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The marginalist theory of the corporation or firm, whose characteristics were formally developed in the 1930s, represents a major change in the development of traditional economic theory. In this book, Professor Schrader, a philosopher of economics, discusses the rise of the marginalist conception of the firm in the context of economic thought over the past two centuries, and explains why economists continue to defend a theory with demonstrable shortcomings: The marginalist view of the firm retains its support not through any comparative advantage in empirical or predictive power, he argues, but by virtue of its being a part of the broader marginalist economic program.

The clear problems that beset the marginalist approach to the firm signal a general dilemma for economic theory as a whole. Although economists generally remain committed to both a methodological individualism and a preference for nonintentional coordination of economic endeavor, Schrader observes that the modern corporation by its very nature is both a social collective and a locus of intentional coordination of economic activity. An economic theory that does justice to a world in which managerial corporations are among the key agents of production and distribution must generate a theory of collective action to bolster the theory of individual action that forms the present basis for most economic thinking.

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*To Gene and Joyce*

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## Preface

This book is the product of the confluence of a number of distinct philosophical interests and is, accordingly, a product that leaves me indebted to a great number of people and institutions. In particular, I have had a long-standing professional interest in both the philosophy of science and ethics. My interest in the philosophy of science has led me, because of a number of close friendships with colleagues in the discipline of economics, into a great many discussions of theory justification in economics. At the same time, my own theoretical commitments in the area of ethics have led me to feel a deep frustration with the dominant economic view of human rationality as necessarily leading to maximizing behavior.

Roughly a decade ago I undertook to develop a course in Business Ethics in cooperation with my late colleague, Lee Van Zant (Economics, Austin College). That course brought me face to face with the modern managerial corporation in a way that I had not previously experienced. The more I examined the managerial corporation, the more I became convinced that many of the claims that seemed to be made about it by professional economists seemed appropriate claims to make about individual entrepreneurial businesses, but not about large corporations. As a result, I found myself becoming increasingly interested in theories of the firm.

Quite naturally, that interest lent a new direction and a new set of problems to my previous interest in the issue of theory justification in economics. This book is the product of that new direction and new set of problems.

Many people have helped me in the process of developing the ideas that now comprise this book. My late colleague Om P. Batish (Economics, Loras College) first engaged me in discussion about theory justification in economics. Professor Batish, whose life was tragically cut short in 1983, was a dear friend who would undoubtedly have disagreed with most of what I have to say in this book. Yet it was his forceful advocacy of what I increasingly came to regard as a mistaken

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position that provided the initial impetus for my study of the philosophy of economics.

As is true of all of the work that I have done on the intersections of philosophy and economics over the past decade, this book could not have emerged without the encouragement, support, and criticism of Lee Van Zant. Professor Van Zant patiently read all the earliest drafts of the material that now forms this book. Without his assurance that I was doing something worthwhile in this work, it would undoubtedly have died in a very early stage. The entire manuscript, in an earlier form, was also read by Norman E. Bowie (Carlson School of Management, University of Minnesota). Professor Bowie's careful criticism has helped me to eliminate a great many mistakes from the pages of this book. Parts of earlier drafts of the manuscript were also read and criticized by Hugh Garnett (Economics, Austin College), Larry Laudan (Philosophy, University of Hawaii), and John C. Winfrey (Economics, Washington and Lee University).

Institutional support for this project has likewise come from a number of sources. My initial research into the philosophy of economics was started with the support of a grant from the National Endowment for the Humanities in 1981 to attend a summer seminar on "Distributive Justice: Economic and Philosophic Aspect," under the direction of Royall Brandis (Economics, University of Illinois). The tightening of my focus on theoretical problems in understanding the managerial corporation was supported by another grant from the National Endowment for the Humanities, this time to attend a summer seminar in 1985 entitled "Agreement and Disagreement in Science," under the direction of Larry Laudan (at that time Director of the Center for the Study of Science and Society, Virginia Polytechnic Institute and State University). During the fall semester of 1986, Austin College granted me a sabbatical leave, during which I worked full time on this manuscript, while enjoying the facilities of the Center for the Study of Values at the University of Delaware, at that time directed by Norman E. Bowie. I am grateful for the support of the National Endowment for the Humanities and of Austin College, as well as for the help provided by all of the above-named individuals.

Finally, I want to express my sincere appreciation to Scott V. Parris, economics editor for Cambridge University Press, and his predecessor, Matthew N. Hendryx, both of whose patience and cooperation have helped greatly in bringing this book to completion. I am also immeasurably indebted to Daniel M. Hausman and to three anonymous referees for Cambridge University Press. Thanks to their careful criticisms, I am much more pleased with this book than I was with

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the version that I initially submitted. I must also thank Kluwer Academic Publishers for permission to reprint part of the material in Chapter 7, which previously appeared in my “The Corporation and Profits,” *Journal of Business Ethics*, Vol. 6 (1987).

Much as I owe to all of those whom I’ve mentioned above, their contributions to this book would have been to no avail had it not been for the constant love and encouragement I received from my wife, Sandy, and our daughters, Sara and Tami, as I wrote and revised this manuscript. It goes without saying, of course, that those defects which remain in this book are mine and mine alone.

August 1992  
Washington, Pennsylvania