Alfred Marshall and the Historico-Ethical Approach

Marshall, Schumpeter: Sano Shoin
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1. The Age of Ethico-Historicism, or the Age of Social Policy School

From 1870 to 1914 (and later)

‘It was around 1870 that a new interest in social reform, a new spirit of ‘historicism,’ and a new activity in the field of economic ‘theory’ began to assert themselves.’ (Schumpeter, History of Economic Analysis, Part IV “From 1870 to 1914 (and later)” During this period, upon the ‘revolutions’ and heated discussions, the neo-classical economics based on marginal utility theory and general equilibrium theory were formed and developed, and the economics as such were to be professionalized and institutionalized. At the same time, the German historical school, or the historico-ethical school, the social policy school were also formed and developed internationally, in the course of which economic sociology were constructed. This latter case was stronger in the backward countries (latecomers) such as Germany, America, and Japan. It seems that Marshall have been discussed in the former context not in the latter context. I would like to discuss Marshall against the background of the historico-ethical age or the age of social reform.

Schumpeter characterized an aspect of economics from 1870 to 1914 as the ‘Sozialpolitik and the historical method’ (Ch.4 of Part IV). The relationship between the Sozialpolitik and historicism was clearly a German doctrine; the crucial factor connecting the two was not so much history as ethics. The ethical claim, leading the historical research of the school, served the basis of the Sozialpolitik. Schumpeter discussed the English historical school as an offshoot of the German historical school and compares the British new-liberal social reform, the British version of the Sozialpolitik, with the better-developed German social policy. (Shionoya
A major turning-point both in economic policy and theory in Britain occurred roughly at the same time as the foundation of the Verein für Sozialpolitik (in 1872). It was around that time that the increasing urgency of economic studies as a means for human well-being grew upon Marshall. [See “The Jevonian revolution and economic policy in Britain”, Hutchison 1978] These accelerated the decline and fall of the English classical school, and the rise of the English historical school, then arose the Oxford economists emanating from Arnold Toynbee, like W.J. Ashley and W.A.S. Hewins, and the English social policy school led by the Webbs, R.H. Tawney, and J.A. Hobson, a group which might be called the ‘LSE institutionalists’, or in a different way the ‘English school of welfare economics’ as Walton Hamilton called them in 1919. [The American Economic Association strongly influenced by the German historical school at the initial stages was founded in 1885. The Japanese society of social policy was started in 1896, and a Japanese economist Fukuda co-authored with Brentano Labour Economics in 1899, which was an inauguration of Fukuda’s welfare economic studies.]

The German historical (historico-ethical) school, the English historical school, the Oxford economists largely based on the Oxford approach of idealism, the American institutionalists, the Japanese society of social policy, were not an isolated phenomenon but were part of a world-wide intellectual movement, part of a much larger movement of dissent. [There seemed to be ‘a steady and rising stream of dissent’ in Britain, rising to a crescendo at the end of the 19th and the beginning of the 20th centuries in the Webbs and the Fabians, in a group which might be called the ‘London School Institutionalists’, in a few gifted amateurs and mavericks such as Hobson (who might almost be placed in the London School group), and finally in a group of quite sober and respectable academic institutionalists such as H.A. Marquand and Sargent Florence. The Oxford anti-marginalists such as P.S. Andrews might be included in the list. (Boulding 1957, 3)]

**Historico-Ethical Approach**

The new departure, the distinctive research programme, and the emergence of a genuine school, Schumpeter says, must be associated with
the name of Gustav von Schmoller. The research programme of the German historical school was explicitly formulated by Schmoller as ‘historico-ethical’ approach to economics. He always protested against an ‘isolating’ analysis of economic phenomena and held that ‘we lose their essence as soon as we isolate them’. This view was the consequence of his resolve to feed economics on historical monographs. For their materials as well as their results were ‘refractory to any attempt at isolating - in most cases, in fact, they become meaningless if isolated’. In principle, the Schmollerian economist was ‘a historically minded sociologist’. The historico-ethical school as Schmoller affixed to it was to express ‘protest against the wholly imaginary advocacy of the hunt for private profit of which the English ‘classics’ were supposed to have been guilty’. The school professed to study ‘all the facets of an economic phenomenon’; hence ‘all the facets of economic behavior and not merely the economic logic of it’; hence ‘the whole of human motivations as historically displayed, the specifically economic ones not more than the rest for which the term ‘ethical’ was made to serve, presumably because it seems to stress hyperindividual components’. (Schumpeter 1954, 812)

