

Tiziano Raffaelli, Tamotsu Nishizawa and Simon Cook (eds) *Marshall, Marshallians and Industrial Economics*, London and New York: Routledge, 2011, pp. xvii, 326.

The editors' introduction to *Marshall, Marshallians and Industrial Economics*, begins with the following observation:

In recent years, Alfred Marshall's reflections on industrial organization have attracted renewed attention, first in the booming literature on the industrial district and then as anticipations of the competence theory of the firm. Firms are no longer seen as devices aimed to economize transaction costs but as organisms that grow and thrive, thanks to their core competencies. This attitude has fostered a revival of interest in Marshall's theory of industrial organization which now proves itself to be of long-lasting relevance (p. xv).

In this setting, the scope of the volume is described in the following manner:

The book develops the line of research that inspired *The Elgar Companion to Alfred Marshall* and found expression in the part devoted to Marshall in the recent *Marshall and Schumpeter on Evolution* [Shionoya and Nishizawa 2008]. The perspective here is enriched by new considerations on Marshall's thought and by deeper attention to the school of industrial economics that took inspiration from it and to contemporary research related to that tradition (p. xvii).

To the regular readers of the *Marshall Studies Bulletin*, and to those more generally familiar with the contents of edited volumes such as *The Elgar Companion of Alfred Marshall* (Raffaelli et al 2006), the editors' observations on the nature and significance of Marshall's industrial economics would appear to be rather uncontroversial, reflecting the perspective increasingly taken by Marshall scholars over recent years. However, this is clearly not Marshall the equilibrium theorist that dwells, and at times recoils, in the standard microeconomics textbooks and which the wider community of economists has become acquainted with. Therefore, this volume could potentially fulfil two interrelated roles. First, it may augment and enrich the growing body of literature assembled by contemporary Marshall scholars that reflects the perspective clearly delineated in the editors' introduction. Second, it may perhaps play a role in encouraging the more general reader to venture beyond the typical mainstream textbook portrayal of Marshall's contributions, and to consider more closely the enduring relevance of Marshall's approach to the analysis of industrial economics and economic thinking in general, in a manner advocated by the contributors to this volume. The difficulty in achieving the second type of objective should not be underestimated, as is

perhaps most clearly reflected in David Collard's review of Richard Arena and Michel Quéré's (2003) edited volume revisiting Marshall's legacy:

There are (at least) two sorts of Marshallian: the book-4 Marshallian and the book-5 Marshallian. Most of the contributors to this volume are book-4 Marshallians. Their collective point is that Marshall's true legacy was not the period analysis of book 5 but something much more dynamic, Darwinian, and empirically based. There is something in this view, although the present reviewer's position is that much though Marshall would have liked to have left a different legacy, he did not actually succeed in doing so (Collard 2004, p. 401).

It is the popular notion that the content of Book V of the *Principles* (together with the attached Mathematical Notes) could somehow be divorced from Marshall's other writings that has led to the textbook depiction of Marshall as a prominent pioneering equilibrium theorist in the marginalist tradition, and to the neglect of Marshall's approach to industry economics and his views on the role of historical analysis and applied work in the formulation of economic analysis. Irrespective of how Marshall's economics is evaluated, it was clearly Marshall's *intention* in the *Principles* (and elsewhere) to preserve a unity between the value theory being constructed within the partial equilibrium framework in Book V, and the essentially evolutionary explanations of industry organization and economic development being described in Book IV and recurrently throughout the *Principles*. The neglect of Marshall's industrial economics has therefore reflected a fundamental misunderstanding and misrepresentation of Marshall's objectives; part of a process which Paul Samuelson (1967, p. 111) described in approving terms as 'getting Marshall out of the way'. Therefore, *Marshall, Marshallians and Industrial Economics* not only provides a vehicle through which the content and relevance of Marshall's own writings can be reassessed and reinvigorated; it also enables Marshall's insights and methodological approach to be shown to be of continuing relevance in the project of reconstructing industrial economics, particularly in a form that enables it to be embedded in the contemporary manifestation of Marshall's biological Mecca, modern evolutionary economics.

