Schumpeter on Marshall: a reconsideration

Roger E. Backhouse
University of Birmingham and London School of Economics
February 2007
Version 3

This is a preliminary draft, circulated for discussion. Feedback is welcome. Please bear
this in mind in any citation.

Abstract

Though he reserved his greatest praise for Walras and Cournot, Schumpeter also
admired Marshall’s work, through his entire career. This paper explores Schumpeter’s
attitude to Marshall, from the point of view of his economic theory, rather than his
history of economic analysis. His admiration for Marshall centred on his having created
an engine of economic analysis which could be used as a tool for the study of economic
problems. However, though this did not change, his emphasis did change, away from
Marshall the creator of tools, to Marshall the great economist who understood how to
use those tools. He also switched from praising Marshall’s useful aggregative theory to
arguing that, though such models remained useful, Marshall’s followers were using
them in ways that Marshall would never have done. It is conjectured that this change of
emphasis may owe much to the Keynesian revolution and Schumpeter’s response to it.

1. Introduction

This paper examine’s Schumpeter’s attitude to the work of Alfred Marshall, an
economist with whose ideas he engaged throughout his career, from his first book, Sä
Wesen und der Hauptinhalt der theoretischen Nationalökonomie (1908) to his
posthumously published History of Economic Analysis (1954a). Though he was at times
critical of Marshall, and did not heap on him the exaggerated praise he reserved for

* I wish to thank Yuichi Shionoya for his invaluable comments on an earlier draft and drawing attention
to some errors that I hope are now eliminated.
Antoine Cournot and Léon Walras, he nonetheless considered him one of the four greatest economists ever. The details of his attitude towards Marshall are of interest because Marshall’s way of doing economics was not Schumpeter’s, and also because, late in Schumpeter’s life, his attitude towards Marshall became entangled, so it will be argued, with his attitude towards the Cambridge school.

Schumpeter’s attitude towards Marshall has received comparatively little attention. There are brief remarks made in the context of much broader studies (e.g. Shionoya 1997). Awan (1986) has compared their views of evolution, but this is comparatively narrow and fails to explore Schumpeter’s attitude towards the Marshallian system as a whole. Feiwel (1986) briefly explores Schumpeter’s view of Marshall alongside his views of Walras and subsequent developments in economic theory. The one general study is Duval (2002). This takes as its starting point the historiographic perspective of the History of Economic Analysis and concludes that has Schumpeter adopted a relatives historiography, he might have been able to see more clearly where and how Marshall went beyond Walras (Duval 2002: 84). This is an interesting argument but it seems worth exploring the problem from another angle.

The approach taken here is to approach Schumpeter’s attitude to Marshall as informed not by his historiography but by his attitude to economic theory: after all, Schumpeter considered himself first and foremost an economist (or social scientist), not primarily a historian. Though the History of Economic Analysis contains important evidence, this paper seeks to build up a picture of Schumpeter’s attitude on the basis of his earlier writings, only then turning to his last book.

2. Early reactions to Marshall, 1908-1931

Schumpeter first discusses Marshall in the context of the evolution of the history of economics, where he focuses on the relationship between classical and neoclassical economics. Marshall was, for him, representative of the school that, unlike that represented by Jevons, Menger and Walras, emphasised continuity with the classical economists (1908:16-17). Schumpeter saw this extension of the work of the classical school as a significant achievement, though he did not achieve the same purity and uniformity as Walras had achieved (1908:140). Part of the reason for Marshall’s failure to see the things with the same clarity as Walras was his belief in continuity: his motto, ‘natura non facit saltum’ applied both to his economics and to his view of the past (1908:8).

Though Marshall’s place in the history of economics, and his failure to recognise the similarity of his theory to that of Walras was a theme to which Schumpeter returned repeatedly, a question that is more important is the economic analysis that resulted from this approach. The answer is that Schumpeter appreciated Marshall aggregative concepts. In his article on social value (1909), which took up, for an English-speaking audience, the theme of methodological individualism addressed more fully in his book of the previous year, he observed that Marshall’s aggregative concepts of social capital and national dividend were useful (1909:213). So too was Marshall’s concept of the representative firm can be useful (1909:217). Though his aim in the article was to argue the case for individualism, and against attributing value to society as a whole, these particular aggregative concepts exempted from the charge of being conceptually flawed.