The basic and distinctive article of the historical school’s methodological faith was that the organon of scientific economics should mainly consist in the results of, and in generalizations from, historical monographs. So far as the scientific part of his vocation is concerned, the economist should first of all master historical technique. By means of this technique, which was all the scientific equipment he needed, he should dive into the ocean of economic history in order to investigate particular patterns or processes in all their live details, local and temporal, the flavor of which he should learn to relish. And the only kind of general knowledge that is attainable in the social sciences would then slowly grow out of this work. This was the original core of what became known as the Historical Method in economics. (ibid.807) ‘Schmoller’s historical and ethical economics remained neither a description of history nor a prescription of morality, but became an applied science addressing a practical solution for social reform in Germany.’ (Shionoya 2006b)
2 The Marshallian Age

Schumpeter on Marshall

It was Marshall who changed all that and led out of the valley on to a sunlit height. ‘In England, the period is emphatically the Marshallian Age.’ His success was as great as Adam Smith’s. Much more than Ricardo had ever done, Marshall actually commanded the scene. The great master made almost the whole of the rising generation of English economists his pupils and followers. (Schumpeter 1954, 830,833) Here again I would like to stress the existence of the Marshallian school of industrial and applied economics and the economic historians, who were the product of Marshall’s effort to make economics realistic, the blend of analysis and facts attested by the motto ‘The many in the one, the one in the many’.

“Marshall’s Principles: A semi-centennial appraisal,” was read to the American Economic Association in 1940. The book was a great performance, whose precise nature was less easy to define. ‘Full justice cannot be rendered to it by going straight to the core of analytic apparatus the Principles presents. For behind, beyond, and all around that kernel there is an economic sociology of 19th century English capitalism which rests on historical bases of impressive extent and solidity. Marshall was, in fact, an economic historian of the first rank, though he may not have been much of a historical technician. And his mastery of historical fact and his analytic habit of mind did not dwell in separate compartments but formed so close a union that the live fact intrudes into the theorem and the theorem into purely historical observations. This shows, of course, very much more obviously in Industry and Trade than it does in the Principles, in which, even in the historical introduction, historical fact has been so severely scaled down as to be almost lost to follower and critic alike. But it is there nevertheless and so are the results of his tireless and sympathetic observation of contemporaneous business life which he understood as few academic economists ever did. In its very nature the latter achievement implies certain limitations. The practice of the middle-sized English business firm of his time no doubt absorbed a greater share of the attention of the analyst than it should have done in an exposition making large claims to generality. But within those limits a realism was attained which greatly surpasses that of Adam Smith - the only comparable instance. This may be
one of the reasons why no institutionalist opposition rose against him in England. (Schumpeter 1951, 94)

After its publication in the AER, Mary Marshall wrote to Schumpeter (dated July 19, 1941): Schumpeter’s essay indicates how much he thought of the work of Marshall. ‘I have been reading your semi-centennial appraisal of Marshall’s Principles with great interest. I have always known how much you appreciated his work and I am so glad that you have taken this opportunity of expressing this appreciation so warmly and well. Its last paragraph especially delights me.’ (Schumpeter 1951, xi)

