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**ALFRED MARSHALL'S PUZZLES.
BETWEEN ECONOMICS AS A POSITIVE
SCIENCE AND ECONOMIC CHIVALRY**



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Alfred Marshall's Puzzles. Between Economics as a Positive Science and Economic Chivalry

Abstract: Alfred Marshall's approach to economics hides a paradox. On one hand, the 'father' of neoclassical economics strongly favoured conducting economics as a positive science. However, the fact that Marshall was such a consistent and determined advocate of this ideal of economic research is puzzling for at least two reasons. Firstly, even a quick glance at his publications allows to notice that his texts are sated with moral teachings. What is more, in referring to the problems of economic policy he not only took into account ethical aspects, but also frequently gave pre-eminence to ethical arguments over conclusions stemming from research grounded solely on the theory of economics. The paper aims to explain the paradox and argues that the complexity of Marshall's approach arises from his attempts to combine two approaches pointed by Amartya Sen of binding economics and ethics over the centuries: 'the ethics-related tradition' with 'the engineering approach'.

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Introduction

Marshall's approach to economics hides a paradox. On one hand, the 'father' of neoclassical economics, who usually shunned explicit statements on the methodological issues, favoured in a straightforward way conducting economics as a positive science. His adoption of such an attitude is understandable as it was, in a way, a natural consequence of the development of the 19th century methodological reflections formulated by John Stuart Mill (1844; 1974), William Nassau Senior (1836, 1852), John Elliot Cairnes (1875) and John Neville Keynes (1891)¹. It may be treated as *signum temporis* too, as the last quarter of that century was the time of professionalisation of economics, recognizing it is a science focused on researching facts, free from subjective evaluation, providing instead objective knowledge about certain aspects of social reality. The ideal of economics as a positive science facilitated it in establishing its position as an independent science and academic discipline².

However, on the other hand even a quick overview of his works allows to notice that, despite his calls for avoiding value judgments in theoretical considerations, his texts are full to the brim with moral teachings. Secondly, while in referring to the problems of economic policy, as he did in various memoranda, petitions or as a member of government committees, he referred to the theory of economics, he also frequently took into account ethical aspects, often giving pre-eminence to ethical arguments over conclusions stemming from research grounded only on the theory of economics. As an example of such an approach may be seen his questioning of his own theoretically-conceived idea of reform of the fiscal system, i.e. taxing those industries whose production falls under the law of diminishing returns and handing them down to those industries that generate increasing returns. In his opinion, the potential benefits resulting from introducing this solution were too difficult to estimate, especially when juxtaposed with the danger of the emergence of a situation fostering corruption, embezzlement or the squandering of resources which could result from transferring some of the funds and energy of the entrepreneurs away from managing their own companies to attempts to influence those persons who would decide on the allocation of the subsidies (Marshall [1920] 1947, 472-473, 475)³. From similar reasons he rejected the departures from the policy of free trade, despite the fact the exceptions were theoretically justified even on the ground of his own theoretical findings. On the contrary, he was trying to demonstrate that implementation to the British customs system any elements of protectionism would have led to growing significance of the decisions made by politicians. And such a course of events would have result in the tendency to engage more and more resources to achieve or to keep the state protection of certain branches or sectors of the economy. While he

¹ It needs to be emphasised that in relation to certain methodological issues Marshall's views to a greater or lesser degree differed from this tradition. As an example may be treated his rejection of Mill's concept of *homo oeconomicus* (see also Dzionek-Kozłowska 2007, 82-89).

² Marshall was deeply engaged in these actions (Groenewegen [1995] 1998, 329-342, 458-468, 531-569).

³ With the use of contemporary economic nomenclature it may be said that Marshall was afraid of creating an opportunity for *rent seeking*.

was convinced that in the long run such a turn in British policy would have done more harm than good (Marshall 1926a)⁴.

This account raises two questions: (1) Why did Marshall, who was trying to spread the idea of economics as a positive science, not notice the inappropriateness of including in his own scientific texts statements such as ‘everyone should seek to increase the beauty of things in his possession rather than their number or their magnificence’, or ‘[t]he most imperative duty of this generation is to provide for the young such opportunities as will both develop their higher nature, and make them efficient producers’ (Marshall [1920] 1947); and (2) Why did he, while taking care of the prestige of economics and making efforts to prove its ‘scientificity’, at the same time depreciate in some fashion its role in solving practical economic problems, eventually giving predominance to ethical issues?