This attitude towards Marshall persists in Economic Doctrine and Method (1954c [1914]). The concepts of national wealth and production can be useful, something illustrates with the example of Marshall’s work (1954c:53). Furthermore, whereas in
Das Wesen he had merely pointed to Marshall’s achievement in building on the work of the classical school, here he points to the benefits of Marshall’s having not adopted a bolder strategy towards the new marginal utility theory, Marshall was the one who ‘directed English theory carefully and slowly, but the more effectively for that, on to the new course’ (1954c:185, emphasis added), where the new course referred to marginal utility economics. Schumpeter disagreed with Marshall’s view that his work owed much to the classics, commenting on his ‘coollness’ towards Jevons and the Austrians: Marshall had ‘the form, not the essence’ of the classical approach, for in reality his theory was the same as theirs.

Yet in fact he had taken over their whole doctrine, particularly that of Walras so that it would be possible to omit those points in which he deviates from them, without an attentive reader noticing the change. (ibid.)

However, though Schumpeter clearly believed that Marshall had not correctly portrayed the relationship of his theory to that of his predecessors and contemporaries, he does not criticise Marshall for this: in the circumstances of the time, such a strategy was the most effective one.

This attitude towards Marshall continues through the 1920s and into the 1930s. Though records of what Schumpeter said on the occasion appear not to have survived, he gave some lectures at LSE, around 1925 or 1926, in which he ‘incidentally’ praised Marshall (Schumpeter 1954b:91). He later recounted how a member of the audience wrote to him to ask whether Marshall’s message would not pass away, just John Stuart Mill’s had done. Setting aside for the moment his later response to this question, 1 the significant point about this is that his praise of Marshall, in a talk where he presumably did not need to make any such remark, was sufficiently strong for a listener to object that surely Marshall was not among the immortals.

Schumpeter’s next discussions of Marshall come in two articles around 1930. The first is interesting because he chooses to use Marshallian analysis, even though he could, so he claimed, have used Walrasian (1928:363). The two were the same.

For within serious economic theory there are no such things as “schools” or differences of principle, and the only fundamental cleavage in modern economics is between good work and bad. (Schumpeter 1928: 363)

The only differences concerned exposition, technique, conceptual tools (such as the demand curve) and problems tackled. Thus when Schumpeter proceeded, over the next few pages, to analyse the problem of instability he used notions of supply price and increasing or decreasing cost. These were Marshallian concepts, but though they were the most convenient tools for his purpose, he could in principle have used Walrasian ones instead.

Schumpeter repeated his earlier claim that various forms of marginal theory were identical.

The second was his appraisal of Wesley Mitchell’s book on business cycles where, in order to criticise Mitchell, he praised Marshall.

It is natural, in trying to answer this question, to think of that mighty structure

---

1 Discussed in section 3 below.
which, tho battered in places by the impact of newer methods and results, still stands broadly in the background of much, if not most, of the best work of the day – Marshall’s great treatise. (1930: 154)

He then went on to draw a methodological contrast, unfavourable to Mitchell:

Marshall’s fame and influence rest on his mastership in constructing tools of analysis, on his having built, out of the material of the theoretic ideas of his time, an engine of analysis. It is the fifth book of the Principles (and matter placed elsewhere which really belongs in that book) which is immortal in the sense in which scientific achievement can ever be called immortal. (ibid.)

This is consistent with what Feiwel (1986:763) considers the ‘extraordinary weight’ that Schumpeter was prepared to attach to ‘the engine of economic analysis’. Mitchell has no such view but regards theory as ‘a store of rational hypotheses’ or generalisations from facts. Schumpeter then ‘scales down’ the difference between Mitchell’s world view and Marshall’s in order to draw a contrast between the ‘Principles’ Mitchell might have written and Marshall’s. The effect of this is to reinforce Schumpeter’s view that Marshall’s attitude towards theory is the better one. This is entirely consistent with his view, expressed two decades before, that what Marshall had contributed to economics was techniques that were useful for tackling certain types of problem. Mitchell is reluctant to use theory as a tool: theory could, for example, be used to suggest reasons for different behaviour of the cycle in different countries but Mitchell did not do this (1930:168). The importance of using good theoretical tools is reiterated in Schumpeter’s claim that it is important to recognise “the serious and even glaring defects” in the equipment available to Schmoller and Veblen, for this lack helps explain and even excuse some of the things they said (1930:158). In looking for such mistakes, he picked on the implications of the existence of money for economic theory. Mitchell was not guilty of the ‘provable error’ that ‘a money economy must be explained on principles differing totally from those applicable to a non-monetary life’, but of holding the view that calculation in terms of money had implications economic life (Schumpeter 1930:159-60). Schumpeter argued that this fell into the realm of sociology rather than economics, observing that as far as economists were concerned, this was simply one aspect of the division of labour. The use of theoretical tools helped clarify what was involved in Mitchell’s claims (and of course showed the error of those who made the stronger, erroneous statement about the implications of money).

