

# Alfred Marshall in 1885: "The Present Position of Economics"

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In the last few years, I have evolved a habit for that time in August when I head off for vacation and other end-of-summer plans. I leave behind a series of scheduled daily posts about topics in economics, academia, and writing or editing that are usually based on historical essays and writings which caught my eye at some point. This year, I'll start with some thoughts about the 1885 address given by Alfred Marshall, "The present position of economics. An inaugural lecture given in the Senate House at Cambridge, 24 February, 1885."

The occasion for the lecture was that Henry Fawcett, the previous Professor of Political Economy at Cambridge University, had died, and Marshall was his successor in the position. The lecture is notable for many lovely turns of phrase. As one example, it's the source of the comment that "the most reckless and treacherous of all theorists is he who professes to let facts and figures speak for themselves, who keeps in the back-ground the part he has played, perhaps unconsciously, in selecting and grouping them."

But Marshall's lecture also has an oddly contemporary feel. In 1885, socialism was on the rise in England, and economics was often criticized for assuming too much rationality and being unwilling and unable to addressing real social problems. Thus, Marshall's lecture has several underlying currents. He wants to acknowledge that the socialists of his day are pointing to real problems, while arguing that their answers are not likely to be useful in addressing those problems. He wants to define what is at the core of the subject of economics. He wants to explain that economics is a useful mechanism for looking at social policies, but also that economics is limited in the answers it can give. He suggests that economics should be helpful where it can, and then should shut up.

Here's Marshall on the socialists of his time:

The perfectibility of man had indeed been asserted by Owen and other socialists. But their views were based on little historic and scientific study; and were expressed with an extravagance that moved the contempt of the business-like economists of the age. The socialists did not attempt to understand the doctrines which they attacked; and there was no difficulty in showing that they had not rightly apprehended the nature and efficiency of the existing economic organization of society. It is therefore not a matter for wonder that the economists, flushed with their victories over a set of much more solid thinkers, did not trouble themselves to examine any of the doctrines of the socialists, and least of all their speculations as to human nature.

But the socialists were men who had felt intensely, and who knew something about the hidden springs of human action of which the economists took no account. Buried among their wild rhapsodies there were shrewd observations and pregnant suggestions from which philosophers and economists had much to learn. ... Among the bad results of the narrowness of the work of English economists early in the century perhaps the most unfortunate was the opportunity which it gave to socialists to quote and misapply economic dogmas. ...

Why should it be left for impetuous socialists and ignorant orators to cry aloud that none ought to be shut out by the want of material means from the opportunity of leading a life that is worthy of man? Of those who throw their whole souls into the discussion of this problem, the greater part put forth hastily conceived plans which would often increase the evils that they desire to remedy: because they have not had a training in thinking out hard and intricate problems, a training which is most rare in the world ...

What is the core of economics that can offer some assistance in thinking through these hard and intricate problems? Marshall notes that when people think about the main intellectual contribution of Adam Smith, they often point to what we now refer to as the "invisible hand" idea--that when people act in their own self-interest--though hard work, innovation, shopping for desired goods and services--they will often benefit the social welfare. However, Marshall argues that in fact, Smith's key insight was something quite different: "His work was to indicate the manner in which value measures human motive." In other words, Smith started the process of drawing linkages between the ways that people act and the monetary incentives they face in terms of prices and wages--which is what makes human motives into something measurable. Marshall thought this idea was the true core of economic thinking:

But it is becoming clear that the true philosophic *raison d'être* of the [economic] theory is that it supplies a machinery to aid us in reasoning about those motives of human action which are measurable. In the world in which we live, money as representing general purchasing power, is so much the best measure of motives that no other can compete with it. ...

When in this world we want to induce a man to do anything for us, we generally offer him money. It is true that we might appeal to his generosity or Nature in the indicative mood and her ethical laws in the imperative sense of duty; but this would be calling into action latent motives that are already in existence, rather than supplying new motives. If we have to supply a new motive we generally consider how much money will just make it worth his while to do it. Sometimes indeed the gratitude, or esteem, or honour which is held out as an inducement to the actions may appear as a new motive : particularly if it can be crystallised in some definite outward manifestation; as for instance in the right to make use of the letters C.B., or to wear a star or a garter. In this world such distinctions are comparatively rare and connected with but few transactions; and they would not serve as a measure of the ordinary motives that govern men in the acts of every day life.

