

READING RESPONSE PAPERS FOR FEBRUARY 25

TOPIC

Alfred Marshall was a strong proponent of the continuity thesis in the history of economics. Heilbroner (1997, 207-8) nicely lays out Marshall's position:

[Marshall's] main contribution – the one to which Marshall himself returned time and again – was the insistence of the importance of *time* as the quintessential element in the working-out of the equilibrium process.

For equilibrium, as Marshall pointed out, changed its basic meaning according to whether the adjustment process of the economy took place in a short-run or a long-run period. In the short-run, buyers and sellers met to haggle on the marketplace, but basically the bargaining process revolved about a fixed quantity of goods – the diamonds that diamond merchants brought along with them in their suitcases. Over the longer run, however, the quantity of diamonds was not fixed. New mines could be opened if the demand warranted it; old mines could be abandoned if supply was superabundant. Hence in the very short run it was the psychic utility of diamonds – that is, the demand for them – which exercised the more immediate influence on their market price; but over the long run, as the recurring flow of supply was adjusted to consumers' wants, cost of production again asserted its upper hand. Neither cost nor utility, of course, could ever be quite divorced from the determination of price; demand and supply, in Marshall's own words, were like "the blades of a pair of scissors," and it was as fruitless to ask whether supply or demand alone regulated price as to ask whether the upper or lower blade of the scissors did all the cutting. But while both blades cut, one of them, so to speak, was the active and one the passive edge – the utility-demand edge active when the cut took place in the quick time span of the given market; the cost-supply edge active when the cutting extended over the longer period in which scales of output and patterns of production were subject to change.

Without reading some Marshall, you will not be exposed to some of the strongest arguments for the continuity thesis. The purpose of this paper is to get you to read Marshall and use your reading as a starting point to make a case **either** for continuity **or** for discontinuity.

Marshall Overview

Because you will only read a sliver of Marshall's work, I am including a concise overview of his contributions from Medema and Samuels (2003, 501-503):

Unlike Jevons, who painted his economics as representing a strong break from the classical analysis, Marshall emphasized the strong degree of continuity between the classicals and his own theory. Yet, through his *Principles of Economics* (1890), as well as through the force of his personality in developing economics education at Cambridge, Marshall helped shape many of the principle elements of what became the microeconomic core of neoclassical economics: its static partial equilibrium analysis; the demand and supply model; the concern with the household and the firm as the basis of demand and supply, respectively; and a vast array of tools of partial-equilibrium analysis. The tools included: the principle of substitution, elasticity, long run and short run, internal and external economies of scale, prime and supplementary costs, consumers' surplus, quasi-rents, and the representative firm. For Marshall, however, these were strictly tools of analysis, not a body of concrete truth, not a model of some transcendent conceptual

system, as it later became for neoclassicism, but an engine for the discovery of concrete truth also requiring close empirical and institutional analysis. For Marshall, too, economics was a science of tendencies, not a logic machine generating unique determinate optimal equilibrium results.

Marshall was one of those who used utility analysis, but not as a theory of value; for him it was part of the theory with which one could explain demand curves, another part being the principle of substitution. Indeed, Marshall's scissors analysis [Book 5, Ch 3] – which combined demand and supply, that is, utility and cost of production, as if two blades of a pair of scissors – not only transcended the conflict between Classical and Austrian theories of value but, equally if not more important, effectively removed the theory of value from center stage and replaced it with the theory of price; though the term 'value' continued to be used, for most people it was a synonym for 'price.' Prices no longer were thought to gravitate towards some ultimate and absolute basis of price; prices were purely existential, a matter of a dance, as it were, between demand and supply, or, rather, between and among the factors and forces operating through demand and supply (only some of which, however, were thought to be within the purview of economists).

