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SYMPOSIUM ON *MARSHALL'S TENDENCIES*: INTRODUCTION

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In *Marshall's Tendencies*, John Sutton provides a wide-ranging and thought-provoking set of reflections about economic modelling and the relationship between theory and data. With a handful of suggestive examples and a transparent and elegant style, he manages to maintain a clarity of presentation that makes his thoughts accessible to a large audience while leading the reader into the heart of the difficulties of economic theory in matters of empirical testing.

According to Sutton, we owe to Marshall's idea of 'tendencies' (Marshall, 1890) what has progressively become the standard paradigm in economics. Marshall proposed to distinguish between the main mechanisms at work in any given phenomenon from small perturbations and to focus the modelling effort on the former. As an analogy, he referred to the phenomenon of tides, which depends mostly on easily modelled movements of the moon and the sun, and only secondarily on meteorological factors, which cannot be so precisely modelled. When the success of Samuelson's theoretical approach of comparative statics met with Haavelmo's introduction of a random disturbance term in econometrics, what Sutton calls 'the standard paradigm' emerged, encouraging theorists and econometricians to look for the 'true' model, by a combination of theoretical wit and of model testing through the analysis of residuals.

As Sutton recalls in a vivid way, the standard paradigm had early critics, notably Edgeworth, Robbins, Keynes and von Hayek, who were skeptical, in various ways, about the possibility of relying on data to pin down the details of the true model. The many factors which influence and disturb any particular phenomenon under scrutiny are so untidy and changing, or simply unobservable, that it may be hopeless to find an ever more precise regular structure under the mass of data. This view has stark consequences for how theory should proceed, since it must then assume a greater responsibility for its basic assumptions.

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In view of the mixed record of successes and failures of economics in the last decades, and the obvious lack of convergence towards a unified model, Sutton proposes to take the critics of the standard paradigm seriously. Amidst the wealth of his thorough and balanced analysis, two main ideas strike the reader. First, he makes the simple but all-to-easily overlooked point that not all economics is the same, and he distinguishes three kinds of economic problems. For the first kind, the structure of the true model is almost directly implied by a priori considerations, and this is the ideal situation for the standard paradigm. Sutton proposes finance, with its powerful no-arbitrage condition, as the main example for this first kind of problem.

At the other extreme, there are problems for which the discovery of the true model is hopeless, and he proposes market structure as an example, which involves so many factors (such as the details of the sequential game played by firms) that each industry is a particular case. Now, and this is the second idea that we want to highlight here, for this kind of problem Sutton suggests relying on a theoretical approach which tries to uncover regularities which are common to a whole class of models. Such regularities may typically take the form of bounds, as illustrated by Sutton's own celebrated work on minimal concentration in industries, in clear contrast to the standard approach which seeks to uncover central features in a set of data. This approach in terms of class of models and bounds is able, as Sutton argues, to make theory testable in cases where the standard paradigm is inoperant. Nonetheless, as he insists, 'the bounds approach should not be seen as an alternative to the standard paradigm, but as complementary to it. It is best seen as offering a point of comparison against which we can assess the incremental power of more highly structured theories' (p. 84).

The third class of problem, in between these two extremes, is a grey area in which the standard approach of model testing is largely valid, although, as Sutton insists, 'the business of testing one theory against another does not follow any simple prescription' (p. 93). But Sutton's main theme is that one should not fall prey to pessimistic opinions, such as the view that theory has to rely mainly on a priori principles and 'aesthetic' considerations, because econometrics never yields clearcut conclusions; or the view that economic theory mostly provides trivial implications, so that econometrics can only find parameter values but never test the basic structure of theories. As Sutton concludes, the 'goal espoused by the founders of the standard paradigm remains the right, true goal of economic research', namely 'formulating rival views in the guise of sharply defined theories that could be evaluated by reference to clear empirical tests'. (p. 106)

Sutton's distinction of various kinds of problems, and his proposal to go beyond the standard paradigm and adopt the class-of-models

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approach, are thought-provoking and his advocating a flexible methodology is likely to arouse debate. This is why *Economics and Philosophy* asked several specialists in theory, econometrics and methodology, Carl Christ, Franklin Fisher, Kevin Hoover, Mary Morgan, and Eric Renault, to comment on this book. Their comments are followed by a rejoinder from the author.

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