From 1931 onwards, Schumpeter’s comments on Marshall are explicitly informed by his reading of John Maynard Keynes’s memorial (Keynes 1972:161-231[1924]).2 In a lecture in Japan in 1931 (Schumpeter 1991), assessing recent developments, he pointed out that Marshall discovered marginal utility analysis independently of Jevons, something claimed by Keynes, though subsequently disproved by Whitaker’s (1975) analysis of Marshall’s early economic writings. Echoing his previous theme that all marginal analysis was the all the same, Schumpeter argued that Marshall was ‘marginal utility analysis and nothing else’ (1991:294). Whereas twenty years earlier he had simply focused on desirable strategic benefits from maintaining this, now he described it as a ‘blemish’ that Marshall tried to pretend that the two blades of his scissors were not both made of utility.

---

2 The last two works cited, published in 1928 and 1930, might have been written after Schumpeter first read Keynes’s essay, but there is no indication of it.
3. Schumpeter’s semi-centennial appraisal of Marshall’s Principles, 1941

The appraisals of Marshall discussed so far were all limited in scope, either in surveys of economics (historical and contemporary) or, perhaps more revealing, as incidental remarks made in the course of articles on other topics. He praised Marshall in general terms, pointing to the usefulness of the theoretical tools he had created, these tools including various aggregative methods. Schumpeter’s first systematic appraisal of Marshall did not come till the end of 1940. The significance of that date will be considered later on. Here we find Schumpeter continuing to praise Marshall and his Principles, but it is now combined with much more developed criticism, to the extent that it begins to be possible, for the first time, to see clearly the ways in which Schumpeter’s views parted from Marshall’s.

Drawing Keynes’s biographical essay (Keynes 1972), Schumpeter discusses Marshall’s move into economics through having translated Mill’s doctrines into mathematics in the 1860s. Even though Marshall had the assistance of Cournot, von Thünen and Jevons’s paper given to the British Association in 1862, this was, Schumpeter writes, ‘a very considerable performance. Many a theoretical physicist has gained immortality for less’ (1954b:96). He considered Marshall’s treatment of contemporaries and predecessors, concluding that ‘no serious objection can be raised to Marshall’s acknowledgement to persons’ (1954b:97). One sting in the tail was that this was only ‘subjective originality’ (1954b:95), for the ideas were not in fact new. The more substantial one is Marshall’s failure to acknowledge the important part played by mathematics in this achievement: ‘the actual use of the methods of mathematical analysis produced that achievement and ... the transformation of the Smith-Ricardo-Mill material into a modern engine of research could hardly have been accomplished without it’ (1954b:97). He cannot make sense of Marshall’s reservations about mathematics, gently ridiculing his idea that the Principles should be readable by business men.

Schumpeter also describes Marshall as ‘an economic historian of the first rank’, citing Industry and Trade (Marshall 1919). He praised him not on account of his technical historical skills, but because,

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. (1954b: 94)

When taken in the context of his endorsement of Marshall’s view of theory as an engine of economic analysis, and his criticism of Mitchell for not using it this way, this is strong praise, reinforced by the observation that, within certain limits, ‘a realism was attained which greatly surpasses that of Adam Smith – the only comparable instance’ –

---

3 It should also be noted that though the 1941 paper was based on a talk given in 1940, Schumpeter (1954b:91) observed that it contained some remarks taken from an earlier, unpublished paper. That paper had clearly been written before he absorbed the message of Keynes’s biography of Marshall, but Schumpeter does not make it clear whether that was after the 1924, 1925 or 1933 editions, all of which he cites.