Stressing that Marshall and Adam Smith have more in common, Schumpeter found ‘strong similarity in the visions or general conceptions of the process and, in particular, with respect to economic evolution.’ Also he found ‘an approximately equal distribution of weights as between ‘theory’ and ‘facts’’. In Marshall he beholds ‘not only a high-powered technician, a profoundly learned historian, a sure-footed framer of explanatory hypotheses, but above all a great economist.’ Unlike the technicians, Marshall understood the working of the capitalist process. In particular, Marshall ‘understood business, business problems, and businessmen better than did most other scientific economists, not excluding those who were businessmen themselves. He sensed the intimate organic necessities of economic life even more intensively than he formulated them, and he spoke as one who has power and not like the scribes - or like the theorists who are nothing but theorists.’ (Schumpeter 1954, 836)

Schumpeter appraised Schmoller’s research programme as the model of economic sociology, and characterized its aims as ‘a unified sociology or social science as intellectually (‘theoretically’) worked up universal history (Universalgeschichte)(Schumpeter 1926, 382). He defined economic sociology as ‘a sort of generalized or typified or stylized economic history’, called it ‘reasoned history.’ (Shionoya 1995, 233) Schumpeter, in “Gustav v. Schmoller und die Probleme von heute”(1926), based upon his methodological evaluation of Schmoller’s historico-ethical economics, characterized its approach as economic sociology which enabled the integration of theory and history. (ibid.236).
In the last two paragraphs of concluding a long essay “Gustav v. Schmoller und die Probleme von heute”, Schumpeter says, Schmoller could write on his book (*Grundriss der allgemeinen Volkswirtschaftslehre*) Marshall’s motto ‘*natura non facit saltum*. Its similarity with Marshall’s work occurred to his mind frequently. Though Schmoller and Marshall approached to the different subjects by their different training and circumstances, they came out of the same world. Marshall’s approach was also ‘facts and inferences’. Marshall and Schmoller wrote eventually the same thing, though their stresses were different. They both overcame the economics of simple postulates and striking results, and showed how the economics of future looked like. Marshall’s *Principles* and Schmoller’s *Grundriss* contain in embryo 90% of what could be done in the present and in the future and what had been done. They continue to be the inexhaustible treasures of the micro- and macro- social scientific insights. (Schumpeter 1926, 387-88)

**Marshallian School of Industrial and Applied Economics**

Sydney Chapman, one of Marshall’s most distinguished pupils who came under his influence ‘in his prime’, described Marshall’s method, stressing ‘realism’: while the *Principles* might be described as ‘theory fully clothed with realism’, *Industry and Trade* could be characterized ‘as realism adequately infused with theory’. ‘He had a passion for knowing all about the things he was dealing with, ....He had come to believe more and more that generalizing from facts can yield fruitful results if the facts are exhaustive enough and representative enough; and was never really satisfied that he had got enough. He had grown into a convinced realist, without however ceasing to be a theorist. In his view, the two lines of investigation were not parallel but converging so that they would more or less meet short of infinity. And at the same time his mistrust of the bare results of pure deduction grew on him. Perhaps he began to underrate the value of abstract reasoning because it came too easy to him. ....Marshall stressed the importance of taking evolution into account in Economics. This he had partly in mind in dwelling on ‘the many in the one, and the one in the many.’ And for an evolutionary study much realism is essential.’ (Chapman “Autobiography”, 24-26)
*Industry and Trade*, illustrated the value of the motto, ‘The many in the one, the one in the many’, was a research programme of continuing value to economists interested in the ‘realistic’ side of the ‘science of business’. It raised a discussion on the foundation of a Chair of ‘Applied Economics’ or ‘Industrial & Commercial Economics’ at Cambridge among the people around Layton in the early 1920. Stressing the prominent ‘characteristic of the Cambridge School of Economics’, Layton wrote to Colonel Strang: “Professor Alfred Marshall’s desire that economics should not be a mere affair of the study but should be a real analysis and exposition of the laws governing the workshop and the market place will be evident to anyone who dips into his recent book “Industry and Trade”. (19 February 1920, Layton 2/46 (1-4))