While each of the individual chapters in the volume invites extensive discussion, a brief outline of the topics covered may be useful given the wide domain being traversed in this volume. All but two of the chapters in this edited volume are based on contributions to a workshop held at Hitotsubashi University in 2008. The book begins with a general introduction provided by Giacomo Becattini, who over the years has been a particularly

enthusiastic and effective promoter of Marshall's approach to the analysis of industry. This introduction provides an eloquent and succinct portrayal of the general perspective on Marshall's industrial economics that binds together the contributions to this volume. More than anything else, Becattini's introduction establishes industrial economics as representing the 'heartbeat' of Marshall's economics, being concerned with the co-evolution of economic and socio-cultural relationships, as opposed to the largely technologically based explanations that have traditionally opposed the interdisciplinary explanation of the various dimensions of industrial development.

The remainder of the book is divided into four sections; the first section contains three chapters dealing with some of Marshall's key ideas on industrial economics. The three chapters allocated to Section 2 place Marshall's industrial economics in the broader context of Marshall's perspective on economic and social interactions. The final two sections, containing ten chapters, consider aspects of the development of Marshall's industrial economics by his pupils and those who subsequently endeavoured to follow in the same tradition.

In chapter 1, Tiziano Raffaelli paves the way forward through his decisive affirmation of the evolutionary focus of Marshall's research program, demonstrating that an appreciation of Marshall's approach to industrial economics requires an awareness of the philosophical perspective that accompanied Marshall as he arrived at the doorsteps of political economy, having journeyed through the mathematical and moral sciences and psychology. Raffaelli presents his outline of Marshall's perspective on industrial organization and business size largely in the setting of Marshall's often neglected *Industry and Trade*, where Marshall was forced to confront the realities of the emergence of joint stock companies, but at the same time reached an open verdict on the destiny of smaller firms. Marshall's *Industry and Trade* is also the main source drawn on in Tamotsu Nishizawa's chapter on Marshall's views on Britain's industrial leadership and business organization. Nishizawa's discussion offers some interesting observations on Marshall's views, together with those of 'some critics', on the advantages of 'automatic cooperation' which Marshall had associated with aspects of British industry, relative to the planned cooperation of the specialized division of labour found in trusts and cartels which were more prevalent in the American and German experience at the time. In the final chapter of the first section, Kenji Fujii considers Marshall's emphasis on the

connections between organization and knowledge, although not in the usually discussed context of the integration of knowledge in the sphere of production. Instead, Fujii looks at the relationship between the integration of knowledge and the fairness of organization, with the latter related to working conditions and the future development of capabilities. Raffaelli had in the earlier chapter considered Marshall's views on reforming the organization of British industry, reaching the conclusion that 'Marshall's evolutionary model highlights the existence of a variety of conflicting tendencies, and calls for human intervention to check that those which prevail bring long-term benefits to the social environment' (p. 26). However, Fujii's account indicates that Marshall had a rather cautious approach to government intervention, with Marshall appearing to be more afraid of spoiling incentives through interventions that may be based on precarious judgments than of allowing possible unfair behaviours to continue. This ushers to central stage Marshall's notion of the 'chivalrous employer', where the moral attitudes of the employer play a decisive role, indicating that trust and commitment play a significant role in the functioning of organizations.

Section 2 of the book, covering 'wider perspectives', begins with Simon Cook's 'the history of nations'. This account is written largely from the standpoint of Becattini's portrayal of Marshall's conception of a political nation as an assortment of economic nations, with the latter being any organized industrial group which transcended ties to a specific territory. The chapter discusses how the general notion of a nation has changed through time, with the originality and relevance of Marshall's liberal idea of the nation ascertained by relating Marshall thinking with that of Adam Smith and contemporary economic historians such as William Cunningham and Gustav Schmoller. In the following chapter, Roger Backhouse focuses on the critical issue of the nature and role of Marshall's equilibrium analysis, and how this may relate to the broader dimensions of Marshall's industrial economics being discussed elsewhere in the book. As Backhouse explains, when viewed from the perspective of pure theory in the Walrasian tradition in particular, Marshall's partial equilibrium method appears to be inconsistent and to lack logical rigour. However, as Marshall had argued, to equate economics with pure theory was a 'calamitous mistake'. Marshall instead was explicitly formulating an applied economics, which while involving deductive reasoning, had to be kept much closer to the real world. Marshall's partial equilibrium approach was not simply a subset of a well identified general equilibrium system; instead, Marshall's time period analysis was an attempt to gain some partial insights into evolutionary change in a