4 It is worth noting that, recent scholarship has shown that, even apart from the treatment of Jevons discussed above, this remark was undeservedly generous (O’Brien 1990).

5 Though Schumpeter would presumably have been well aware that, for all that he praised it, economic historians would have been more critical of Industry and Trade.
thereby which helped prevent the rise of institutionalism in Britain. Not only was this high praise, especially when compared to Schumpeter’s hostility to Mitchell and Veblen, who also sought to theorize in a way that was grounded in reality, but it echoed his earlier remarks on the effectiveness of Marshall’s strategy for establishing marginalist economics in Britain. However, when the point is developed, a note of criticism enters. Marshall’s integration of theory and facts was one of the reasons why Marshallian economics had passed away:

His vision of the economic process, his methods, his results, are no longer ours. ... Marshall’s historic-philosophical culture tells on almost every page – his analytic schema is embedded in a luxuriant frame that conciliates and comforts the layman. ... Moreover, his idea of the Noble Life, his views about social problems, his general outlook on the public as well as on the private sphere happened to coincide with the ideas, views, and outlook of his country and his time. More precisely, his ideals and convictions were the ideals and convictions not indeed of the average Englishman of 1890, but of the average intellectual Englishman of 1890. (1954b:92, 102, 103)

Marshall’s ideas had passed away not merely because of the normal obsolescence of ideas caused by theoretical progress, but because his theory was infused with historically-specific assumptions and values, with the result that economic and social change had dated them.

A third element in Schumpeter’s positive appraisal of Marshall is that he recognises that there is more to Marshall than the skeleton that his work shares with Walras and other marginal utility theorists: ‘Full justice cannot be rendered to it [Marshall’s performance] by going straight to the core of the analytic apparatus the Principles presents’ (1954b:94). One of the reasons for this was Marshall’s ‘evolution-mindedness’ which spread over into his theoretical work (1954b:93). In a phrase that was later echoed in his History, Schumpeter observed that Marshall pointed beyond himself. Marshall’s theory of evolution had been influential, underlying even the econometric research of H. L. Moore (Schumpeter 1954b:106). But once again, admiration is accompanied by criticism: the malleability of human nature, central to human nature, as Schumpeter’s Harvard colleague Talcott Parsons (1931) had pointed out, was no longer of interest. Having at last recognised the evolutionary dimension to Marshall, Schumpeter concluded that it was not the right direction. This reinforced Marshall’s use of economic history in causing his theory to become dated.

The final, and perhaps most interesting, point again concerns the type of theory he claims that Marshall is creating. Picking up on an argument that goes back to his 1909 article, he argues that Marshall offers an aggregative theory. Marshall pushed general equilibrium theory into the background, focusing on partial equilibrium theory, but at the same time ‘launch[ed] out into wide generalizations about the economic process as a whole’ – ‘a third type of theory – in my own workshop it is called “aggregative”’ (1954b: 106). However, where he had, thirty years earlier, praised this as a useful tool of analysis, this time he criticizes him for leaving out money.

---

6 It is, of course, relevant to point out that Schumpeter did not place Smith in the Pantheon alongside Cournot and Walras, but at a lower level, later evaluating the Wealth of Nations as containing no original ideas. Comparison with Smith is in itself two-edged.

7 Marshallian and Schumpeterian attitudes to evolution have been discussed elsewhere, and will not be explored here.
His failure to [link his theory with money] ... is perhaps the only fundamental criticism that I could level against him. But really, if one starts from partial analysis and then wishes to say something about the economic process as a whole, is it not natural that, despairing of the possibilities of the unwieldy idea of general equilibrium, one should turn to aggregative theory? And would not the theory of money automatically come in, to use Mrs. Robinson’s phrase, as the theory of total output and employment? (1954b:106)

It is impossible not to see here echoes of the debates surrounding Keynes’s General Theory. Schumpeter was interested in developing Marshall’s partial analysis to analyse dynamics, but he did not wish to develop it the direction of Keynesian aggregative models.