Layton drew up “Draft Scheme for a Professorship of Industrial & Commercial Economics at Cambridge University” (Layton 2/46(6)). The Professorship would be concerned primarily with that branch of the field of political economy which deals with the organization of industry, trade and commerce, the question of relations between employers and employed and the general economic problems that present themselves either to managers or to Trade Union organizers. “Memo on Necessity for Formation of School for Studying Applied Economics” was also drafted, requesting ‘the foundation of a Professorship, or Chair of Applied Economics’ or ‘a man who will do for applied economics what Darwin did for natural history’; that is, to collect and collate the masses of facts which can be obtained by reference to and study of industry in every part of the world, and, in using these facts, to elucidate the economic laws, instead of theorizing on economic laws and trying to fit the facts to the theories. (Layton 2/40(1))

The establishing of a professorship of economics in a great industrial center was pretty sure to lead to valuable publications on the economic problems of the particular district, which was illustrated by Chapman’s writings on the economics of the cotton industry and to Clapham’s book on the woolen trades. (Ashley 1908, 187-88) There was a very encouraging growth in the number of books on concrete economics as a result of the creation of commercial faculties or of economic departments serving more or less the same ends. It would be invidious to single out particular
examples, Ashley wrote: ‘Yet I cannot refrain from pointing to Dr. Alfred Marshall’s Industry and Trade as a masterly and informing survey of a large part of the field. Matters as to which some of us had been trying for years to dig out some scrappy material, and which we had been presenting to our classes with a feeling that we were cultivating quite untilled tracts, were there brought together for the first time in a general view. The motto of the book, ‘The many in the one, the one in the many’, presents our common ideal: the reconciliation of the abstract and the concrete; a reconciliation, let me add, of which each side is equally in need.’ (Ashley c1921: 5)

In a long letter to Hewins (12 Oct. 1899), he wrote: Having discovered the One in the Many, they might set forth afresh the Many in the One. I repeat, I regard the use of mathematics on the way as a gain when convenient, but not as of the essence of the work. In my view the Many is the ground of study; the One is the Holy Grail to be thought by the pious & laborious pilgrim; & the One when so found is to help as a guide through life over the broken ground of the Many. (Whitaker II, 257) And he wrote to Bowley: Will you then be so very generous as to forgive me if I ask you to ask yourself whether, having now brought out this great and successful book, it is not time to make some further study of the broader relations between economic facts: to leave mathematics for a little on one side; and join more heartily in the quest for ‘the One in the Many, the Many in the One’? (21 February, 1901, II: 300-2)

3. Marshall’s Vision - ‘Reasoned History of Man’

‘Reasoned History of Man’ or Social Science

Marshall was the first great economist who devoted his life to building up the subject as a separate science, standing on its own foundations with as high standards of scientific accuracy as the physical or biological sciences (Keynes, 1924). Yet, unlike Jevons, Marshall did not entertain a straightforwardly ‘narrower’ or ‘purer’ conception of the subject. On the contrary, he harboured a vision of economics that was ‘positively imperialist’ in its potential scope, and one which promised to give economics unique standing as the source of relevant expertise in
contributing to the resolution of a very wide range of public issues. The comprehensiveness of Marshall’s vision introduces further complications and subtleties; for if developed systematically it would have made economics the most general of the social sciences, ‘thoroughly pre-empting in the process the conceptual space occupied by both sociology and political science’. But this grandiose vision proved embarrassing to Marshall’s successors and was largely shunned by them in their pursuit of professional respectability. (Collini 1983, 312-3)

In “The Old Generation of Economists and the New” (1897) Marshall discussed: In economics we deal with the whole of man’s nature, though we lay chief stress on certain special aspects of it. In so far as we base ourselves upon the history of past times at all, it must be ‘history as a whole. We need more than economic history, more than a history of economic institutions and customs, wages and prices, of trade and finance: we want a history of man himself, and economic history as contributing to that’. (Marshall 1897, 299)