Marshall emphasizes that just because economics is often focused on selfish and self-regarding behavior, in the sense of how behavior responds to monetary incentives, this is not a claim that selfish behavior is good or worthwhile. Instead, economics is a mechanism for thinking through the how these monetary incentives will affect behavior. Marshall uses the term "organon," which has fallen out of use, but is defined as "a means of reasoning or a system of logic.

But though in wording our economic organon this idea of measurability should be always present, it should not, I think, 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. The organon then must have reference to an analysis of the positive motives of desire for different goods, and of the negative motives of unwillingness to undergo the fatigues and sacrifices involved in producing them.

Marshall makes the subtle but ever-useful point that when it comes to social problems and public public policy, economics has an important role to play in figuring out the direction and size of likely outcomes, and perhaps especially in pointing out that certain proposals are unlikely to have the effects that are promised. But he also emphasizes that economics doesn't provide answers. Instead, he argues that economics should help where it can, and then economics should shut up. In particular, economics in Marshall's view should not get in the way of or push out any other kinds of knowledge or common sense, and when economists given an overall opinion, they should always be clear to separate the actual economics from their own personal judgments.

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 foothold 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 best genius of many generations of men. Then, 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; although it would have probably been the most unmanageable side of all without such aid. Having done its work it retires and leaves to common sense the responsibility of the ultimate decision; not standing in the way of, or pushing out any other kind of knowledge, 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.

Sometimes indeed the economist may give a practical decision as it were with the authority of his science, but such a decision is almost always merely negative or critical. It is to the effect that a proposed plan will not produce its desired result; just as an engineer might say with authority that a certain kind of canal lock is unsuitable for its purpose. But an economist as such cannot say which is the best course to pursue, any more than an engineer as such can decide which is the best route for the Panama canal.

It is true that an economist, like any other citizen, may give his own judgment as to the best solution of various practical problems; just as an engineer may give his opinion as to the right method of financing the Panama canal. But in such cases the counsel bears only the authority of the individual who gives it: he does not speak with the voice of his science. And the economist has to be specially careful to make this clear; because there is much misunderstanding as to the scope of his science; and undue claims to authority on practical matters have often been put forward on its behalf.

Marshall also makes the point that when it comes to issues of social policy, what we think of as "customs" can often be altered over time by economic incentives.

To say that any arrangement is due to custom, is really little more than to say that we do not know its cause. I believe that very many economic customs could be traced, if we only had knowledge enough, to the slow equilibration of measurable motives: that even in such a country as India no custom retains its hold long after the relative positions of the motives of demand and supply have so changed, that the values, which would bring them into stable equilibrium, are far removed from those which the custom sanctions.

Where economic conditions change but little in one generation, the relative values of different things may keep very near what modern economists would call their normal position, and yet appear scarcely to move at all: just as, if one looks only for a short time at the hour hand of a watch, it seems not to move. But if the preponderance of economic motive is strong in one direction, the custom, even while retaining its form, will change its substance, and really give way.

Ultimately, Marshall is insisting that pointing to facts is never enough. Instead, one needs to go through the economic analysis of looking at the interrelationship of motives and the measurable values of prices and wages, along with the interactions that happen throughout an economy. This is the only way to coming to a correct interpretation of the causes and effect that underlie the facts, and it's what economics is all about.

Experience in controversies such as these brings out the impossibility of learning anything from facts till they are examined and interpreted by reason; and teaches that the most reckless and treacherous of all theorists is he who professes to let facts and figures speak for themselves, who keeps in the back-ground the part he has played, perhaps unconsciously, in selecting and grouping them, and in suggesting the argument post hoc ergo propter hoc. In order to be able with any safety to interpret economic facts whether of the past or present time, we must know what kind of effects to expect from each cause and how these effects are likely to combine with one another. This is the knowledge which is got by the study of economic science.