4. The History of Economic Analysis

Marshall is cited frequently in Schumpeter’s History, in the context of money, trade, the firm and many other specific branches of economics. However, for the present purpose, the most relevant passages are the coverage of Marshall in his general appraisal of Marshall (1954a:834-40) and his discussion of partial equilibrium theory (1954a:990-8). The former opens, after a bibliographic survey, by comparing Marshall with Smith. Not only were they successful but they shared a visions, in particular in respect to evolution, but there were similarities in the structure of the two books, and both were the polished result of decades of work (1954a:835). In subsequent pages, Schumpeter praised Marshall the economic theorist, but also Marshall the applied economist.

We find the familiar Schumpeterian theme that Marshall’s theory was substantially the same as that of Jevons and Walras, but he denies that Marshall was an eclectic when he found continuity with Ricardo. ‘Marshall’s powerful engine of analysis – though it may look antiquated by now – was the result of a creative effort and not of a synthetic one (1954a:837). Marshall the creative theorist is the creator of the analytic engine, a theme dating back to Schumpeter’s earliest writings. But here, Schumpeter also pointed to what the reader who ‘pierce[d] the highly polished surface’ would find:

the tremendous wealth of analytic and factual detail, drilled into order by a stupendously skilled taskmaster ... [and] ... In the second place, that reader will discover a quality that comes near to constituting Marshall’s chief claim to immortality: 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 of today who, so far as the technique of theory is concerned, are as superior to him as he was to A. Smith, he understood the working of the capitalist process. In particular he understood business, business problems, and businessmen better than did most other scientific economists, not excluding those who were businessmen themselves. He sensed the organic necessities of economic life even more intensively than he formulated them ... I am afraid that this achievement ... accounts in part for the unpopularity

---

8 This draws attention to Shove (1942), an article that seeks to differentiate Marshall’s economics from the more formal work being done by Joan Robinson and others in the 1930s.
9 See also 1954a: 952.
10 This leads into a discussion of Marshall’s originality, more detailed than earlier assessments, but significantly changing the assessment.
that surrounds his name today. (1954a:835-6)

Schumpeter is here painting a picture, not so much of Marshall the economic theorist who created an engine of analysis, but more of the skilled technician who also understands – has a vision of – how capitalist economies worked. The comparison made with the ‘technicians of today’ – highly qualified economic theorists – might even be a comment that Schumpeter could have made about himself.

Schumpeter also makes a significant criticism of Marshall’s treatment of evolution, which serves to distance Marshall from his theoretical engine. The theoretical analysis was static, but this did not stop Marshall from using it to deal with ‘evolutionary phenomena or indeed any phenomena of economic life that are refractory to the application of the methods of statics’ (1954a:836). However, to analyse such problems required him to ‘get off the driver’s seat of his analytic engine, the arms of which do not reach these problems’ (1954a: 837). This is a subtle argument, for whilst praising Marshall for analysing evolution and dynamics, Schumpeter is portraying this work almost as applied economics, detached from the theoretical apparatus Marshall may have sought to tackle evolution, but he was not tackling it as an economic theorist. 11

There is thus a sense in which Schumpeter is portraying Marshall as an applied economist, going beyond what can be said using the theoretical engine.

Evidence as to why Schumpeter was changing the emphasis in the way he was presenting Marshall is found later, where he discusses partial equilibrium analysis (1954a:990-8). He points to specific concepts (the demand curve, elasticity of demand, the law of substitution) that represent important Marshallian analytical tools. This is a further illustration of the generous tribute he had always paid to Marshall as a maker of useful tools. What is of more interest is his perceptive discussion of what is involved in going beyond Marshall’s partial equilibrium analysis. Partial analysis deals with very small pieces of economic activity but, Schumpeter argues, they shade gradually into general analysis.

It follows that partial analysis is not separated from general analysis by any sharp dividing line but rather shades off into general analysis as we extend the scope of the concepts that have been in the first instance conceived for its purposes. (1954a:994).