‘Social science or the reasoned history of man, for the two things are the same, is working its way towards a fundamental unity; just as being done by physical science, or, which is the same thing, by the reasoned history of natural phenomena’. Physical science is seeking her hidden unity in the forces that govern molecular movement: social science is seeking her unity in the forces of human character. To that all history tends; from that proceeds all prediction, all guidance for the future. ‘We have to study mankind as they are. We must not picture to ourselves an unreal world as it might, or ought to be, and make schemes for it. ....Our first duty as economists is to make a reasoned catalogue of the world as it is’; and never to allow our estimates as to what forces will prove the strongest in any social contingency to be biased by our opinion as to what forces ought to prove the strongest. (ibid, 300,303)

Marshall’s arguments on ‘the reasoned history of man’ and his visions on social science are quite similar to, or have something common with the historical method in economics as Schumpeter said and the Schmollerian economic sociology.

**Marshall on Social Science and Economics**
How Marshall’s arguments and sentiments like these would reconcile with his rejection of Comtist pretensions of creating a science of sociology which would subsume the subject-matter hitherto assigned to the economists. In “The Scope and Method of Economics” (Principles), Marshall criticized Comte’s ‘unified (and all embracing) social science’: There were some who held, with Comte, that the scope of any profitable study of man’s action in society must be coextensive with the whole of social science. They argued that all the aspects of social life were so closely connected, that a special study of any one of them must be futile; and ‘they urged on economists to abandon their distinctive role and to devote themselves to the general advancement of a unified and all embracing social science’. But the whole range of man’s actions in society is too wide and too various to be analysed and explained by a single intellectual effort. (Marshall 1961a, 770) In his inaugural lecture Marshall addressed in same tone: It is vain to speak of the higher authority of a unified social science. No doubt if that existed Economics would gladly find shelter under its wing. But it does not exist; it shows no signs of coming into existence. There is no use in waiting idly for it; we must do what we can with our present resources. (Marshall 1885, 163-4)

Judgment of common sense or ethical judgment and economic theory or organon: Marshall argued: ‘the only resources we have for dealing with social problems as a whole lie in the judgment of common sense. For the present, and for a long time to come, that must be the final arbiter. Economic theory does not claim to displace it from its supreme authority, nor to interfere with the manner nor even the order of its work, but only to assist it in one part of its work’. For common sense does not deal with a complex as a whole. Its first step is to break the problem up into its several parts; it then discusses one set of considerations after another, and finally it sums up and gives its conclusions. The fact which Comte seems to have ignored is that the human mind has no other method of inquiry than this; that a complex problem is broken up into its component parts, less methodically indeed but no less completely by common sense than by formal analysis. When it is thus broken up each separate part offers a foot-hold to treatment by a special scientific organon, if there be one ready. (ibid. 164)
In nearly every important social problem, one of these component parts has to do with those actions and sacrifices which commonly have a money price. This set of considerations is almost always one of the hardest, one of those in which untutored common sense is most likely to go wrong. But it is fortunately one of those which offer the firmest foot-hold to scientific treatment. The economic organon brings to bear the accumulated strength of much of the best genius of many generations of men. It shows how to analyse the motives at work, how to group them, how to trace their mutual relations. And thus by introducing systematic and organized methods of reasoning, it enables us to deal with this one side of the problem with greater force and certainty than almost any other side. Having done its work it retires and leaves to common sense the responsibility of the ultimate decision; not hampering common sense in the use to which it is able to put any other available knowledge, nor in any way hindering; helping where it could help, and for the rest keeping silence. (ibid. 164-65)

Whenever we get a glimpse of the economic man he is not selfish. The desire to make provision for one’s family acts in a very regular way and is eminently capable of being reduced to law: it is prominent in all economic reasoning, because, though unselfish, it is measurable. If, with Cliffe Leslie, we analyse all the infinite variety of motives under the term ‘love of money,’ we see that they are of all kinds. They include many of the highest, the most refined and the most unselfish elements of our nature. The common link that binds them together is that they can be more or less measured; and in this world they are measured by money. But, though in wording our economic organon this idea of measurability should be always present, it should not be prominent. For practical purposes, and in order to keep the better our touch of real life, it will be best to go on treating it as chiefly concerned with those motives to which a money price can be directly or indirectly assigned. But motives that are selfish or self-regarding have no claim to more consideration than others except in so far as they may be more easily measurable and may more easily have a money-price assigned to them. (ibid.160-1)