1. Objectivity and rhetorical devices

At the start one need once again to look at an idea which Marshall, over the course of his 50-year-long scientific career, invariably supported – the idea that economists should strive to explain the facts and to analyse the economic reality as objectively as possible, shying away from presenting economic laws as tenets of economic policy, and all the more as moral imperatives (Marshall 1874; 1932, 675-676; [1920] 1947, v-vi; 1961, 157-158)⁵. Marshall indeed was aware that every statement referring to facts ‘is liable to be tainted by unconscious bias’ (1932, 675) which could lead to a significant crisis of belief in the possibility of achieving full scientific objectivity, and he emphasised on numerous occasions that maximal neutrality is indispensable for reserving the status of science for economics. Objectivity was an ideal which every economist, or in the broader sense every person dealing with scientific activity, should go to great lengths to achieve.

Significantly, very particular evidence of the great weight which he attached to realization of this ideal can be found in his attempts to eliminate from his own texts emotive words or phrases that might suggest to the receiver which ethical doctrine they should support. For instance, when discussing in *Principles of Economics* the most important tendencies taking place in the then-contemporary economy he refuted the words such as *competition* and *competitive*, claiming that they ‘have gathered evil savour, and have come to imply a certain selfishness and indifference to the wellbeing of others’. In that economic treatise he argued that ‘we need a term that does not imply any moral qualities, whether good or evil’ (Marshall [1920] 1947, 6). The ‘prey’ of achieving neutrality were eventually the key categories for the marginalist theory of consumer behaviour. Starting with the third edition of his *Principles...* he almost totally rejected the expressions *pain* and *pleasure*, claiming that leaving them in may suggest that the theory is based on the utilitarian doctrine. On account of this convergence, he looked for words that could be used as substitutes for the term *utility*, the foundation for utilitarianism. This search is embodied in an extract (included only in the fourth edition of *Principles...*) in which he wondered what substitutes one

⁴ In *Memorandum on Fiscal Policy of International Trade* (1926a, 394) he even ventured to say that ‘[t]he simplicity and naturalness of Free Trade – that is, the absence of any device – may continue to outweigh the series of different small gains which could be obtained by any manipulation of tariffs, however scientific and astute’.

⁵ We need to add that Marshall, who on numerous occasions expressed his firm approval of Smith’s concepts, saw a great flaw in the economist’s thought. What he disagreed with was the fact that the father of economics ‘did not always distinguish perfectly between the casual laws of Nature in the indicative mood and her ethical laws in the imperative’ (Marshall 1925d, 157).

might use in place of this word. In this instance he realized in the end that the suggestions emerging in the contemporary literature such as *agreeability*, *enjoyability* or *desirability* were also were not free from the same inaccuracies, and so he concluded that the lesser of two evils was to keep the initial, although imperfect, expression (Marshall 1961, 236). The high point of this questioning attitude was his claim that the very name of the discipline political economy was equally improper. It is not hard to guess that in this case the problem he had was with the word *political*. The adjective inherently ascribed a connection between economics and politics. Marshall was also convinced that in the expression *political economy* there is a suggestion that economics is to some extent dependent on politics or even more – subordinate to it. If so, one cannot then talk about its independence or conducting it as a positive science. In view of such associations Marshall declared that the name political economy was inaccurate and he made a very radical move – he rejected the commonly used term and started using the expression economics⁶. The fact that in a relatively short period of time Marshall's suggestion came into general use and almost completely did away with the previous expression demonstrates that the role Marshall played in the very development of 'economics' was enormous⁷.

2. The meaning of life, higher values and how to cultivate them

One of the fundamental assumptions of Marshall's socio-economic system seems to be the key to solving his puzzles: i.e. his conviction that the primary goal of human existence is the drive to constantly improve one's own character and the relations between people – 'the development of a man's higher nature', 'the exercise of many of the higher social activities', 'to build up a strong and righteous character', to develop 'higher aspirations' and 'higher faculties' (Marshall 1897, 310; 1907, 9, 12-13, 18; [1923] 1929, v; 1925d, 172-173; 1926a, 396, 404; 1932: 661, 664-5; [1920] 1947, 2-4, 17, 47-8, 136, 265, 530, 680, 690, 694, 720, 724, 740-1, 743, 748, 751). Unfortunately, his use of these invoked statements was rarely accompanied by their further explanation, although it is hard not to agree with the opinion of Talcott Parsons (1931, 138, footnote) that Marshall himself probably 'knew very well what he meant by "higher".' The reading of his publications, texts of his official presentations and his correspondence allows to point out some characteristics or virtues that usually appeared in this context, the shaping of which was supposed to attain (or even be the essence of) those higher values.

It seems that the most significant dimension, or sphere of human development, was for Marshall the creation of inner discipline, self-mastery, the ability to overcome adversity, responsibility, independence, moderation and – especially significant in terms of economics – creativity, entrepreneurship and frugality. With respect to the latter, Marshall criticized becoming richer only for

⁶ To be precise, it has to be added that Marshall put forward the three following expressions *the science of economics*, *social economics* or *economics*, he himself used one most often the easiest, one-word term (Marshall and Paley-Marshall 1879, 2; Marshall [1920] 1947, 43; 1961, 159). What needs to be stressed as well is that Marshall was not the author of the expression. William Stanley Jevons stated that the word *economics* used as a label for this science emerged already in the first half of the 19th century in the work of one of the forerunners of mathematical economics Henry Dunning MacLeod (Jevons 1931, XIV–XV, XXVII).