Marshall's approach to methodological issues was largely low key, or middlebrow. He emphasized deliberateness over selfishness and, sensitive to criticisms of economics as extolling selfishness, proposed to study man as he is rather than an abstract 'economic' man; proposed a catholic definition of economics as the study of mankind in the ordinary business of life, earning a living; affirmed the limited use of mathematics in economic theory (e.g. in spite of his strong mathematical background, Marshall largely relegated mathematical analysis to footnotes and appendices in the *Principles*); combined habit with deliberateness in explaining economic behavior; identified economic laws as statements of tendency under certain, stipulated conditions, not absolute natural laws; emphasized objectivity through measurement, though he himself engaged in little quantitative study; combined quantitative empirical study with both pure theory and the study of institutions and behavior; was dubious about the practical and theoretical relevance of such grandiose notions as maximum satisfaction, the invisible hand, and *laissez faire*, and so on.

The core of Marshall's theory is the determination of price. Price, he argued, is a function of demand and supply, but could be analyzed differently on the basis of the different conceptual time periods – especially the market period, short run and long run – understood as the different lengths of time it took for certain variables to work themselves out. In the short run, for example, price was heavily influenced by demand; in the long run, by cost of production. In all such periods, however, price was also influenced by whether the market was competitive or monopolistic.

In the Online Library of Liberty's version of Marshall's *Principles*, you should read:

Book 1: Chs 1, 3
Book 2: Ch 2
Book 4: Ch 13
Book 5: Chs 3, 5.

Many, but not all, of these passages from Marshall are in Heilbroner's *Teachings From the Worldly Philosophy*, pages 228-244.

Here are a couple of quotations on both sides of the continuity and discontinuity debate.

A Continuity Claim

Samuel Hollander has been the fiercest proponent of the continuity thesis. Hollander (1982, 586-7) addresses

the ongoing debate regarding the nature of the neo-classical developments of the 1870s, particularly the legitimacy of the term 'revolution,' which implies analytical discontinuity, as a valid description of those developments. This representation has become particularly topical, since the notion of a neo-classical or marginalist economics, contrasting sharply in analytical essentials with Ricardian classicism, constitutes a central theme of the historiography of the modern Cambridge (UK) School [and Walsh and Gram]. The evidence ... suggests, on the contrary, how useful ... is the notion of altered 'concentrations of attention' (Hicks, 1976, 208-9), which avoids a revolutionary connotation. For what seems to have occurred in the 1870s was a narrowing of focus, specifically a greater concern with exchange and allocation in their own right; a sharpening of theoretical tools, particularly those relating to consumer choice; and the algebraic formulation of general-equilibrium relationships. These are developments which could have been absorbed by the traditional corpus of analysis, whereas the impatience of the marginalists and their apparent wish to wipe the slate clean meant that much of great import in classical theory for their own chosen and relatively narrow sphere of discourse was not recognized, and spurious analytical distinctions were artificially reinforced. My evidence, in short, suggests how justified was Marshall's insistence, against both Jevons and Walras, upon the essential continuity of nineteenth-century doctrine: 'Under the honest belief that Ricardo and his followers had rendered their account of the causes that determine value hopelessly wrong by omitting to lay stress on the law of satiable wants, [Jevons] led many to think he was correcting great errors; whereas he was really only adding very important explanations'(Marshall, 1920, 10 n [Book 3, Ch 3, fn 68]). Indeed Marshall found Ricardo's formulation of pricing preferable to that of Jevons, who 'substitutes a catena of causes for mutual causation' (ibid., 818).

A Discontinuity Claim

While Walsh and Gram and other course readings are part of the discontinuity arguments, Heilbroner (1997, 209-10) also challenges Marshall's continuity thesis.

[The] new figure who will epitomize the Marshallian vision of the economy ... is *The Individual*, whose calculations not only symbolize the workings of the market system, but are in fact the rock on which the economy itself ultimately rests. Gone is the vision of economics as the study of the social dynamics of Monarchy or of a Smithian Society, not to mention Marxian class warfare. In its place we have economics as explication of the collective life of the individual, which is to say, of everyone for him- or herself.