As Dennis Robertson later paid heed to a piece of advice given by his grandparent in the chair, Marshall concluded his arguments on “The
substance of economics” in the *Principles*: ‘The less we trouble ourselves with scholastic inquiries as to whether a certain consideration comes within the scope of economics, the better. If the matter is important, let us take account of it as far as we can...If it is one on which the general machinery of economic analysis and reasoning cannot get any grip, then let us leave it aside in our purely economic studies;....and remembering always that some sort of account of it must be taken by our ethical instincts and our common sense, when they as ultimate arbiters come to apply to practical issues the knowledge obtained and arranged by economics and other sciences.’ (Robertson 1957, 18-19: Marshall 1961a, 27-28) [This was after Robertson noted his predecessor’s hypothesis: Material welfare is not the same as total welfare; and sometimes the pursuit of the one may conflict with the pursuit of the other. Nevertheless we can reasonably plan our studies on the working hypothesis laid down by his predecessor in the chair, Pigou: ‘when we have ascertained the effect of any cause on economic welfare, we may, unless of course there is special evidence to the contrary, regard this effect as probably equivalent in direction, though not in magnitude, to the effect on total welfare.’]


**Economics and Ethics: Ethics to Economics**

The study of economic, social and human progress with prospects for the elimination of human poverty was always part and parcel of the system of economics Marshall wanted to construct. The solution of economic problems was a prior condition of the exercise of man’s own possibilities and higher faculties, but not an application of the hedonistic calculus. He started from mental science, whose fascinating inquiries into the possibilities of the higher and more rapid development of human faculties brought him into the question: how far do the conditions of life of the working classes generally suffice for fullness of life? These sentiments were very clear in his *Lectures to Women: some economic questions directly connected to the welfare of the labourer*, 1873: *The Future of the Working Classes*, 1873; in the former Marshall used often the works by Brentano, Ludow, about whom he ‘was enthusiastic, and evidently valued
his work highly.' (Mary Marshall, 1947, 44)

In 1868, when he was still in his metaphysical stage, a desire to read Kant in the original led him to Germany. 'Kant my guide,' he once said, 'the only man I ever worshipped.' ‘Are the opportunities of real life to be confined to a few?’ Hegel’s Philosophy of History greatly influenced him. (Keynes 1924, 170-72). Marshall’s reading Kant and Hegel in the late 1860s and the early 70s had something similar to T.H. Green in Oxford. As Pigou noted in his “Memoriam”, Marshall used to wander about Switzerland, carrying on his back Kant’s Critique of Pure Reason. He turned more and more to ethics: and it was through ethics that he came to economics. For him ‘economics was a handmaid to ethics, not an end in itself, but a means to a further end: an instrument, by the perfecting of which it might be possible to better the conditions of human life. Things, organization, technique were incidents: what mattered was the quality of man.’ (Pigou 1924, 82)

Marshall always said till about 1871 that his home was in Mental Science. Gradually, however, the increasing urgency of economic studies as a means toward human well-being grew upon him. About 1871-72, the time had come at which he must decide whether to give his life to psychology or economics. He spent a year in doubt: ‘always preferring psychology for the pleasures of the chase’; but ‘economics grew and grew in practical urgency, not so much in relation to the growth of wealth as to the quality of life’; and he settled down to it. (Marshall to James Ward, 23 September 1900: Whitaker II, 285)

