that, indeed, is their value. Business historians, therefore, should never interpret their data in a way that is inconsistent with economic theory unless they have checked and re-checked to be sure that their entrepreneur has, indeed, made a mistake and acted so as to make himself worse off than he might have been. If, for example, you were to argue that your railway entrepreneur was technologically backward because he used wood as a fuel at a time when his European colleague was using coal, without first having checked the price ratios between wood and coal in America and Europe, you would be in grave danger of proving only that your entrepreneur was a better economist than his biographer. Similarly, you should always be wary about assuming that you know more than your biographee did about the elasticity of the demand for his product. By all means, then, feel constrained by economic theory whenever you find yourself writing about economic matters; but by no means feel that you should confine yourself to economic matters.

Economics, after all, is not what life is all about, nor even what business life is all about. Paint your businessman in the round, as an aggressive, innovating, experimenting, problem-creating human being; or as an intolerably dull person who survived by virtue of not making too many mistakes, made what Marshall called a normal profit, and died just before his son had to sell the faltering business for a pittance. Tell us about his reading habits and his political activities, his wife and his church. We are interested; we would be as lost without history as we would be without theory, and because we live in a business environment we are especially interested in the histories of businesses and businessmen.

III

But of course economic problems are likely to play a central role in most business histories, and I must therefore get back to my topic. I have argued so far that the relationship between static economic theory and business history is purely one-sided; economic theory constitutes a most useful tool for business historians, and failure to make full and intelligent use of it can only redound to the disadvantage of business history. I now want to argue that the relationship between business history and what may loosely be referred to as the "dynamic" theory of the firm is likely to run both ways; business history should, indeed, have a great deal to contribute to our understanding of several important aspects of the firm that have no place in the simplified world of static theory.

I shall have to illustrate what I mean by "dynamic theory", since I cannot define the concept (which may even be a contradiction in terms). I have in mind, first, a cluster of problem areas concerned with decision-making under conditions of uncertainty and the study of entrepreneurial strategies with respect to a whole series of areas ranging from personnel relations to pricing policies. Simulated problems, or management "games", are part of the new technology in this area, and a business historian interested in the "dynamic theory" of the firm might do worse than organize his volume around this theme. He might, for example, make his history an account of one player's moves and countermoves in a series of management games. (By the way, I am very curious to know whether business men are especially fond of one sort of game, as generals are reputed to be of chess, and if so what game it is.) To organize a business history in this way would, of course, put a premium on getting some sort of perspective on the game by noting the moves of another player, or other players, in the same environment. This emphasis on comparative history would be all to the good in my opinion. I would like to stress, however, that the author must *himself* make the comparison. It is just not realistic to assume that ten authors can write on ten businesses, or ten countries, and then sit back and wait for an eleventh author to come along and enhance the value of their individual works by writing a comparative treatment of all ten "cases". It will be objected that it is hard enough to write the history of *one* firm, let alone two or more. But I must be adamant on this point. You can only understand one "event" in terms of another; if the comparison is not made explicit, it is always implicit—what a businessman did was better, or worse, than what he might have done, even though "what he might have done" is not specified. Thus I think that partial histories of two firms, where comparative material on selected themes is extracted from the records of each, would make much more significant reading than a definitive and complete history of either. At the very least, a business historian should always keep comparing his firm with the "averages", so to speak, by continual reference to the history of the industry of which the firm is a member. But it is the detailed, "inside" view of a firm that is the great strength of business history, and comparative business history that matched two "inside" views against each other would give a very much more vivid result than the comparison of either player against some abstract "average" experience.

A second area of "dynamic theory" relates to technology, and here there are a dozen very important questions where speculative hypotheses tend to cancel each other out, and where every scrap of well-processed information therefore has a high marginal value. Business history has, I know, provided us with many facts about technological change in individual firms — when new machinery was introduced, how much it cost, and what its capacity was — but with all due respect I consider this to be low-grade information rather than well-processed information. By the latter, I mean information that has been explicitly considered against a counterfactual alternative — the theoretician's way of thinking about things. Not *when* the machinery was introduced, but our judgment, based on what evidence we can muster, about whether it was introduced *too soon* or *too late*. Not *how much* it cost, but whether other machinery, perhaps of a quite different sort, would have yielded a still better return. Not an account of how the entrepreneur did his own research and development, but whether he might not have been better advised to buy innovations made in other firms, or other industries. Did other entrepreneurs make similar, or quite different, moves when faced with similar situations? To act is to choose one of several possible lines of action, and both economic history and business history are impoverished if their authors are content merely to record the one line of action that was actually chosen.

Technology, in the sense of processes and machinery used, of course affects productivity, but productivity also responds to a whole range of minor improvements in production and plant layout, and these "minor innovations" may be of major importance in the firm's record of productivity gain. A detailed study by my colleague, S. Hollander, shows this to have been the case in Du Pont rayon plants over the past forty years, and Professor Hollander in the same study carefully analyses other aspects of the firm's productivity history — the sources of innovations, and the reasons for adopting some innovations in some plants and not in others. Explanation of the timing of the introduction of innovations might well rest on the brilliant analysis of "best practice" plants and the age profile of plants in an industry that is to be found in the late W. E. G. Salter's brilliant book. I have perhaps said enough to remind you that technological change and productivity improvement lie at the heart of the dynamics of a firm's experience over time, and to suggest that there are a large number of ways in which individual business histories could contribute to our understanding of the processes involved.

IV

The "new" economic history in the United States has demonstrated vividly, in my opinion, what a fine contribution to our understanding of "economic process" can be made by a combination of economic history and economic theory. Economic history, I believe, is emerging as the prime field for the application of economic theory; the result is neither a passive "testing" of economic theory nor a constricting of economic history into the formal categories of theory. The result is rather a much deeper understanding of the orderly change of an economic system through time, and an appreciation of "economic process" that goes well beyond what is conveyed by either formal theory or factual history studied in isolation. Business history, the direct study of the basic production unit through time, should, I have argued, aim at providing a microscopic view of "economic process". To some extent, indeed, this is what business history has done, but I feel certain that as business history makes fuller and more imaginative use of economic theory, and thus transforms itself into a "new" business history, the intellectual rewards from both writing and reading business histories will be significantly enlarged. Which is not to argue, as I hope I have already made clear, that business history should become purely an economic discipline; glimpses of political history and social history as seen through the peep-hole of the firm are also important, and not unrelated, perhaps, to the dynamics of entrepreneurial performance in the widest sense. It is not a change in the content of business history that I am arguing for, but a small change in perspective; a small change in perspective often leads to a much better view of the landscape.