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REVIEW ESSAY: MARSHALL REVIVED

BY
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Tiziano Raffaelli, Giacomo Becattini, and Marco Dardi, *The Elgar Companion to Alfred Marshall* (Cheltenham, UK and Northampton, MA: Edward Elgar, 2006) pp. xxv, 727, $175, ISBN 13:978 1 84376 072 6.

> In one sense Marshallian economics has passed away already. His vision of the economic process, his methods, his results, are no longer ours. We may love and admire that mighty structure which, battered by the impact of criticisms and of new ideas, still spreads its majestic lines in the background of our own work. We may love and admire it as we love and admire a Madonna by the Perugino, recognizing that she embodies to perfection the thought and feeling of her time, yet recognizing also how far we have travelled from her . . . What matters is that [Marshall's] analytical apparatus is obsolete and that it would be so even if nothing had happened to change our political attitudes (Schumpeter 1951, p. 92).

The above was Joseph Schumpeter's colorful verdict in 1941; or rather, more accurately, it was one of his verdicts, because in other respects he was prepared to recognize exemplary qualities in Marshall's life and work. Faced with this statement now the proper response is to ask what it tells us about Schumpeter and the phase in the history of economics during which he was writing. Six decades later there are many who believe that Marshall's vision of the economic process is far from obsolete, and once again the revaluation has no obvious connection with any shift in modern political attitudes.

The *Elgar Companion to Alfred Marshall* has been conceived very much in the light of this revival in its subject's reputation, and the design has been executed by those who have engineered and been most instrumental in pursuing its implications. The Italian editors of this Elgar Companion were prime movers in an earlier scholarly enterprise that helped to orchestrate the resurgence: they founded the *Marshall Studies Bulletin* in 1991 as an outlet for their own work as well as to allow them to act as impresario to the work of others. The seventy authors of the articles that make up this new work of reference include most of the leading contributors to the study of Marshall and his inheritance over the past three decades. The editors acknowledge the active support of those who have done most to provide new material for historical reassessment: John Whitaker, the editor of Marshall's early economic writings in the

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1970s and of his correspondence in the 1990s; Peter Groenewegen, Marshall's biographer and the editor of an additional volume of his ''official papers''; and Brian Loasby, an early champion of Marshall's theory of value and of those approaches to industrial economics that were overlooked during the decades that surround Schumpeter's verdict. The editors also acknowledge the assistance of two representatives of a younger generation: Simon Cook, whose research has focused on the little-used and/or poorly understood writings of Marshall before and during the process of his transformation from being a student of psychology and the mental and moral sciences towards becoming an economist; and Katia Caldari, now working on the notes Marshall left for his final attempt to write a book on progress.

The book is divided into eight parts: life and work; background and influences; scope and method; economic analysis; social and political issues; Marshall and his contemporaries; Marshall's legacy; Marshall and present-day economics. The editorial format allows for both long and short contributions and for some contributors to appear under several different headings. The formula enables the contributors to criss-cross the territory, erring only and forgivably on the side of over-inclusiveness. The result is a more useful and far more authoritative work than those poorly-edited assemblages of previously-published articles about dead economists that have burdened libraries' budgets in the past.

Largely as a result of the leadership and example of Giacomo Becattini, the impulse imparted to Marshall studies from Italy has been catholic and interdisciplinary in spirit. It has certainly been more tolerant than earlier generations of economists found it possible to be towards the entire range of Marshall's interests within and beyond economics. Neither Schumpeter nor Marshall's prize pupil, John Maynard Keynes, showed much sympathy towards what they saw as Marshall's failure to stick to the economist's last. Keynes regretted Marshall's inclination to place the preacher and pastor above the scientist; he chided Marshall for being afraid of being proved wrong and for being ''too anxious to do good,'' and thought he wasted energy in ''straying unnecessarily along historical by-ways and vacillating as to the importance to be given in his [*Principles of Economics*] to the historical background'' (1924/1933, p. 210). Nor was Keynes enamored of what Schumpeter subsequently described as Marshall's endorsement of ''mid-Victorian morality, seasoned by Benthamism.''[1]

For his part Schumpeter preferred Walrasian-style general equilibrium models to Marshall's partial equilibrium alternative as the basis for dealing with static allocation problems; and while he shared Marshall's interest in the dynamics of growth, he favored theories of development that adopted spontaneous and discontinuous change in circular flow mechanisms as their starting point. Marshall's prevailing assumption that economic nature is governed by continuity, whether as conceived by the mechanics captured by differential calculus or the organic analogy of continuous evolution, seemed precisely wrong. Schumpeter objected to the entire Smith-Mill-Marshall tradition of treating growth passively as tree-like, as a semi-automatic response to the expansion of markets.

