

Book Review

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Neil Hart, *Equilibrium and Evolution: Alfred Marshall and the Marshallians*. Palgrave Macmillan: Basingstoke, 2012; xiii + 242 pp.: 9780230302709, £65

Reviewed by: John E King, *La Trobe University, Australia*

In this excellent book, which is based on his PhD dissertation, Neil Hart offers a perceptive and at times provocative reinterpretation of Alfred Marshall's role in the history of economic thought. There is, Hart argues, an important and unresolved tension in Marshall's writings between the static, partial equilibrium theory of value that is undeniably present in the *Principles* and his no less firm commitment to what Paul Samuelson once described as 'all this prattle about the biological method in economics' (p. 6). This has contributed to a century of 'distorted renditions' of his work (p. 7). Even the 'new view' of Marshall, based on his unpublished writings and correspondence and summarised in *The Elgar Companion to Alfred Marshall* (Raffaelli et al., 2006), wrongly implies that the various parts of the Marshallian system fit neatly together. As Hart demonstrates, the true story is considerably more complicated, though he does not go to the opposite extreme of identifying *two* Marshalls, the neoclassical and the evolutionary. He first sets out his own interpretation of Marshall's thought (Chapters 2–4) and then discusses the misrepresentations of it by Edgeworth, Pigou, Sraffa and others (Chapters 5–6), before assessing Marshall's own responsibility for these misunderstandings (Chapter 7) and the impressive contributions to evolutionary thinking that were made by Frank Knight, Joseph Schumpeter and Allyn Young (Chapter 8).

Hart begins (in Chapter 2) by tracing the young Marshall's intellectual journey from mathematics to philosophy and psychology in the late 1860s. He emphasises the influence on him of Herbert Spencer and 'the wave of Darwinian enthusiasm' that swept through Cambridge at that time (p. 22). There is a clear contrast here with Jevons, who was instead developing 'a mechanical model of the mind' derived from Babbage (p. 24). In his thinking on historical evolution, Marshall was also influenced by Hegel and the German Historical School. He became a 'methodological pluralist' and an 'epistemological realist' (p. 30), reluctant to engage in overindulgent abstract theorising. It was Marshall's search for empirical support that led him to delay publication of his theoretical ideas until he had done the necessary research. In his inaugural lecture at Cambridge in 1885, he criticised Ricardo and his followers for imitating the methods of the physical sciences, thereby drawing misleading conclusions about the supposedly 'mechanical and regular action' of the forces of supply and demand and failing to see 'how liable to change are the habits and institutions of industry' (cited p. 40).

In Chapter 3, Hart outlines Marshall's alternative, the 'economic biology', that 'provided the vehicle through which life could be breathed into his theoretical apparatus' (p. 43). Here, the influence of Adam Smith was especially important, reinforcing his emphasis on the constantly changing nature of economic institutions. Marshall was careful to take note of the most significant difference between economics and biology: evolution in the former is purposeful, requiring careful attention to be paid to innovation and to the activities of the entrepreneur or 'undertaker' (p. 53). Hart is particularly interesting on Marshall's treatment of increasing returns, which involves deliberate changes in organisation rather than the simple application of pre-existing techniques and requires a detailed analysis of the social forces that are involved. At the same time, however, Marshall continued to use mechanical notions of equilibrium, and in the fifth (1907) edition of the *Principles*, he relegated the historical material to appendices.

This raises the question of how to reconcile the mechanical analogies that Marshall continued to use with his employment of evolutionary modes of thought. This is the subject of Chapter 4, in which Hart notes Marshall's emphasis on the role of time in equilibrium theorising, his refusal to derive his demand and supply functions from systematic models of constrained optimisation and his interest in disequilibrium trading. Unlike Walras, Marshall was not a general equilibrium theorist. He regarded models of perfect competition as 'a fabrication' (p. 82) and instead focussed on *free* competition, with freedom of entry as the crucial requirement and each firm's 'particular market' generating downward sloping rather than horizontal product demand curves. Here, Hart endorses the anti-Pigovian interpretation of P.W.S. Andrews. For Marshall, competition was an activity, not a static outcome; there are clear parallels with the Austrian approach to competition, which Hart might have stressed more. He does provide a systematic account of Marshall's concept of the 'representative firm', his complex and nuanced account of internal and external economies and his use of the 'trees of the forest' analogy to explain why few, if any, industries operate as textbook monopolies.

Hart cites George Shackle's highly favourable verdict on Marshall's analytical 'triumph' (p. 88), but he himself is more critical. He sees Marshall as engaged in a continuing and ultimately unsuccessful analytical struggle to reconcile the equilibrium and evolutionary strands in his thinking. In particular, Hart argues, the irreversibility of the firm's long-period supply curve created insuperable problems for Marshall's supply and demand theory of price determination, and perhaps explains why the promised second volume of the *Principles*, which was to be dedicated to evolutionary processes, was never written. Thus, Marshall was never able to deal adequately with path-dependent processes. Hart agrees with Peter Groenewegen that in the final analysis 'equilibrium defeated history' in Marshall (p. 93).