According to Marshall, progress means improvement of the quality of life and this is pointed out in one of the many notes written for “A Book that never was”, Marshall’s final volume on progress and ideals. The note dated 23 July 1920 is entitled “Some Influences of Economic Progress on the quality of life”. (Marshall 5/3/2), in which he says: we have progress only when ‘increase of material wealth is turned to account in developing the higher life of mankind.’ In “Progress. Ideals” (Marshall 5/9), he says: ‘the true aim was the elevation of human life, the making it full and strong; the elevation of human life all round, individual and social, moral and religious, physical and intellectual, emotional and artistic.’ ‘Wealth exists only for the benefit of mankind. It cannot be measured adequately in yards or in tons, nor even as equivalent to so many ounces of gold; its true

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measure lies only in the contribution it makes to human well-being.’
(“Fragments” in Pigou 1925, 366) Industry and Trade, appeared as ‘a
continuation’ of the Principles, ‘with special reference to the technical
evolution of industry, and its influences on the conditions of man’s life and
work.’ Another volume was also to be occupied with ‘influences on those
conditions’ exerted by money, credit, and international trade, and by social
endeavour. (Marshall 1919, v) ‘It is becoming clear that this and every other
western country can now afford to make increased sacrifices of material wealth
for the purpose of raising the quality of life throughout their whole population. A
time may come when such matters will be treated as of cosmopolitan rather than
national obligation.’ (ibid. 5)
The Oxford idealism of T.H. Green and Arnold Toynbee and its relation
to Marshall has been sometimes pointed out. ‘What was common to both
Marshall and Green was the stress upon a moralized capitalism through
which the highest potentialities of mankind were to be developed’. ‘Both
Marshall and Green saw history not only as a transition from status to
contract, but also as a transition from self-interest to self-sacrifice and
altruism’. (Stedman Jones 1971, 7) In this aspect Marshall separated
himself from those contemporaries, chiefly Jevons, Sidgwick and
Edgeworth, who preserved a closer relationship between economics and
Utilitarianism. (Collini 1983, 318) (There were two Marshalls; Marshall the
theorist of genius and Marshall the economic watcher and social meliorist. As a
lecturer at Balliol, he had acquired the Arnold Toynbee attitude. (Chapman 24))

Pigou: Professionalization of Welfare Economics
Pigou was the first British economists to use the general optimum as a
framework for policy recommendations. Wealth and Welfare set the state
the aim of equalizing the marginal social products of factors in all their
alternative uses, by means of a system of taxes and bounties, thus
achieving optimality. This was sharply different from Marshall. (Maloney
1985, 176) Pigou’s analytical framework is valid on the assumption that
economic welfare is a broadly reliable guide to total welfare. For Marshall it is
a substantive assumption – Marshall makes it because he believes it to be
true and spends considerable time justifying it empirically. For Pigou it is a
methodological assumption explicitly made so as to make the subject-matter
tractable. This is the attitude of a specialist; and it was Marshall's drive to professionalise economics which gave his successors specialist attitudes which he either no longer could acquire, no longer needed to acquire or had never wanted to acquire for himself. Marshall's Principles begins by trying to show that what is good for economic man is normally good for 'total man'; Pigou's Wealth and Welfare begins by postulating this. (ibid. 183-84)

Pigou was a very different kind of economist from Marshall. He had begun to specialize in economics at a very early age. It is likely that this more professional background was at the root of his much more 'professional' treatment of the relationship between economic and other activities. Wealth and Welfare, with its initial methodological postulate that changes in economic welfare indicate equivalent changes in total welfare, was a major landmark in the professionalisation of economics. The battle to professionalize economics was primarily a battle between those who saw it as a discipline comparable to the natural sciences and those who saw it as an adjunct to immediate social reform; the absolutist 'trait' method and the historical-relativist method. The absolute approach shows why, other things being equal, an occupation like economics is dominated by its advanced theorists who tend to determine the direction of future research; the historical-relativist approach focuses on the fact that other things seldom are equal. (ibid. 226, 232)