heterogeneous world. The logical and methodological shortcomings that came to be associated with Marshall's economics in fact originated from the attempts to imprison Marshall's applied approach within the boundaries of pure theory. In order to perpetuate this vulgar transformation of Marshall's original agenda, the industrial economics heartbeat that had propelled Marshall's applied economics had to be abandoned. The final chapter in Section 2, contributed by Marco Dardi, investigates Marshall's perception of ideal social orders, and argues against the view that Marshall considered that the economist can be separated from the man of ideals. The idealistic side of Marshall's thought is seen to be embedded within, as opposed to being distinct from, his 'rational historicism' approach to economics. The chapter includes an interesting interpretation of the role and nature of Marshall's economic history, and sheds further light on the question of the role of intervention in the process of industrial development. As Dardi concludes, Marshall's whole life was devoted to the search for mediation between the self-assertive instincts of industrial pioneers and the limitations of liberty involved in the protection of the weak (p. 125).

The chapters in Section 3 of this volume document how Marshall's work on industrial economics was developed by some of his pupils, expanding on some of the themes outlined in an earlier paper by Raffaelli (2004). It begins with Fiorenza Belussi's and Katia Caldari's general account of the rise and fall of the Lancashire industrial district, and discussion of the contrasting views on its operations by Alfred Marshall, Sydney Chapman and John Maynard Keynes. In the following chapter the work of Walter Layton and D. H. McGregor is described by Carlo Cristiano, with Layton's contributions scrutinised in more detail in the following chapter by Masashi Kondo. More distant connections with Marshall's approach to industrial economics can be gleaned from Leonard Minkes' discussion of the work of the 'economic sociologist', Phillip Sargant Florence. Finally, Hiroyuki Shimodaira analyses the view of industrial society portrayed in Dennis Robertson's *The Control of Industry*, and investigates how Robertson's approach may be linked with aspects of Marshall's writings on industry. Collectively, the chapters contained in Section 3 confirm that the essence of Marshall's approach to industrial organization survived in the teaching and published work of a small group of his pupils and closest disciples. These writers contributed theoretical and empirical investigations from different and at times opposing perspectives, which as Raffaelli (2004, p. 214) has previously suggested, is paradigmatic of the open framework of Marshall's industrial analysis which shows 'the manifold trends of evolutionary processes'. The fact that

the writings of his disciples were largely neglected reflected not the absence of intrinsic merit in the investigations, but rather the triumph of pure theory after Marshall had been ‘got out of the way’.

The chapters in Section 4 of the volume point towards what is termed the ‘revival’ of interest in Marshall’s industrial economics. These chapters make for particularly engaging reading, and provide an indication of just how vastly different industrial economics may have been, both in terms of its content and role, if Marshall’s research agenda had not been largely abandoned by mainstream economics in the first few decades of the twentieth century. Building on Young and Lee’s (1993) earlier work, the chapters provided by Fred Lee, Lisa Arena and Richard Arena, present an insightful exposition of the industrial economics movement at Oxford from 1920 to 1979, and what may in qualified terms be labelled the MacGregor – Andrews – Richardson led post-Marshallian approach to industry economics. On D. H. MacGregor, Lee reaches the conclusion that, while making some significant contributions to Marshallian industrial economics, he in the end effectively abandoned it and ‘let it be replaced by the equilibrium firm and marginalism’ (p. 241). In this chapter, Lee develops a most interesting discussion of price theory and marginalism at Oxford during MacGregor’s tenure, concluding perhaps somewhat controversially that Hall and Hitch’s kinked demand curve was a marginalist response and explanation of why businessmen do not use marginalist analysis when determining prices (p. 237). As Lee also concludes, it was only after MacGregor retired and P. W. S. Andrews began articulating his theory of competitive oligopoly ‘that marginalism and the equilibrium firm were theoretically contested’, but that this was too late as by then marginalism had ‘conquered Oxford as completely as the Holy Inquisition conquered Spain’ (pp. 241-2). An assessment of Andrews’ contributions also features prominently in Lisa Arena’s revealing account of the Marshallian tradition of industrial economics in Oxford over the period 1947-79, which details the ‘birth’ of the industrial economics discipline, and how it was later to depart from Marshall’s original approach during the latter part of this period, despite the best efforts of Andrews. On Andrews’ own contribution, Lisa Arena found that the Andrewsian approach to industrial issues can be seen as ‘comprehensive and loyal enough to Marshall’s theory to render his methodology and concepts very much comparable’, with Andrews refusing to read Marshall’s contributions to economics as a static marginalist theory (pp. 255-6). Likewise, as Richard Arena’s chapter on Marshall and Richardson clearly establishes, while there may be