⁷ It seems that in the last decade of the 19th century and in the first years of the next century one may even talk about Marshall's dominance in the British economic environment. In 1887 before the publishing of *Principles of Economics* H.S. Foxwell wrote: '[h]alf the economic chairs in the United Kingdom are occupied by his pupils, and the share taken by them in general economic institution in England is even larger than this' (Foxwell 1887, 92; see also Levitt 1976; Shove 1942).

the sake of becoming richer and what Veblen dubbed conspicuous consumption (Veblen [1899] 1918, ch. IV). Marshall found no justification for such behaviours and every time he referred to them, he did so with undisguised aversion⁸.

2.1 Favourable environment. Benefits of free market and competition

The above-presented picture is rounded out by Marshall's conviction that among the then-existing or popularised economic systems, the most favourable conditions for improvement of the standard of living was a free market economy, although Marshall by no means claimed that it was an ideal solution. On the contrary, he emphasised or even criticised a number of its weaknesses⁹. Yet despite this he claimed that an economic system based on competition and the workings of a free market provides incentives that foster the improvement of humankind in what he perceived as the desired direction. Citing the arguments of the fathers of liberalism – John Locke, David Hume and Adam Smith – he argued that freedom of management forces individuals to take responsibility for their own lives, thus fostering independence and self-reliance, which in turn benefits the development of entrepreneurship and creativity. A number of advantages of a free market economy were connected, according to Marshall, with the lack of barriers for the existence of competition (this despite his doubts about the term itself). Firstly, like Smith and other classicists¹⁰, Marshall was convinced that competition incites self-improvement and is at the same time a source of progress (Marshall 1925b, 290; 1926a, 408-409; Whitaker 1996b, 363). Moreover, he emphasized that competition favours optimal allocation of human capital – it creates a mechanism 'to put the ablest men into the most important posts, the next ablest into the next most important, and, so on', thanks to which the most gifted do the most difficult and the best paid jobs (Marshall 1925b: 282-283; see also [1920] 1947, 618). The most precious attribute of a market economy was for him 'turning to account the combative and predatory energy of the present crude nature of man: it has supplied much of the driving force, by which crowded districts in the western world have been endowed with material comforts and intellectual training' (Marshall 1925a, 367).

Clearly, Marshall's conviction about the positive influence on the character of individuals of both competition and an economic system based on free market had been present in economics long before him. Such evaluations began to emerge more and more often together with popularisation of the ideas of the enlightenment, and in the 18th century a number of authors, led by Montesquieu, pointed out the moral benefits connected with the development of trade exchange, arguing that deepening economic inter-relations between members of the society constituted strong stimuli to take care of one's good reputation, credibility, and looking for amicable solutions to conflicts of interest (the so-called *doux-commerce* thesis)¹¹. This view was developed

⁸ In *Principles* he admitted 'it would be a gain if the moral sentiment of the community could induce people to avoid all sorts of display of individual wealth' (Marshall [1920] 1947, 83; see also: Whitaker 1996a, 398-399).

⁹ Therefore, despite what he is usually referred to in Marxist literature (e.g. Blumin 1955, 64; Wyrozembski 1957, LXIII) – it would be hard to call him an apologist of capitalism.

¹⁰ 'And, where the competition is free – Smith wrote in *Wealth of Nations* – the rivalry of competitors, who are all endeavouring to jostle one another out of employment, obliges every man to endeavour to execute his work with a certain degree of exactness. (...) Rivalship and emulation render excellency, even in mean professions, an object of ambition, and frequently occasion the very greatest exertions' (Smith 1904, bk V, ch. I, par. 133).

¹¹ Hirschman discusses the growth of this notion in the development of economic thought (1982). See also: Swaney 1993.

in the essays of David Hume (1987, part II, ch. I, VI) and the works of Adam Smith (1904, bk III, ch. IV) who, apart from naming a number of positive characteristics ‘to which naturally forms a merchant’ (*ibid.*, ch. IV, par. 3) showed, in a witty way, that the free market mechanism allows for achieving cross-societal benefits even if the motives of the entrepreneurs are by no means noble. The strength of this argumentation was such that this belief may, without much exaggeration, be treated as one of the most deeply-rooted ideas in the development of economic thought, shared even by a number of economists who favoured a greater role of the state in a country’s economy¹².