Hobson: Economics of Human Welfare

Work and Wealth: A Human Valuation (1914) has been seen as a response to Pigou's Wealth and Welfare. Hobson took the view of 'human standard' of value, adopted Ruskin's axiom that 'There is no wealth but life', and later wrote Wealth and Life: A Study in Values (1929). The general assumption that every growth of wealth enhances welfare cannot be admitted without qualification. To find a standard of human welfare as stable and as generally acceptable as the monetary standard is manifestly impossible. The organic nature of man and of human society must be considered. The Economic operations must be treated as organic processes; and the economic values are to be translated into human by reference to such a standard of organic welfare. (Hobson 1914, v-vi)
The distinction between the value of ‘a piece of wealth’ to an individual and to society was an important component of Hobson’s welfare economics. “The subjective and the objective view of distribution”: There was no guarantee that maximizing the objective surplus would maximize the subjective surplus, the surplus of subjective utilities over subjective costs. In other words, society was organized so as to maximize production, not to maximize human happiness.

Hobson and Marshall: Hobson recognized the problems involved in using money income as a measure of welfare. If we turn to Marshall, we find greater similarities. Like Hobson, Marshall refused to accept that individuals were the best judges of their own welfare: some types of consumption yielded gratification, but did nothing to improve character. Marshall, though he recognized these defects in wealth as a measure of welfare, was prepared to set them aside in order to create a workable welfare economics. Hobson, in contrast, preferred to stay close to Ruskin, arguing that social welfare was something organic and qualitative, not amenable to measurement, and to denounce the notion that wealth could be used to measure welfare. (Backhouse 1992, xiv)

**Pluralism in Welfare Economics**

In the period from around the 1880s to the 1920s, ideas on welfare economics were being developed by academic economists, by other academics pursuing the subject as part of a political, or historic-ethical analysis that could provide a framework for transforming British society, by new-liberal social reformists seeking solutions to social problems. Arguments were based on utilitarianism, idealist philosophy, ethico-historicism, the moralism of Ruskin. Clearly, much of the resulting literature did not meet the academic standards laid down by Marshall and Pigou and, making judgements foreign to those of modern economics, does not look like welfare economics as it is understood today. However, it would be anachronistic to use modern standards to demarcate part of this literature as welfare economics and the rest as something else (such as political or ethico-historical tracts).

Evidence for this view comes from outside observers. When Walton Hamilton (1919) wrote of the ‘English welfare school’, he listed “Webb,
Hobson, Cannan, Tawney and Clay” (Hamilton 1919, 318). Whatever the reasons for his exclusion of Pigou, Hamilton was associating with the idea of welfare economics a group comprising both academics and political activists involved in moves towards the welfare state. Hamilton had appraised Hobson in “Economic Theory and ‘Social Reform’” (1915). This was a group with whom he and his institutionalist colleagues in the United States had extensive links (see Rutherford 2005). Similarly, Wesley Mitchell, in his lectures of 1919, also associated welfare not with Pigou but with Hobson. Paul Homan (1928) picks out Hobson as representing welfare economics. Outside Europe and the United States, the Japanese economist, Fukuda, and the Chinese economist Liu, also found more inspiration and far more sympathy for their welfare economics not in Pigou but in Hobson and Oxford approach or ethico-historicism, in particular Fukuda’s case. It was perhaps no accident that Fukuda shared with Hamilton and Mitchell an institutional, ethical way of thinking that went back to the German historical school.

Almost paradoxically, further evidence is provided in Robbins’s Essay (1932), over a decade later, where it is clear that the main target is not Pigou (who receives only brief criticism, on what might be seen as a technical point) but Stamp, Hobson, Hawtrey and Cannan. Hobson, significantly, appears in both this list and Hamilton’s and Fukuda’s. The significant point here is that both Hamilton and Robbins are associating with welfare economics thinkers who, today, would not be taken seriously as welfare economists. The conclusion that should be drawn is that, in this period, welfare economics, in so far as it is appropriate to use the term to describe a body of literature that was not a precisely defined discipline, was pluralistic: it was approached in a wide variety of ways. As is argued below, the significance of Robbins’s Essay lies in the effect it had on this diverse, pluralistic field, not in any dispute with the Cambridge school.

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