[1]Schumpeter (1951, p. 104).

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Keynes, despite his own unwillingness to conform to professional norms, wanted Marshall to be more consistently what Keynes claimed he was, ''the first great economist *pur sang* that there ever was'' (1924/1933, p. 222).[2] But while Marshall dedicated much of his life to the construction of an ''economic organon,'' and did not care for the idea of economics becoming a mere branch of Auguste Comte's vision of an all-engulfing sociology, he sought his own form of social scientific consensus in what he called ''a reasoned history of man''—a phrase expressing an aim that struck many twentieth-century economists as opaque at best.[3] Talcott Parsons was not mistaken in thinking that Marshall was the only British social theorist of his generation whose work could be placed alongside that of Pareto, Durkheim, and Weber as an example of a theory of social action that conferred on his economics the status of applied sociology.[4] In deference to John Stuart Mill, however, the figure from whom Marshall took his original cue within and beyond political economy, while later becoming engaged by a heady mixture of Spencerian, Hegelian, and Darwinian interpretations of socio-historic change, it would be more accurate to describe this aspect of his work as economic ethology, a study of the formation of character, for good or ill, through participation in economic activities.

It is plain from this that a more faithful and less impatient attitude towards the particularities of the historical and biographical record has played a major part in Marshall's renaissance. In no matter is this more the case than with respect to the exegesis of Marshall's early psychological speculations, especially those contained in the curiously titled essay on ''Ye Machine.'' Tiziano Raffaelli, the author of a book in which the essay has a central role in supporting an interpretation of Marshall's evolutionary economics, offers a shortened version of his argument here.[5] Marshall's essay can be treated as a contribution to the field now known as artificial intelligence: it contains a two-tier hypothetical model of the mind, with one tier being devoted to the efficient performance of routine tasks, via repetition, while the other concerns itself with novel thought processes, those involved in innovation. The model follows the same rules as the machine that makes goods; it also mimics the process by which scientific knowledge advances. The more mental operations that become automatic responses, the more scope can be given to those aspects of industrial and other problems that require innovation. On these grounds Raffaelli maintains that the early essay contains the clue to central features of Marshall's mature writings. He also argues that permanent residues can be rescued from the wreckage of more grandiose, though dated, intellectual projects: the Victorian concept of character re-emerges as ''the capability approach to human and social development'' (p. 488). Social Darwinism or Spencerianism need no longer be the barrier that it proved to be for Schumpeter. Marshall's ''embarrassing commonplaces on sex, race and climate'' can be set aside in favor of his ''more original and stimulating reasoning on business and industrial organization, education and national leadership'' (pp. 492-93), the kinds of

[2]Keynes did much the same with Malthus when he remarked that ''from being a caterpillar of a moral scientist and a chrysalis of an historian, he could at last spread the wings of his thought and survey the world as an economist!'' (1924/1933, p. 107).

[3]''The Old Generation of Economists and the New,'' reprinted in Pigou (1925, p. 299).

[4]Talcott Parsons, *The Structure of Social Action* (1937/1968, p. 173).

[5]Tiziano Raffaelli, *Marshall's Evolutionary Economics* (2003).

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things that link him with modern evolutionary theories of industry and cybernetic and behavioral approaches to firms.[6]

It will be clear that the Marshall now being celebrated is no longer identical with one of the fathers of orthodox neo-classical economics. Yet it is well known that this label was coined by Thorstein Veblen in 1900 with Marshall very much in mind.[7] Veblen's coinage was casual (interchangeable with "modernized classical economics"), and contrary to popular legend not especially pejorative. That came a few years later with John Atkinson Hobson, though ritualistic use of the term as one of abuse had to wait much longer. Historians of economics, outside the pages of their textbooks at least, find most to quarrel with the label.[8] George Stigler in his *Production and Distribution Theories* admitted that it was a "nebulous description," but gave a definition that is less nebulous than many others: he used it to describe those "theories of distribution which arose out of the theory of subjective value, and which were finally systematised into the general marginal productivity theory." Stigler also thought that the theoretical corpus stemmed from Marshall, a judgment few would dispute.[9] But if we take this Elgar companion as an accurate reflection of the modern state of the art, the recovery of Marshall's reputation has brought with it renewed appreciation of the ways in which his economics is resistant to the imposition of categories derived from standard versions of neo-classicism. For those commentators here who have engaged in empirical research on industrial structures and districts, the appreciation of the virtues of Marshallian modes of analysis is accompanied by critique of the explanatory power of what once seemed like superior alternatives. Mistaken valuation or under-valuation is at issue here, and the revival raises questions about the reasons for earlier decline. It is a question that historians of twentieth-century economics will not be able to avoid, and some of the contributors to this book address it squarely.