Chapter 5 deals with 'Sraffa's critique and "Marshall's theory"'. The double inverted commas reflect Hart's strong belief that the notorious 'cost controversies' of the 1920s reveal the extent of the misunderstanding of Marshall, which had begun before 1914 with the abortive attempts of first Cunyngame and Edgeworth and then Pigou to use external economies as a means of reconciling increasing returns to scale with competitive markets. Marshall himself was not happy with these efforts, but he never criticised them in print. He would have been wise to do, Hart suggests, since the 'notion that Marshall used external economies as a device to "reconcile" competitive equilibrium with increasing returns

amounts to a complete misrepresentation of Marshall's work' (p. 110). His evolutionary theory of equilibrium pointed instead to a model of imperfect rather than perfect competition, with considerable emphasis being placed on product differentiation and the role of each producer's 'particular market' (pp. 112–113). Piero Sraffa came to a similar conclusion but wrongly criticised Marshall in addition to his disciples, failing to acknowledge the evolutionary aspects of the former's thinking. This was a missed opportunity, Hart concludes, since 'these issues would have constituted fertile grounds upon which the Marshallian controversies could have been contested gainfully. Instead ... reactions to Sraffa's critique involved a retreat to pure theory in which the very essence of Marshall's economics was discarded by the Marshallians' (p. 122).

How this was done is the subject of Chapter 6, 'Getting Marshall "Out of the Way"'. First, there was a move away from the representative firm to the equilibrium firm, in which Pigou and Lionel Robbins were the principal villains. Then Dennis Robertson and Gerald Shove attempted a largely unsuccessful 'partial rehabilitation' of Marshall, which provoked Sraffa's final, 'destructive and negative' conclusion to the 1930 *Economic Journal* symposium on the theory of the firm. 'The object of Sraffa's critique', Hart concludes, 'was, however, somewhat distanced from what was mistakenly portrayed to be "Marshall's theory"' (p. 140).

In Chapter 7, Hart steps back in time to consider 'The Professionalisation of Economics and "Marshall's Theory"'. He begins by describing how Marshall dominated the process by which economics in Britain was professionalised; Jevons had died young, and Edgeworth was not interested in academic leadership. The discipline was in a bad way in 1875, Hart argues, and it was Marshall who rescued it. It is not an entirely pleasant story, with his treatment of Henry Sidgwick, of women at Cambridge and (above all) of Herbert Foxwell coming in for well-justified criticism (pp. 146–153). Hart provides a clear and convincing account of the nature of economic orthodoxy in Britain between 1885 and 1908, stressing that Marshall had not established a 'neoclassical school' for the very good reason that he himself was not a neoclassical economist. He stressed the extent of historical continuity in the development of British economics, favoured Ricardo over Jevons and (again) was himself something of a 'methodological pluralist' (p. 158). (This pluralism did not, however, extend to J.A. Hobson, whom he regarded as being beyond the Pale.)

But Marshall fell foul of his 'loyal but faithless followers', above all Pigou, with whom he was unwilling to engage in public controversy for fear of undermining the scientific status of the discipline that he had worked so hard to establish. In the process of professionalisation, 'Marshall's economic biology had become clouded by a commitment to preserve the demand and supply techniques that were much better adapted to the world of static analysis' (p. 162). He was not assisted by the declining influence of biological thinking in the social sciences, more generally in the first three decades of the 20th century, itself the result of internal turmoil among biologists and the pernicious influence of Social Darwinism and eugenics. In consequence, Hart suggests, 'the more settled territory of mechanics represented a much more appealing source from which analytical techniques could be formulated and applied to areas such as economics' (p. 166).

In the brief Chapter 8, he discusses the work of three economists who were not captives of mechanical metaphors. Frank Knight criticised Marshall for failing to make a clear distinction between static and dynamic theory (the latter being inescapably

evolutionary). Joseph Schumpeter's 1928 *Economic Journal* article on the instability of capitalism is interpreted by Hart as being highly relevant to the contemporary debate on Marshallian economics. Again a contrast was drawn between statics and dynamics, with Schumpeter being even more critical of Marshall than Sraffa had been. Finally, Allyn Young's objections to static supply and demand analysis and emphasis on cumulative causation, derived from Adam Smith, were directly relevant to

the issues Marshall had partially concealed in Appendix H in the later editions of the *Principles*. If forces such as cumulative causation are to be associated with the laws of return, and there is no reason to deny this in an evolutionary setting, then how is it possible to interpret movements along supply schedules? What operational meaning can be attached to comparisons of long-run equilibrium positions? (pp. 179–180)

As Nicholas Kaldor later observed, Young's critique was many years ahead of its time.

In Chapter 9, described as an 'Epilogue', Hart cites Kaldor's own anticipation of 'new growth theory' as one example of the way in which the evolutionary side of Marshall's thinking continues to resonate in modern economics. He quotes with approval Geoffrey Hodgson's suggestion that recent developments in evolutionary economics mean that 'at last it may be possible to bring Marshall's Mecca into sight' (p. 191). As he notes in the Preface, Hart himself has plans for a second book, 'assessing Marshall's treatment of equilibrium and evolution in the context of the development of modern economic analysis' (p. xi). I look forward to reading it.

Reference

Raffaelli, T, Becattini, G and Dardi, M (eds) (2006) *The Elgar Companion to Alfred Marshall*. Cheltenham: Edward Elgar.