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MARSHALL'S PRINCIPLES AND THE ADVENT
OF NEO-CLASSICISM IN AMERICA

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Abstract

On the centenary of Alfred Marshall's Principles of Economics (1890), we find evidence that the text was designed as a manual of political economy addressed to the emerging administrative classes. Its theoretical and ideological doctrines anticipate those of the modern managerial economics. Certain definitive and restrictive features of the work, in turn, help to account for its ready acceptance and enduring esteem among neo-classicists past and present

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In America after the Civil War, the widening and deepening of industrial accumulation was accompanied by a rapid spread of corporations into both the state and private industry. This meant, of course, "bureaucratization," a corresponding growth in number and kind of "bureaus and offices" (Sir W. Petty) contained within the whole. Accumulation and centralization, in turn, gave rise to increasing demands for specialized varieties of social labor, industrial and pecuniary alike.² As a result, the period from the '70's through the First World War witnessed a remarkable growth in size and number of colleges and universities, and within them an elaboration of new faculties and departments of those disciplines, both in the social and natural sciences, designed to supply the specialized personnel that were now in demand. The university was becoming "the central powerhouse" of American industrial society.³

The accumulation of wealth with its attendant social stratification caught up the small business class, as it did other sections of the population, in a centrifugal spiral resulting in new social assignments of status and function. Even prior to the War, when it played an important role in mercantile activity, the small class was encountering difficulties in reproducing itself.⁴ With the War and its aftermath, the class confronted a sharpening crisis consisting, on the one hand, of reduced opportunities in old and new lines of small business, and, on the other hand, of a tantalizing vista of economic and social opportunities to whose access the higher learning held the key. Squeezed between the industrial and "commercial" proletarians below them, and above them the old upper class of aristocratic and classical professionals in law, medicine, and the ministry, the emerging generation prepared for its assignments with an energy and determination reflecting its entrepreneurial heritage. The call aux armes economique came not only from the petty class, however, but from leaders of the upper bourgeoisie as well. Henry Adams' assessment of what he termed the "Darwinian" challenge well expresses the academic spirit of the age: "For the young men whose lives were cast in the generation between 1867 and 1900, Law should be

Evolution from lower to higher, aggregation of the atom in the mass, concentration of multiplicity in unity, compulsion of anarchy in order; and he would force himself to follow wherever it led, though he should sacrifice five thousand millions more in money, and a million more lives."⁵

These young men - there were, of course, almost no women among them - sensed that the higher learning had become the strategic "department of production," the port of entry to the promised land. Within that department, a good many saw political economy to be the strategically critical discipline. In quest of credentials these candidates invested in economic education in Germany. On their return home in the last quarter of the century they proceeded to make order out of the chaos of American political economy. With the publication of Marshall's Principles (1890) the path to a theoretically unified science seemed to open before them. Within the social conjuncture described it is not surprising that the jugendstil economics of this text should have had a powerful appeal. In order to illustrate the tailor-made styling of Marshall's neo-classicism, we will consider but one significant aspect of his work: a theory of the "surplus" eminently suitable to the circumstances described.

Marshall declares this surplus to be a consequence of the individual's "conjuncture" (acknowledging his debt to "the German economics"), and defines it as an excess of value relative to the market price, the price "which he (the buyer) would be willing to pay rather than go without it."⁶ So defined, this "consumer's surplus" is in the nature of a net personal satisfaction above the pecuniary cost of the item. It is a presumeably quantitative entity in one's personal "hedonic calculus" (Veblen).

At first glance, then, this satisfaction appears as a purely subjective value accruing to the buyer of a commodity. So it appeared to Frank Knight, in the generation after Marshall a staunch supporter of subjectivism in the theory of value. Taking Marshall's opening statement of the theory at face value, Knight assumed that he was confronting a simple premise of the individualistic psychology of the subjective school. Willing to toss overboard any and all theories of surplus as analytically superfluous, he himself proceeded quite subjectively to attack Marshall for the theory's empirical inadequacy.⁷ With such a common interpretation of Marshall's argument, Knight and other subjectivists even today seem to miss, or perhaps merely seek to avoid, Marshall's larger theoretical net in which this "subjective" premise is caught up, a really minor element in a larger system of class apologetics, as we shall see.