The evaluation of an economic system from the perspective of its ability to create an environment favourable for the development of certain types of values and moral attitudes may look a bit surprising. However, if we assume that the needs of members of society are to a great extent a derivative of these values which are shaped by the institutions forming the social order, such a perspective seems to be justified. This opinion, expressed *explicite*, may be found in, *inter alia*, the papers by Frank H. Knight, who with his typical firmness stated that social order ‘(...) must be judged ethically rather by the wants which it generates, the type of character which it forms in its people, than by its efficiency in satisfying wants as they exist at any given time’ (1922, 592).

2.2 Some drawbacks

Coming back to Marshall it needs to be emphasised that apart from naming the advantages of the system based on competition, he well realised that some aspects of competition at the economic level are by no means favourable, as competition may be fierce and wasteful (Marshall 1925b, 291; Whitaker 1996a, 295)¹³. It seems that Marshall’s anxiety escalated with age, since at the end of his life he claimed that competition ‘is a monster now grown of overwhelming strength’ (Marshall 1925a, 361). Interestingly, he had a particularly unfavourable opinion about the growing competition in marketing, claiming that

a great part of marketing consists of bargaining, of manœuvring to get others to buy at a high price and sell at a low price, to obtain special concessions or to force a trade by offering them. This is, from the social point of view, almost pure waste; (...) It has a great attraction for some minds that are not merely mean; but nevertheless it is the only part of honest trade competition that is entirely devoid of any ennobling or elevating feature. (1925b, 278)

However, his greatest reservation towards the economy based on free market and competition was the fact, in his eyes, that the system does not prevent the emergence of great discrepancies of wealth; on the contrary it would seem to intensify them. Like J.S. Mill a half a century earlier ([1848] 1909, bk. IV, ch. VI), Marshall acknowledged eventually that the existing inequalities in the division of wealth and income were already too great in his times and ‘tend in many ways to prevent human faculties from being turned to their best account’ (1925b, 282-283)¹⁴. For

¹² J.M. Keynes may serve here as an example, who proving the necessity of economic interventionism, admitted that the competition between entrepreneurs on economic ground is in a way a valve for their inclination for dominance or even tyrannizing others (J.M. Keynes [1936] 2012, ch. 24).

¹³ He presented similar views during his lectures about the work by Henry George entitled *Progress and Poverty* (Stigler and Coase 1969, 197).

¹⁴ Initially he did not refer to the subject in a straightforward way, since basing on the classical theory of growth he claimed that modifying the division of national income by the government might significantly weaken the economic growth. His view on this issue started to change at the turn of the 19th and 20th century, which according to

Marshall, the system of economic freedom was the best solution for shaping characters ‘for those who are in fairly good health of mind and body’ ([1920] 1947, 714), but he was aware of the fact that in every society there are also those who, left to their own devices, have little chances not only of improving their position and character, but even of surviving. For them, poverty becomes the main cause of ‘moral and physical misery’. Such people are not able to develop their ‘high mental and moral qualities’, as they spend almost all their time gathering the means enabling them to stay alive (*ibid.*). Marshall presented the phenomenon as a classic example of negative feedback, whose mechanism was later perfectly characterised by Gunnar Myrdal (1944) and defined as a cumulative causation or ‘vicious circle’ problem. Marshall demonstrated that the effects of penury accumulate because ‘the poverty of the poor is the chief cause of that weakness and inefficiency which are the cause of their poverty’ (1925d, 155)¹⁵. In one of his letters Marshall even dared to voice a very peculiar confession, claiming that ‘I have always held that poverty & pain, disease & death are evils of much less importance than they appear, except in so far as they lead to weakness of life & character’ (sic!) (Whitaker 1996a, 399).

In view of the above-mentioned, it seems understandable that the most important challenge facing the economic sciences was, according to Marshall, the issue whether it is possible to improve the material situation of the poorest in a way which would not threaten economic freedom and not impair ‘the springs of initiative, enterprises and energy’ (1925a, 366; see also [1920] 1947, 42). This problem may be referred to as the leitmotiv of his entire output – it already appeared in 1873 in one of his earliest papers entitled *The Future of Working Classes*, wherein he wondered ‘whether the amelioration of the working classes has limits beyond which it cannot pass?’ (1925c, 102). Moreover, in one of the first pages of his *opus magnum* he asked: ‘whether it is really impossible that all should start in the world with a fair chance of leading a cultured life, free from the pains of poverty and the stagnating influences of excessive mechanical toil?’ ([1920] 1947, 4). The same questions re-occurred in the drafts which he prepared in the last years of his life, working on material for a treatise on economic progress, the role of the government, and the possibilities of social development (see also Groenewegen [1995] 1998, 725-731; Whitaker 1990, 217-218). It also needs to be added that throughout his entire life Marshall deeply believed in ‘the possibility of the vast improvement in the condition of the working classes’ (Marshall 1925d, 155)¹⁶, and J.M. Keynes (1924, 345; see also Whitaker 1977) even stated that

[h]e had an inclination to undervalue those intellectual parts of the subject which were not ‘directly’ connected with human well-being or the conditions of the working classes or the like, although ‘indirectly’ they might be of the utmost importance and to feel that when he was pursuing them he was not occupying himself with the Highest.