Thus partial analysis dealt with industries that are small relative to the whole, and the crucial assumption that supply curves in different industries are independent rests on some very strict assumptions. Had these been exposed, the relevance of the analysis would have been thought very limited but, because Marshall ‘clothed his schema with ... a mass of luxuriant detail’, it appeared to be of more importance and even to be ‘the backbone’ of the study of ‘all non-aggregative industrial processes’ (1954a:994). Out of this analysis, designed for units that were but a small part of the whole, emerged concepts such as quasi-rent and the principle of substitution that were useful in general analysis – in analysing the economy as a whole. Tools of partial analysis were thus used to analyse problems that were properly part of a general analysis. Such work raises problems, but Marshall was aware of these: he did not postulate production functions applying to the economy as a whole (1954a:996). 12

---

11 This is not to imply that there were not other differences between Marshall’s and Schumpeter’s concepts of evolution, or that these differences were not very important.

12 Given that Schumpeter is emphasising substitution and income distribution, and is denying the
However, though Marshall was prepared to use partial analysis to analyse problems that were wider in scope, there was a need to use partial analysis to study the details of economic processes. This is evident in his approach to the study of aggregate economic processes.

Marshall's work highlighted the importance of understanding the individual elements of economic processes before attempting to analyse the aggregate economy. This approach, which he described as 'partial analysis', was based on the idea that aggregate economic processes could be understood by examining the individual components that make them up.

Marshall's work was influential in the development of economic theory, and his approach to partial analysis became a cornerstone of economic analysis. This approach, which is still used today, is based on the idea that aggregate economic processes can be understood by examining the individual components that make them up.

Marshall's work was also influential in the development of economic policy, and his approach to partial analysis became a cornerstone of economic policy-making. This approach, which is still used today, is based on the idea that aggregate economic processes can be understood by examining the individual components that make them up.

Marshall's work was also influential in the development of economic education, and his approach to partial analysis became a cornerstone of economic education. This approach, which is still used today, is based on the idea that aggregate economic processes can be understood by examining the individual components that make them up.

Marshall's work was also influential in the development of economic research, and his approach to partial analysis became a cornerstone of economic research. This approach, which is still used today, is based on the idea that aggregate economic processes can be understood by examining the individual components that make them up.

Marshall's work was also influential in the development of economic history, and his approach to partial analysis became a cornerstone of economic history. This approach, which is still used today, is based on the idea that aggregate economic processes can be understood by examining the individual components that make them up.

Marshall's work was also influential in the development of economic philosophy, and his approach to partial analysis became a cornerstone of economic philosophy. This approach, which is still used today, is based on the idea that aggregate economic processes can be understood by examining the individual components that make them up.

Marshall's work was also influential in the development of economic law, and his approach to partial analysis became a cornerstone of economic law. This approach, which is still used today, is based on the idea that aggregate economic processes can be understood by examining the individual components that make them up.

Marshall's work was also influential in the development of economic ethics, and his approach to partial analysis became a cornerstone of economic ethics. This approach, which is still used today, is based on the idea that aggregate economic processes can be understood by examining the individual components that make them up.

Marshall's work was also influential in the development of economic politics, and his approach to partial analysis became a cornerstone of economic politics. This approach, which is still used today, is based on the idea that aggregate economic processes can be understood by examining the individual components that make them up.
5. Conclusions

Schumpeter admired Marshall as the creator of a remarkable engine of analysis that could be used to analyse the dynamic problems with which Schumpeter was concerned. The theoretical core of his work might be the same as that developed by Jevons and Walras, but he developed that theory in important ways. However, in the accounts he gave of Marshall’s work, Schumpeter’s emphasis changed significantly. In part this was because his later studies of Marshall’s work were more detailed but in part it also reflected the changing intellectual environment in which he was writing. The starting point is nicely illustrated by a story told by one of his biographers about the only occasion on which they met, in 1907:

Schumpeter went to Cambridge to visit the venerable Marshall. The spark-filled meeting pitted German youth and impatience, tinged with arrogance, against English age, tranquillity and calm assurance. As gentlemen do on such occasions they met for breakfast. In Marshall’s home ... the constant Mary Marshall hovered about while the young man and the elder statesman talked ...

Being polite and earnestly seeking advice, the young man queried the great one on topics regarding the fundamentals of economic science, the role of pure economic theory, and the prospects for a young man in economics. Schumpeter already knew from reading Marshall’s book much of the attitude of his companion, whose interest in economics stemmed from a utilitarian outlook and a desire to improve the lot of mankind. Perceiving that Schumpeter’s interests were nonutilitarian, Marshall replied to the effect that l’art pour l’art has but a minor role to play in economics, and that the purely scientific content of economics is not large and has no great significance. He told Schumpeter that he who pursued economics as a pure science wasted his time. Marshall believed that economics was an applied science – a subject for businessmen and statesmen, not for theoretical scientists. (Allen 1991, I:61)

In the manuscript he was preparing, he was arguing for the type of pure science to which Marshall was objecting.  