questions regarding the impact of George Richardson's works on industrial economics, there can be no doubt about his Marshallian orientation. The key similarities between Marshall and Richardson are demonstrated to flow from a similar conceptualization of the nature and role of organization, competition, coordination and capabilities, all of which find their places in an explanation of industry that takes on an evolutionary dimension.

The chapter provided by Marco Bellandi is particularly innovative, as it investigates the role of the extra-territorial dimensions of external economies; those which Marshall portrayed as depending chiefly on the aggregate volume of production in the whole civilised world, and therefore extending beyond localized industries that help to explain the advantages of the local district. As Bellandi explains, significantly diverging consequences for industrial organization and development are implied by the different manifestations of these 'mobile external economies'. Clearly, much more work needs to be done to arrive at a more systematic treatment of these often neglected themes. The final chapter in Section 4 returns the reader's attention more directly to the 'post-Marshallian revival' of the core themes in Marshall's industrial economics. Richard Langlois' chapter is indeed a fitting concluding chapter, as it convincingly places Marshall's industrial economics directly within the domain of modern evolutionary economics. This interpretation of Marshall's work flows directly from the manner in which Marshall perceived organization, competition and dynamic capabilities, which stands in stark contrast to the treatment of markets and firms in modern mainstream price theory that clings to its Pigouvian heritage (and also the 'New Economic Geography' where attention is largely restricted to 'tangible' market size and factor immobility effects). The final paragraph of Langlois' chapter provides a fitting conclusion to the volume:

Marshall is alive and well in some of the most vibrant reaches of what I have called Industrial Economics. In the economics of organization, especially the dynamic capabilities and resource-based approaches, and in Industrial Dynamics and Industrial Geography, genuinely, Marshallian ideas are alive and well. Like Marshall, these literatures are concerned with economic growth and the evolution of industrial structure through processes of specialization, differentiation and integration (pp. 316-7).

As always, with this type of enterprise, there will be diverging opinions regarding 'omissions', and the way in which the themes are arranged within the volume. With respect to the latter, it is difficult to follow why Marco Bellandi's chapter on interlinked territorial

scales of Marshallian external economies is included in Section 4 (as opposed to Section 2, for example), as this chapter breaks the continuity of thought maintained in the other chapters in the section. Similarly, the themes under discussion in Roger Backhouse's chapter on Marshall's method would have been better placed in Section 1, given that these issues are of critical importance in developing an appreciation of Marshall's perspective on industrial economics. As noted by the editors, the omission from the discussion in Section 3 of Austin Robinson's *Structure of Competitive Industry* was unintentional, and more direct reference to Frederick Lavington's contributions may have been justified. In Section 4, the work of the likes of Edith Penrose and Alfred Chandler could perhaps also have granted further attention. Finally, a perspective on Joan Robinson's evolving interpretations of Marshall's industrial economics may have been of interest to readers, particularly in light of the arguments being developed in Backhouse's important chapter. However, these are minor gripes, as the editors have commendably achieved their objective of conveying and further developing the line of research that inspired *The Elgar Companion to Alfred Marshall*. Collectively, the contributions reinforce the fundamental idea, emphasized, for example, in Raffaelli's (2003, 2009) recent writings, that Marshall's perspective on industrial economics was evolutionary in nature, and that his *Industry and Trade* is *not* simply an exercise in applied work which is a mere appendage to the *Principles*. The extent to which the ideas contained in the book will in time capture the attention of a wider audience where Marshall's economics continues to be viewed from Pigouvian and Walrasian lenses may well depend on whether or not the mainstream economics profession adheres to Kenneth Arrow's (1995, p. 1618) prophecy that 'it will discover that the biological is a more appropriate paradigm than equilibrium models analogous to mechanics'.

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