Loasby has been asking what happened to Marshall's theory of value for over thirty years. He has linked it with a critique of the way in which the axiomatization of an economics centering on the equilibrium of homogeneous firms acting under conditions of *perfect* competition, a state of affairs that has no Marshallian equivalent, allowed the mechanical analogy to gain at the expense of the biological one. Dynamic irreversible processes lost out to reversible static ones.[10] Speaking here in his dual capacity as historian and as industrial economist, Denis O'Brien gives a condensed account of what he has written elsewhere on the fate of Marshall's theory of the firm in the decades in which Schumpeter was hardly alone in declaring it to be quaint or obsolete. It had certainly been subject to strenuous attack from Piero Sraffa, writing just two years after Marshall's death in 1924; and this was followed by Lionel Robbins's Austrian-inspired critique of the concept of a representative firm. But it is Joan Robinson's *Economics of Imperfect Competition* (1933) that comes in for the sharpest criticism from O'Brien: "All the things which really interested Marshall—genuine firms, entrepreneurs, technological change, barriers to entry, the

[6]Article in the *Elgar Companion* entitled "Character and Capabilities" (pp. 488, 492).
[7]T. Veblen (1900).
[8]See, for example, T. Aspromourgos (1986) and D. Colander (2000).
[9]Stigler (1941, pp. 8, 13, 266, 297).
[10]See Brian Loasby (1978, 1986, 1990).

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source of market positions, the role of selling costs, even advertising (which had less than half a dozen causal mentions in *Imperfect Competition*)—disappeared'' (p. 628). O'Brien judges that pursuit of a philosophers' stone, the search for ''clear-cut and indisputable welfare conclusions from an analysis devoid of empirical content'' (p. 631), won out.

According to the new dispensation presented here, Marshall's ''fudges'' are best seen as attempts to retain a hold on an emerging economic reality rather than as attempts to square circles or reconcile increasing returns with the durability of a form of competition he did not recognize. *Industry and Trade* benefits from the new reading, partly because the evolutionary element in the *Principles* is there on greater display. A comparison between the topics that appear in the later work and what was taught about firms and industries in most microeconomic textbooks from the 1940s onward is also a good indication of what was lost with the rise of formalism. Witness the interesting chapters that deal with buyers' and sellers' markets, fashion goods, branding, advertising, department stores, chains, and cooperatives.[11]

Well before this late demonstration of Marshall's empirical interests others had attempted to disseminate what they took to be his chief message. Evidence of this is needed for a satisfactory historical account: those features now seen as central to Marshall's aims could not be an entirely private affair. If the reinterpretations are accurate there can be no discoveries, only rediscoveries. One of the letters that must have been most pleasing for Marshall to receive came from Allyn Young in 1909. After drawing attention to the chapters on value and price, distribution, rent, wages and interest he had written for Richard T. Ely's *Outline of Economics*, Young went on to make the following prediction: ''I am writing this letter . . . because I wish to take this opportunity of saying that to my mind the general view of the economic process embodied in your writings is one which is bound to have an increasing influence in American writings.''[12] Although Ely's book was the most successful American textbook of the period, it is not clear how far Young's contributions succeeded in helping to spread Marshall's vision of the economic process. Young probably did more in this respect (if not immediately then over a longer period) when he employed Marshall's concept of external economies to such good effect in his most famous article on ''Increasing Returns and Economic Progress'' in 1928—an article that united Marshall with a rediscovered Adam Smith.

Among those still ranked as seminal economic theorists Marshall was exceptional in his anxiety to demonstrate the realism of his grasp on the modern economic world. In the interminable wrangles over method one of his reasons for favoring ''analysis'' over theory was that he wanted a word that united ''theory'' with empirical inquiries. This was compatible with entertaining high hopes of making operational such welfare measures as consumers' surplus, and giving the trained economist an important public role in establishing ''how far the exchange value of any element of wealth, whether in collective or individual use, represents accurately the addition which it makes to happiness and wellbeing.'' Late in life he admitted that these hopes had not been fulfilled, though the estimates of benefit and cost associated with public projects

[11]Marshall (1919, Book II, Chapters 5, 6 and 7).
[12]Whitaker (1996, Vol. III, p. 218, letter to Marshall dated 3/02/09).