Marshall appraised his own research in a similar way. In 1893, in front of the Royal Commission on the Aged Poor, he confessed that: ‘I think I should perhaps say that I devoted myself for the

Groenewegen happened probably under the influence of British experience with the introduction of inheritance taxes and the later discussion about the so-called People’s Budget of Lloyd George’s government (Groenewegen [1995] 1998, 596-7, 644-6; see also: Marshall 1925a, 366; [1920] 1947, 715; Whitaker 1966b: 233).

¹⁵ Marshall referred to the group composed of people ‘who are physically, mentally, or morally incapable of doing a good day’s work with which to earn a good day’s wage’ as *Residuum* ([1920] 1947, 2-4, 714).

¹⁶ What is more, because of lack of such faith he criticised classical economists. During his inauguration lecture presented in 1885 when he took up the department of economics at Cambridge University he even declared that it was the most serious mistake made by them! (Marshall 1925d, 155).

last twenty-five years to the problem of poverty, and that very little of my work has been devoted to any inquiry which does not bear on that' (1926b, 205).

2.3 Is it possible to transform the environment? Marshall on socialism

Such an open declaration on Marshall's part and the noticeable sensitivity in his publications to social issues led some researchers to believe that he was a supporter of socialism, or at least demonstrated strong tendencies towards socialism (McWilliams-Tullberg 1975; Jha 1963, xi). However, his opinions on the socialist doctrine, expressed *explicite*, leave no doubt that he took a critical view of the concepts and postulates of socialists. As regards the issues discussed here, it is interesting to note that a significant element of Marshall's argumentation was comprised of the conviction that the way to improve human living conditions should not begin with the introduction of the changes proposed by socialists, which according to Marshall rejected the sources of the basic incentives motivating people to take care of their own well-being, to work and to plan, not offering anything in return apart from a short-term improvement of the situation of some of them and long-term negative consequences.

Marshall, following Herbert Spencer, perceived society as an organism. Making use of this metaphor, he paid attention to the fact while the social organism may develop, this progress, together with other developmental processes, comes into being only gradually. Only those changes built up by many generations may attain a more lasting character. A necessary condition of all the plans for reforming society is a change of habits, customs and practices of human beings; 'economic institutions are the products of human nature, and cannot change much faster than human nature changes' (Marshall [1923] 1929, 260; see also [1920] 1947, 230, 244, 249). There is no justification for introducing plans to create a better world which would be based on a silent assumption that people are better than they in fact are. Human character may be modified, 'new ideals, new opportunities and new methods of action may, as history shows, alter it very much even in a few generations' (Marshall [1920] 1947, 752); however, on the scale of an entire society these changes happen very slowly. Progress, although speeded up, has to happen gradually and its pace may seem relatively slow, especially when compared to 'the rapid inflow of proposals for the prompt reorganization of society on a new basis' (*ibid.*, 248-9).

The functioning of a society without competition and private property would be possible, according to Marshall, only under the conditions of a moral reform reaching so deep that '[m]en would think only of their duties; and no one would desire to have a larger share of the comforts and luxuries of life than his neighbours' and '[s]trong producers could easily bear a touch of hardship; so they would wish that their weaker neighbours, while producing less should consume more. Happy in this thought, they would work for the general good with all the energy, the inventiveness, and the eager initiative that belonged to them' (*ibid.*, 9). The starting point to reforming society and the economy would thus be perfecting of the character of individuals. The ethical sphere is crucial here and impossible to ignore¹⁷. A perfect summary of Marshall's stand on the subject of socialist doctrines is his opinion, as cited by Talcott Parsons (1931, 128), that 'the chief dangers of socialism,' Marshall claimed, 'lie not in its tendency towards a more equal

¹⁷ Marshall adopted a similar attitude in a letter to Lord Reay from 1909 (Whitaker 1996b, 232-4; see also: Marshall [1920] 1947, 229-30; [1923] 1929, 260).

distribution of income for I can see no harm in that, but in the sterilizing influence on those mental activities which have gradually raised the world from barbarism’.