Intimately tied to this is another change ... It is the disappearance of a theme that was unabashedly a central part of earlier visions – namely, the political content of economics. Marshall sees the purpose of economics as explaining such questions as how equilibrium prices are arrived at, not the underlying question of how the relations of power and obedience that give structure to all stratified societies arise in a social order perceived as just a collection of individuals each seeking his or her "utility."

[The] element of Marshall's analysis that was his most important gift to economic analysis [was] – the element of time. For time, to Marshall, was abstract time; it was the time in which mathematical curves exfoliate and theoretical experiments may be run and

rerun, but it was not the time in which anything really *happens*. That is, it was not the irreversible flow of historic time – and, above all, not *the* historic time in which Marshall himself lived. Think for a moment of what he lived to see: a violent anticapitalist revolution in Russia, a world-encompassing war, the first rumblings of anticolonialism. Think of what lay just ahead: the decline of capitalism in much of Europe, a worldwide change in the conception of government, a world-shaking depression in the United States. Yet, of the relevance of economics to all of these overwhelming changes, neither Alfred Marshall nor still less his official colleagues had much, if any, understanding. *Natura non facit saltum* – nature makes no sudden leaps – was the motto of the *Principles* in its last edition in 1920, as it had been in its first, in 1890. The fact that history might make sudden leaps, that the world of economics might be inseparably tied to the world of history, that the long and the short run of the textbook implied a totally different conception of “time” from that of the relentless ticking of the social clock – all this was far removed from the notions of equilibrium which Marshall made the center of his economic inquiry.

Your Assignment

Based on your reading of Marshall, **either** make a case for continuity **or** make a case for discontinuity between classical political economy and neoclassical economics. You can use Marshall’s claims, or the claims above, as starting points for identifying important themes and providing supporting evidence from specific authors we have read – classical and neoclassical – that demonstrate continuity or that demonstrate discontinuity.

This is a short (1000 – 1500 words) paper, which should **focus on what you consider to be the most important themes and most important authors’ examples**. Because of limited space, you should **not** try to be comprehensive, you should **not** spend much space summarizing Marshall, and you do **not** have to address counterarguments from the opposite case. The final exam will include a similar question about continuity/discontinuity and will require you to address counterarguments. This short paper is a building block that will help you on the final exam. Whichever case – continuity or discontinuity – you make here, you will also have to make the opposite case in the final exam and then evaluate the opposing cases. While you do not have to address counterarguments in this short paper, the strongest counterarguments should inform your choice of themes to include.

As in 4059, the short paper is designed to help you engage critically with the assigned readings. In it, you should reflect thoughtfully on the readings as they relate to the learning objectives of the course. The reading response should not be just a summary or comments on secondary source interpretations, but considered reactions to the material. You need to make an argument — not just a statement of fact, but an interpretation — and support it persuasively with evidence from the readings. What matters here is depth and distillation, not a series of scattered observations.

Your grade will be based not on which case you argue, but **on the importance of the themes you identify and your choice of evidence from the readings that supports your case**. Without a clear argument, you cannot get a grade higher than a **C+**, no matter how well-written, thoroughly researched, and clearly organized the paper. A paper with an argument that is competent in other areas will receive a **B**, and better argumentation, organization, evidence or writing can further raise the grade.

References

- Heilbroner, Robert (1996). *Teachings From The Worldly Philosophy*. New York: Norton.
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- Hicks, John (1976). "Revolutions' in Economics." In S. Latsis, ed., *Method and Appraisal in Economics*. New York: Cambridge University Press, pp. 207-219.
- Hollander, Samuel (1982). "On the Substantive Identity of the Ricardian and Neo-Classical Conceptions of Economic Organization: The French Connection in British Classicism," *Canadian Journal of Economics* (Nov): 586-612.
- Medema, Steve and Warren Samuels (2003). *The History of Economic Thought: A Reader*. New York: Routledge, pp. 501-521. <https://www.library.yorku.ca/find/Record/2301866>

FORMAT

Papers are due in class on Tuesday 25 February 2014. For each day your paper is late, there is a 2% penalty. Papers should be 1000 – 1500 words (not including endnotes or references). The text of the paper should be expressed largely in your own formulation and words; direct quotations should be using sparingly in the text. On the other hand, **direct quotations in the endnotes that support your expression in the text of an author's ideas should be used liberally.**

The cover page must have:

- a title, reflecting your major argument
- your student number – make sure **your name does not appear on the title page or anywhere else in the paper**
- the date submitted

The 4 – 6 pages of text come next, followed by the ENDNOTES grouped together. The last page is your list of cited REFERENCES. . [If Word puts the endnotes after the references, that will be fine.] Use only a 12 point font, with 1" margins on all sides. Be sure all of your pages are numbered!