However, though they had very different conceptions of economic theory and the nature and role of pure science, Schumpeter shared Marshall’s belief that economic theory should be seen as an analytical engine. Though they differed about what dynamic theory should look like, and about how it was related to static theory, they both realized that static theory needed to be extended. Schumpeter thus praised Marshall pointing out that his Marshall’s methods were useful for specific problems. Moreover, because the background to Schumpeter’s earliest writings was the German Methodenstreit, Marshall, a known admirer of Schmoller who was also an economic theorist, was an important ally in arguing for the importance of theory. The same considerations applied when Schumpeter engaged with Mitchell and, to a lesser extent, other institutionalists after his move to Harvard.  

---

13 Given that Marshall was on poor terms with Schumpeter’s teacher, Böhm-Bawerk (O’Brien 1990:134; Whitaker 1996, III:99) there was all the more reason for Schumpeter to be critical of him. However, Marshall was notoriously averse to public controversy and according to Stolper (1994:6) Schumpeter never allowed his scholarly opinions to be affected by personal feelings.

14 For this argument it is not necessary to take a view on the development of Schumpeter’s attitude towards Schmoller and the institutionalists, as discussed by Hodgson (2001:187-9).
Marshall showed how theory needed to be used – as a tool – when analysing the business cycle.

By the end of the 1930s, however, the situation had changed dramatically. Mitchell’s eclectic attitude towards theory was no longer a major concern, the econometric movement was becoming established (Schumpeter having played an important role) and he had a group of mathematically inclined colleagues at Harvard, both theorists and empirical workers. The challenge now was posed by Marshall’s students at Cambridge, and Keynesian economics. Schumpeter’s assessments of Marshall in this period have to be seen against the backdrop of the methodological critiques made offered in Schumpeter’s own (1936, 1937, 1954a:472) methodological critique of Keynes and the Ricardian vice, and in his Harvard colleague, Leontief’s (1937) critique of the Cambridge school’s method of implicit theorizing. Given the obvious close association between Keynes and Marshall, how was he to respond? By treating Marshall as a theorist whose work had been undertaken against an institutional background that was now dated, and whose brilliance lay in the way he used economic analysis, and by arguing that Marshall, though he had pioneered the techniques being used by the younger generation at Cambridge, would never have gone down the same route as they were following. Marshall was an ally against the younger generation at Cambridge. Simultaneously, presenting Marshall as the supreme user of the engine of economic analysis, combining technical skill with vision of the economic system, served to reinforce his own position in relation to his younger, mathematical colleagues.

Schumpeter’s view of Marshall’s economics may have been limited in that he failed to appreciate the depth of the latter’s evolutionary theorizing. Duval (2002) has blamed this on an absolutist historiography and has suggested that had he adopted a more relativist approach, he might have been able to see more. Schumpeter’s historiography certainly did affect his view of Marshall, notably in his repeated concern with originality and Marshall’s relations with his predecessors and contemporaries. However, it seems implausible that it was the factor behind his seeing Marshall, as it were, through the lens of his heroes Cournot and Walras. For that we must turn to Schumpeter the theorist, not Schumpeter the historian. Here the answer would seem to be that Marshall’s evolutionary thinking was well obscured. Given his treatment of demand and consumer behaviour, it was hard not to take his psychology as utilitarian. It took Parsons, a sociologist, to penetrate the Victorian moralising (objectionable to Schumpeter) and to perceive the evolutionary dynamics (Parsons 1931). Therefore the answer as to why Schumpeter failed to appreciate Marshall’s evolutionary theorizing more fully is, perhaps, that he did not have the benefit of seeing the unpublished psychological manuscripts uncovered by Raffaelli (2003). Whether those would have changed his view is, however, quite beyond the scope of this paper.

References


15 Where utilitarian is understood in the sense of Bentham, Mill and Sidgwick.