An additional argument against the increasing role of the state was the conviction that, together with the rise of activity of the government and state institutions, bureaucratisation develops, which entails a lack of flexibility and risk and ‘blurring’ responsibility. By referring to historical examples and observing phenomena taking place in his times Marshall came to the conclusion that in offices and state-owned enterprises, the characteristics determinative of economic progress are found in lesser amounts than in private firms. There are practically no new inventions, and no new, more effective methods of production or organisation introduced. In most cases state-owned companies make use of what has been gained through the creativity of private businesses (Marshall 1932, 668; [1920] 1947, 304; 1907, 16, 22). This thought was expressed by Marshall most explicitly in his article entitled *The Social Possibilities of Economic Chivalry*, wherein he argued that ‘[i]f Governmental control had supplanted that of private enterprise a hundred years ago, there is a good reason to suppose that our methods of manufacture now would be about as effective as they were fifty years ago’ (1907, 21)¹⁸. In *Industry and Trade* he wrote then that ‘the heavy hand of Government tends to slacken progress in whatever matters it touches’ (1932, 672). For this reason he treated expanding the activity of the government into industries which demand constant initiative and energy as a social evil, arguing that such actions ‘retard the growth of knowledge and those ideas which are incomparably the most important form of collective wealth’ (Marshall 1907, 22). Marshall was convinced that the chances of improving the human condition would diminish greatly as ‘the pressure of bureaucratic methods would impair not only the springs of material health, but also many of those higher qualities of human nature, the strengthening of which should be the chief aim of social endeavour’ (*ibid.*, 18). Marshall claimed that even if those changes were introduced gradually, without moral change the roots of social welfare would eventually be cut down, and that this would impede economic progress. He also pointed out that the increase of the state sector paves the way for corruption, which usually occurs at the intersection of economics and politics (1932, 43, 496).

In view of the above, Marshall warned against a hasty criticism of competition and against the different solutions that were aimed at curbing it. He pointed out that in many instances, behind the calls to ‘regulate competition’ were groups of producers trying not to allow the emergence of new companies on the market, especially if they were able to provide cheaper or better quality products. ‘When a man exerts himself to arrest or diminish competition,’ he wrote in one of his letters, ‘his motive may be the public good: but as a matter of fact it very seldom is. In at least nineteen cases out of twenty, his motive is to prevent his being at a disadvantage in spite of his being less energetic as a worker, less ready to throw away obsolete machinery &c. as a capitalist, than those whose competition he finds disagreeable’ (Whitaker 1996a, 293; see also: Marshall [1920] 1947, 5-10; 1926a, 389-90).

To sum up, it may be said that Marshall claimed that the benefits derived from the existence of competition outweighed the losses caused by it.

¹⁸ The words might be treated as a prophecy taking into consideration the experience of the so-called Eastern Bloc countries.

3. Economic chivalry

The crowning achievement of Marshall's deliberations on the subject of the desired direction of human development was his concept of economic chivalry. There is a symbolic dimension to the fact that the idea was revealed in his last publication before retiring in 1908. The article *The Social Possibilities of Economic Chivalry*, came out a year earlier in a British scientific periodical "The Economic Journal".

The vision presented by Marshall in this essay is purely normative. The starting point was deliberation on the motives that spur people to take economic action. He concluded that the primary incentive for undertaking an economic activity is 'a chivalrous desire to master difficulties and obtain recognised leadership', and not the sole need to make a profit for the sake of profit (Marshall 1907, 14; see also 1932, 180). Wealth is perceived first of all as a marker of achieved success, the manifestation of successful undertakings, and it is desired mostly as such. On the basis of that he built his conclusion that there is the possibility of the situation which J.M. Keynes ([1936] 2012, ch. 24) later defined as conducting the same game but with lower stakes. The means leading to this goal was, according to Marshall, the implementation and enforcement of a certain set of norms that would fulfil the role of a code of conduct for entrepreneurs, modelled on the medieval codes of chivalry.

Marshall placed high demands on businessmen – 'the economic knights'. He claimed that they should possess and develop such virtues as honour, endurance, and courage. On top of that they should have a 'public spirit'¹⁹ and experience

a delight in doing noble and difficult things because they are noble and difficult (...), a scorn for cheap victories, and a delight in succouring those who need a helping hand. It does not disdain the gains to be won on the way, but it has the fine pride of the warrior who esteems the spoils of a well-fought battle, or the prizes of a tournament, mainly for the sake of the achievements to which they testify, and only in the second degree for the value at which they are appraised in the money of the market. (1907, 14)

At first glance the fact that Marshall described his desired model for entrepreneurs by referring to the chivalric code seems surprising. However, in Victorian times the commonly approved moral code – an ideal of a gentleman – as well as the medieval ideal of a knight had a lot in common with each other. The correlation between the two has also been pointed out by the Polish social philosopher and ethicist Maria Ossowska, who treated the concept of the 'gentleman' as a phase in the evolution of the chivalric code (1973, 157-192). Marshall's idea may well be treated as a step drawing attention to and developing some elements underlying the moral code typical of the time and place where he lived.