I will arrange for you to run your papers through turnitin.com on Moodle before submitting to me.

Additional sources, beyond those on the course outlines for 4059 and 4069, are **not** required and are **discouraged**. [Note: the rest of the Hollander article discusses material we did not cover, and will therefore **not** be useful.]

See the attached "Instructions for Contributors" for Cambridge University Press. Following a quotation (in the text of the paper or in the endnotes), put in round parentheses the author's last name, year of publication and page numbers – (Blaug 1990, p. 29). If you use an internet source – such as for Adam Smith – include the URL in the bibliography. If there are no clear page numbers, reference instead by Book and Chapter. For example: As Adam Smith says, "As it is the power of exchanging that gives occasion to the division of labour, so the extent of this division must always be limited by the extent of that power, or, in other words, by the extent of

the market” (Smith 1776, Book 1, Ch. 3). This is history. You must provide the reader with a map to your sources. Look at any of the articles in *The Journal of the History of Economic Thought* for a better sense of what citations should look like (but unlike those articles, your paper will have endnotes, not footnotes, and does not have to be right justified).

AUDIENCE

Although I will grade the papers, think of your intended reader as a 4th year undergraduate economics major who has not taken this course.

CAMBRIDGE | Instructions for Contributors

1. The final version should be in Word for Windows. Please register and submit your manuscript on our website <http://mc.manuscriptcentral.com/jhet>
2. All copy must be double-spaced, including indented quotations, footnotes, and references. The right margin should be ragged, and the authors should use Times New Roman, 12 pt. font throughout.
3. Double quotation marks should be used for any quoted material that appears within the body of the text. Single quotation marks should be used for quotes within quotes.
4. The layout of papers, including title, section (sub-) headings, notes, and references should conform to the style evidenced in the *Journal*. Note that section headings are numbered with Roman numerals and are capitalized.
5. Citations in the text must be in round parentheses. The page numbers should be preceded by p., or pp. if multiple pages are cited. E.g., (Jacobsen 2008, pp. 68-69).
6. Endnotes should be embedded in the article, and their numbers should be indicated by superscripts in the text. All notes should be collected together and placed, double-spaced and beginning with a new page, at the end of the paper as endnotes.
7. Symbolic letters are italicized, whether in an equation or in the text. Numbers in equations and in symbolic terms in the text are not italicized, even if they are subscripts or superscripts.
8. Use an italic font, rather than underlines, for titles, emphases, etc. unless you do not have an italic font.
9. The first time that a person’s name is used in the text, his or her first name and middle initial, or an alternative appropriate form of reference beyond the surname, should also be given, no matter how well known the individual may be. E.g., John Maynard Keynes, H. Gregg Lewis, George J. Stigler, T.R. Malthus, Adam Smith.
10. The references should appear immediately after the text of the paper, and in the following format:

REFERENCES

- Blaug, Mark. 1990. “On the Historiography of Economics.” *Journal of the History of Economic Thought* 12 (Spring): 27-37.
- Mirowski, Philip. 1990. “Smooth Operator: How Marshall’s Demand and Supply Curves Made Neoclassicism Safe for Public Consumption But Unfit for Science.” In Rita McWilliams Tullberg, ed., *Alfred Marshall in Retrospect*. Aldershot: Edward Elgar, pp. 61-90.
- Smith, Adam. 1776. *An Inquiry into the Nature and Causes of the Wealth of Nations*. New York: Modern Library, 1937.