As we all know, from his construct of the "consumer's surplus" Marshall proceeds to define analogously a "producer's surplus," a net satisfaction also resting on a utility-

disutility theory, though in this case relating to satisfaction received from labor supplied in production.⁸ Concluding that the "producer" at work may also enjoy a net increment of satisfaction above the pecuniary price of his services, Marshall next considers the "individual" who is both producer and consumer, pointing to the possibility of aggregating surpluses in order to determine the whole surplus of the individual's net satisfactions: "The intimate connection between both of them (the "producer's" and the "consumer's" surplus) ... is shown by the fact that, in estimating the weal and woe in the life of Robinson Crusoe, it would be simplest to reckon his producer's surpluses on such a plan as to include the whole of his consumer's surplus."⁹ The real object of Marshall's reckoning along these lines remains to be seen, however.

In following the lead of Marshall's "Robinsonade," along a devious route to an as yet unclear goal, we note the key role subsequently played by the proposition that the individual's "producer" and "consumer" satisfactions may be algebraically aggregated. On the basis of this abstraction Marshall turns to the task of specifying its social meaning, assigning a specific if still hypothetical form to those who both produce and consume. This social entity first surfaces in his discussion of "agents of production."¹⁰ Not surprisingly, the social agent is first of all the "worker." And it is only slightly more surprising to discover (in the explanations of Appendix K) that the "worker" is also the capitalist whose contributions to production by way of entrepreneurial work, together with his "saver's surplus" (a form of the producer's surplus previously defined), put the latter also in the "worker" or "producer" category. There is thus this familiar and from a certain standpoint curious ambiguity in Marshall's identification of the worker-capitalist. One senses an ulterior motive in the offing.

Of course what Marshall's text joins together semantically, the actual social life of our century has again and again torn asunder. All too often in our age Crusoe the "producer" has lived in a class separate and divided from that of his working Man Friday. But in the late Victorian world of the would-be new classicism they are abstractly married within the ambiguities of a new theory of the surplus. In one and the same productive category are combined the socially and empirically distinct industrial worker with the other worker who "produces" whether as saver ("worker-waiter") or as capitalist undertaker.¹¹ A theory of joint productivity combines with an hedonic psychology to yield a general theory of surplus urging that the total of one plus one is equal to one.

Clearly, Marshall's aggregation of net surpluses accruing to social classes of different economic function is directed to undercutting the labor theory of value by declaring ours to be a real world of mutual sharing. However suited to the Victorian

psyche, against the background of our own century, this caricature can only deceive or amuse the serious reader. Only for the accomodating new "economist," in that long departed epoch of social change, was there an enormous advantage in a theoretical deep-sixing of those embarrassing classical distinctions between productive and unproductive labor, productive and unproductive consumption, between producing and appropriating, etc. In their stead Marshall offered a new version of the "harmony doctrines" of the old, strictly conservative classicism. And so we come to the main point of his socio-economic theorizing.

The political economy of his purportedly "objective" analysis comes fully into view when we combine the foregoing constructions with his theory of "sensibility," that economically and administratively invaluable characteristic of the natural leader on which he expatiates.¹² In passages easily mistaken for mere philosophical digression, Marshall discusses the labor-capital division of labor and problems of education and training arising therefrom. Herein we discover that only one of his two "agents of production" is more frequently naturally equipped, and is certainly strategically placed socially, in order to make practical application of the sensitive judgments so vital to economic efficiency. While he admits that both types of "workers" or "producers" contain "naturally" within their collectives some measure of sensibility, or by means of formal education can be brought to embody this value, only one of these bodies contains the overwhelming relative mass of the talented. As Marshall expresses it, "The laws which govern the birth of genius are inscrutable. It is probable that the percentage of children of the working classes who are endowed with natural abilities of the highest order is not so great as that of the children of people who have attained or have inherited a higher position in society." Simply put, it is the producer-capitalist that commonly embodies the natural dominion of "art" over "technics," the two fundamental types of talents within the Marshallian hierarchy of productive values. Here, then, resides the real Robinson whose artistic sensibilities a proper social administration demands. Here is the artist who, in the unlikely event that he should not be such, may be made into such by an appropriate "education in art".¹³ Despite its light camouflage of subjectivism, Marshall's psychology is in the end not so much an individual as it is a social psychology. It is a normative and elitist psychology of imputed class characteristics.¹⁴

The social theorizing extending from Marshall's surplus theory is worth pursuing just a bit further. His familiar supply-demand theory of price presupposes a range of possible prices for the commodity, a range of possible prices offered and quantities demanded and supplied. Given the schedules of possible prices ranged on both sides of the

market, the famous action of the "scissors" then determines the market price. What the Crusoean model of surplus suggests, taken in conjunction with this supporting analysis, is that the "equilibrium" price solution is quite satisfactory for the capitalist class of artistic decision makers. This is because there is no reason to suppose a priori that what the individual Crusoe gains on the demand side, despite its coincidental loss on the supply side — or vica versa — in any way upsets the net gain for the class as a whole. While in the long run competition compresses the possible range of market prices to the level of the optimum optimorum, short run deviations from this ideal average out, he assures us, and thus are of no appreciable significance. In the long run, as in the short run, "we" are all alive, is his thesis.¹⁵

Returning to the American scene, the particular social classes for whose joint interests Marshall spoke, the older and the newer bourgeoisie, are in the Principles theoretically assigned precisely the same social function and relative status as were the concrete object of aspiration of the American Darwinians and small class entrepreneurs. Even a subliminal reading of the text by the up-and-coming economists must have revealed to them its concealed preferences. Hence Marshall's continuing popularity.