When discussing economic chivalry it needs to be added that the role of the authority which would continually decide on the compatibility of entrepreneurs' actions with the desired norms would be played, according to Marshall, by public opinion. It would be a sort of informal court of honour that would keep watch so that 'the wealth, however large, should be no passport to social success if got by chicanery, by manufactured news, by fraudulent dealing, or by malignant destruction of rivals' (Marshall 1907, 26). For that reason the development of the press, the

¹⁹ 'Public spirit' designated certain loyalty of the entrepreneur towards the society which was to be an equivalent of a knight's loyalty towards the prince or the country (Marshall 1907, 14).

popularization of education, democratisation of political life and all the other actions leading to the strengthening of public opinion were treated by him as highly positive (Marshall 1926a, 395-396; 1913, 402-403).

Economic chivalry was, in Marshall's eyes, a cure for all the negative effects of free competition. Following the development of such attitudes, competition at the economic level would automatically adopt a noble 'chivalric' character (Whitaker 1996b, 363). This would allow for keeping, even strengthening, entrepreneurship, initiative and other characteristics underlying economic growth, while at the same time it would facilitate solutions to social problems (Marshall 1907, 28-29).

To obvious drawback of Marshall's vision is that, the further on we read in his essay, the more difficult it is to get rid of the impression that his arguments are of an utopian nature. The primary problem here lies in the fact that Marshall did not explain why entrepreneurs would or should accept and realise his model. One may even have the impression that he assumed that the popularisation of such attitudes would happen independently, as a spontaneous evolution of the norms which are upheld by industrial elites, which would then later be adopted by other participants in economic life. Marshall seemed to firmly believe that mankind was heading towards the realisation of such an ideal, and in summing up his deliberations he optimistically claimed that '[t]here is much more economic chivalry in the world than appears at the first sight' (*ibid.*, 25; see also 1932, 179-180).

4. Role of economics. Marshall's stance on putting theory into practice

In order to solve the other puzzle presented in the introduction – why did Marshall also take into account the ethical aspects when forming his recommendations about economic policy – of key importance is the way in which he perceived the primary goal of conducting economics. Marshall treated gaining knowledge about economic life and understanding the mechanisms and processes happening in this field as a means to eventually enhance human existence and the development of mankind, a view that seems to be in accordance with his above-presented opinions. In other words, economics was recognised by Marshall as a special tool, the perfection of which would better the conditions of human existence (see also Pigou 1925, 82).

In applying such an approach, it is of great importance to determine the relation between the theory of economics and economic practice. How does one use the acquired knowledge? How is the theory of economics to be applied in practice? These issues are especially difficult, and it should be emphasised at the very start that Marshall did not refer to them in an explicit way. Still, in view of the many remarks he made a picture that boils down to the following rules:

- the starting point should be gaining the widest possible knowledge about economic life, the knowledge about 'what there is' (that is, the demand for conducting economics as a positive science);
- the choice of the method for acquiring this knowledge should be the economists' responsibility. It is not possible to choose one, best method of scientific investigation, which is why each economist should select (or create) those tools which are the most suitable from the point of view of his or her own research methods;

- regardless of the chosen methods of research, one should strive to create a theory which would be as close to reality as possible.

In Marshall's vision of the proper relations between the theory of economics and economic practice this is the key demand, and its special significance comes to light the moment it is perceived that economic life undergoes continuous changes. This is the basis for his demands to continuously confront economic theory with reality; his recognition of the relativism of economic laws; his objections to 'long chains of deductive reasoning' when creating it and to the use of the partial equilibrium method; his reservations about the over-formalisation and mathematisation; his criticism of the use of the *homo æconomicus* model, and his recognition that the model economists should adopt is rather biology than the sciences;

- the theory thus created may be useful when analysing economic aspects of practical problems, though in itself it is not able to provide ready-made recipes. The significance of the theory of economics was treated by Marshall as essential because economic aspects of social problems were perceived as among the most difficult to capture without the aid of 'systematic and organized methods of reasoning' (Marshall 1925d, 164). At the same time he emphasized that when making the final decision in any practical case it is crucial to take other dimensions into consideration, because problems of a purely economic character happen in practice extremely rarely (if ever).

In view of this approach Marshall's practice of including non-economic aspects looms as the embodiment of his viewpoint on the subject of the relation that should bind the theory of economics with its application. It must be admitted here that in his voluminous output it is quite rare to find a publication in which he combined purely theoretical argumentation with applied economics, and even if he did so, he would rather treat it as an opportunity to show his potential audience that the recommendations flowing from the theory could not be transferred directly into the foundations of economic policy. His own solutions and guidelines were presented in specially prepared memoranda, petitions, articles or letters. As an exception to the rule may be treated *Money, Credit and Commerce*, in which he presented projects for reform of the monetary system, and his remarks on the functioning of labour unions included in *Principles*. In the first of those cases a kind of justification lays in the fact that those projects were strongly connected with Marshall's theory of money and his comments on the subject of cyclical fluctuations of the economic performance. As regards the extract on labour unions, which did not appear in *Principles...* until the fifth edition (1907), it was then that Marshall lost hope that he would manage to prepare Volume 2, in which he would discuss the problems of the labour market in a full and systematic way.