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still depend on calculations that make use of the logic of consumers' surplus. Marshall did not wish to join Jevons in what he thought amounted to an exaggeration of the significance of the theory of demand, but he thought it would soon be feasible "to collect and arrange statistics of consumption in such a way as to throw light on difficult questions of great importance to public well-being."[13]

Based on recent work he has carried out on his own behalf and in conjunction with Roger Backhouse, Steven Medema contributes an interesting article on Marshallian welfare economics to this volume. It not only sheds light on the Cambridge tradition in these matters but compares it with the opposed Chicago tradition to which Ronald Coase has contributed, based on his own reading of Marshall. Medema agrees with Keynes in thinking that it required Pigou's extension of the idea to turn this approach into a "powerful engine," perhaps too powerful in its comparative static features for Marshall's own cautious and yet more dynamic tastes. The broader conclusions drawn from consumers' surplus have a backward historical linkage too. From a technical perspective, this is most obvious in the case of Jules Dupuit's work on roads and bridges in the 1840s. But in its antagonism to what Marshall described as the "maximum satisfaction" school of thought, chiefly associated at the time with the anti-socialist writings of Frédéric Bastiat, the linkage has a Cambridge dimension in the work of Henry Sidgwick (as Hla Myint recognized in a path-breaking work on *Theories of Welfare Economics* published in 1948) that can in turn be traced even further back to John Stuart Mill and John Eliot Cairnes. The doctrine of maximum satisfaction embodied attitudes of complacency towards economic outcomes that Marshall consistently opposed. Equity, or the distribution of consumers' and producers' incomes, always needed to be considered alongside economic efficiency when making welfare judgments. The satisfactions attached to an additional increment in the income or expenditure of the poor were greater than those of the rich—a conclusion that Marshall was willing to draw from the marginal principle that was not available to Mill, who did not believe it was possible to make interpersonal comparisons in these matters.[14]

No major new sources of evidence relating to Marshall's personal life have been discovered since the publication of Groenewegen's biography and Whitaker's edition of the correspondence, nothing of the kind that allowed Coase to show the way in which the Marshall family concealed its lower middle-class origins.[15] There are no glimpses of a Victorian sexual underworld of the kind that can be found in Sidgwick's friendships.[16] On the personal/political level, one well-documented feature still emerges. Marshall was, as Keynes originally suggested, an example of someone who manifested "an implanted masterfulness towards womankind" that "warred in him with the deep affection and admiration which he bore to his own wife, and with an environment which threw him in closest touch with the education and liberation of women."[17] Rita McWilliams Tullberg reprises what she has written on this theme on previous occasions. Marshall's reversion to the stereotypical Victorian pater familias

[13]Marshall (1890/1960, p. 85; see also pp. 492-93).
[14]Marshall (1890/1960, pp. 17-19, 130-31, 471, 474, 851-52).
[15]Coase (1984).
[16]On this see B. Shultz (2004)
[17]Keynes (1924/1933, p. 162).

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in his attitude to women's higher education and domestic roles can also be seen as a case where the Darwinian concept of transmitted mental qualities overcame any attitudes Marshall might originally have derived from the environmentalist emphases of Mill's ethology. For Mill, women's roles, like anything else concerning human difference, had to be open to social experimentation: Marshall came to believe that this was no longer possible or desirable in the case of women.

Judging from Simon Cook's contributions to the *Marshall Studies Bulletin* and this book, biographical evidence of an intellectual kind is going to alter our view of Marshall in much the same way that his early psychological writings have done. Cook has concentrated on the extensive historical notes to be found in the Marshall papers, and on an ambitious essay on the history of civilization that does much to give substance to the Hegelian overtones many perceived in Marshall's mature writings, beginning with his friend and patron, Benjamin Jowett.[18] The ''reasoned history of man'' and the pervasive time dimension is acquiring more substance, offering an opportunity to understand just why Marshall devoted so much attention to history of various kinds, while at the same time disclaiming (and disdaining?) any straightforward label as historian. What aroused Keynes's impatience could say something more interesting about Marshall's entire enterprise. For fuller answers to this we shall have to await publication of Cook's book on the subject.

As Donald Moggridge reminds us here, Keynes's personal debt to and intellectual affinities with Marshall as economist and social statistician were considerable, despite a difference of temperament that makes the mentor seem preternaturally cautious when compared with the daring pupil willing to promote the short over the long run. Indeed, there are many respects in which the iconoclastic friend of the author of the period's most debunking work, *Eminent Victorians,* was entirely at home in the late Victorian and Edwardian world of Marshall and his parents.

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[18]Letter to Mary Paley Marshall, September 18, 1890. In Whitaker (1996, Vol. I, p. 337).

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