Within the Marshallian social scheme the economist enters as administrative aide-de-camp to the proper "decision makers." The function to be served by this presumeably sensitive technician is dual, in Marshall's view. He is to supply technical information and advice essential to making decisions, and, to judge from Marshall's apologetic and normative psychology, he is to supply not only the education but also the theories and evidences testifying to the collective worth of a properly composed bourgeoisie: the sensitive decision makers together with their educating and rationalizing "auxiliaries" (Plato). Altogether, this correspondence between theory and circumstance explains the early triumph of the Marshallian economics in Anglo-America, precisely as Professor Thal suggests.¹⁶ It explains also the general tenacity of this economics today despite its irrelevance to our economic and social problems.

Footnotes

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²Thorstein Veblen, "Industrial and Pecuniary Employments," The Place of Science in Modern Civilization, New York, 1919, 279-323.

³See H. Perkin, "The recruitment of elites in British society since 1800," Journal of Social History, 12, 1979, 229, cited by Roy Lowe, "English elite

education in the late nineteenth and early twentieth centuries," Bildungsbürgertum im 19. Jahrhundert, hrsg von Werner Conze u. Jürgen Kocka, Stuttgart, 1985, 148.

⁴Richard Hofstadter, Anti-intellectualism in American Life, New York, 1963, 249.

⁵Henry Adams, The Education of Henry Adams, Boston and New York, 1918, 232. Driven by economic necessity behind, and to the fore by the material and social prospects of the higher learning, they surged into the wide open spaces of the academic frontier. Where domestic schools were lacking in first rate capacity, they went overseas, spilling into German universities in quest of credentials that would bring them to the fore in leadership struggles at home.

⁶Principles, 8th ed., London, 1938, Ch. VI, Value and Utility, 124.

⁷"I simply cannot see any use for the notion in understanding human conduct or explaining economic phenomena, and am convinced that the confusion of viewpoint which underlies putting it to the fore has led to serious error and the drawing of wholly irrelevant conclusions from economic reasoning. Moreover, an appeal to 'unsophisticated common sense' seems to fail utterly to substantiate the existence of the phenomenon. A man might pay, say, a thousand dollars for the 'first' loaf of bread (whichever one that is) rather than do without it, but it does not follow and it is not true that when he gets it for a dime he gets \$999.90 worth of free satisfaction. Various thinkers have perceived the mythical character of these alleged surpluses; it is hoped that the argument above will suggest the source of the error and so render it more easily identified and avoided." Risk, Uncertainty and profit, Boston and New York, 1921, 71 n. 2.

⁸For the producer: "...if the price paid to him for doing any work is an adequate reward for that part which he does most unwillingly; and if, as generally happens, the same payment is given for that part of the work which he does less unwillingly...then from that part he obtains a producer's surplus." Principles, 140 n.1.

⁹Principles, Appendix K, 831.

¹⁰Ibid., Bk. IV, The Agents of Production, 138-143.

¹¹Ibid., Appendix K. Consistent with the new theory of value that he is here seeking to justify, "labor" and "capital" (the capitalist) are the basic factors of production, the most important members of "the holy trinity," as one author referred to them.

¹²Ibid., Bk. IV, Ch. VI, Industrial training, 204-219. In regard to those who prefer tea to the ruder beverages, "...differences between individuals might be neglected...though of course it might be necessary to consider whether there were some special reason for believing, say, that those who laid most store by tea were a specially sensitive class of people...then a separate allowance for this would have to be made before applying the results of economical analysis to practical problems of ethics or politics." Bk. III, Ch. VI, Value and utility, 130 (underlining mine).

¹³Ibid.

¹⁴"All of psychology is social psychology." Thorstein Veblen. This may also explain the antipathy to Marshall of advocates of democratic fundamentalisms, such as Frank Knight.

¹⁵"In the long run we are all dead." J. M. Keynes.

¹⁶See Geschichte der Politischen Ökonomie, Dietz Verlag, Berlin, 1985, Pt. III, #15 (Peter Thal).