His *Memorandum on the Fiscal Policy of International Trade* is a model example of his fidelity to his own vision of the proper application of economic theory in practice. The document consists of two separate parts, the first of which is devoted to presentation of the elements underlying the theory of foreign trade. These arguments lead to the creation of general conclusions stemming from pure theory. In the second part, Marshall applies these theoretical deliberations to the contemporary situation of Great Britain, widens the analysis to encompass issues of a political, ethical, and social nature, and only after they have been included does he move on to the creation of his final recommendations.

5. Conclusions

In evaluating the relations binding economics and ethics over the centuries, Amartya Sen pointed to two major approaches: ‘the ethics-related tradition’ vs. ‘the engineering approach’. The essence of the first one, coming from Aristotle, was based on the recognition that the reflection on economic life should eventually serve the welfare of people and ‘the common promotion of a good quality life’ (Aristotle 1958, III.ix as quoted by Sen 1987, 3). As regards ‘the engineering approach’, however, it is assumed that the goals are given and specified, and the role of economics is to provide knowledge which would make it possible to achieve them at the least cost. Sen indicated that economists such as William Petty, David Ricardo, Augustine Cournot and Leon Walras were representatives of this latter approach. It needs to be noted that in the works on methodology this approach was adopted by Senior, Cairnes, and Lionel Robbins.

The complexity of Marshall’s approach to conducting economics arises from the fact that in his economic system he tried to combine both approaches. As an ideal he posited that economics should be conducted as a positive science, which brought him closer to ‘the engineering approach’. Contrary to the conviction of Hans Jensen (1990), the analysis of his thinking by no means indicates that he would have accepted J.M. Keynes’s statement that ‘economics is essentially a moral science and not a natural science. That is to say, it employs introspection and judgments of value’ (1973, 297). Quite the contrary, Marshall argued that on the theoretical ground value judgments should not take place – an economist as an economist cannot indicate goals and his role in indicating the means is also limited. Despite this, even a hasty reading of his works clearly shows that his approach was strongly rooted in ‘the ethics-related tradition’ – in his treatises he developed not only the pure theory of economics, but he also tried to teach people how to live and which traits or virtues they should attend to, and his purely theoretical reasoning was interspersed with remarks on the proper models of conduct and values worth cultivating. It seems here that Marshall was subconsciously an advocate of a kind of ethical absolutism, which was indicated by John Whitaker as well – he was convinced that on the most general level one can name certain universal moral values which are or should be commonly approved of (1977, 172-173)²⁰. The values that seemed universal for him were in accordance with the unwritten ethical doctrine of his epoch, i.e. the Victorian morality. It is striking that Marshall’s moralizing did not offend his contemporaries nor did he seem aware of it, which may be explained by the fact that he presented opinions characteristic of the time and place in which he lived. However, for the next generations of readers those ‘sermons’ became easy to notice and a certain restlessness, or even irritation, arose even in those that were declared supporters of his theory of economics (see Guillebaud 1952, 113-114; Shove 1942, 316). Such extracts were usually simply ignored, though there were also those who, like Joseph A. Schumpeter, openly questioned the legitimacy of placing ‘*professiones fidei* in a scientific treatise’ and who did not hide their irritation at the very tone of Marshall’s remarks (Schumpeter 1941, 244-245; see also Levitt 1976; Matthews 1990, 14, 20-30). In view of the above and similar comments, the failure of Marshall, who for over half a century had been an undisputed authority in the Anglo-Saxon world of science, might for a number of economists work as a strong incentive to avoid all sorts of deliberations on the subject of ethical issues or even ethical aspects of economic issues.

²⁰ Confirmation of such judgment may be deducted from the articles by T. Parsons (1931, 101-40; 1932, 316-347).

The very inclusion of ethical aspects in the formation of solutions to problems of economic policy is not in conflict with the postulate of conducting economics as a positive science, and Marshall's approach reflects a deep awareness of the problems appearing at the intersection of pure and applied economics. Although Marshall's practice of including non-economic aspects when solving practical issues is worth recommending, it needs to be stated that Marshall failed in conducting economics as a positive science. The failure is all the more striking as it seems he was not aware of it. This does not prove, however, that conducting economics as a positive science is not possible. On the other hand, it proves that achieving objectivity and freeing researchers from the chains of the commonly declared ideologies is, in the social sciences, an inherently difficult task.

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