

Marshall, welfare and industrial progress, or: the ‘utilitarian’ meets the ‘evolver’*

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1. Introduction

The starting point of this paper is a “paradox” emphasized by John Whitaker (1977, 183):

How can Marshall combine welfare assessments based on fixed consumption-and-leisure preferences with normative judgements as to the standard of life the whole point of which lies in denying the fixity of these preferences?

Whitaker’s solution to the paradox turns on Marshall’s post-Darwinian idea that the free enterprise system creates an evolutionary environment in which material and moral progress are mutually reinforcing, so that no conflict is perceived between utilitarian calculus and the development of higher motives of behaviour (ibid, 184-5). Although tentatively, Whitaker comes to the conclusion that this evolutionary bent made Marshall “so reluctant to endorse utilitarianism that the case seems weak for regarding him as a utilitarian at all” (ibid., 195).

Other interpreters, such as R.D.C. Black (1990) and T. Raffaelli (1996), see the issue in a different perspective. While they agree that Marshall subscribed, however cautiously, to the current – in the Cambridge intellectual atmosphere of the late 1860s and 1870s – notion of a fundamental alliance between utilitarianism and evolutionism, they reach the somewhat opposite conclusion that “Marshall was much more sympathetic to [utilitarianism] than is commonly acknowledged” (Raffaelli 1996, 94). The point is further qualified by the remark that, in Marshall’s view, “rather than a replacement of utilitarianism [the evolution of higher moral standards] amounted to its completion” (ibid., 102).

The present paper takes its cue from the latter interpretation. If by welfare economics we understand a method for assessing economic situations and policies on the basis of some appropriately defined social welfare index, there seems to be no doubt that Marshall’s approach to it is essentially utilitarian, although with peculiarities of his own. Marshall was aware of the drawbacks of his brand of economic utilitarianism, however, and realized that they rendered the scope of welfare policies quite narrow. Evolutionary considerations showed him a way to overcome these limitations by means of a dynamic specification of the utilitarian criterion which extends the scope for welfare-improving policies – the extension, however, opening a conflict with what is socially acceptable given the ruling conventions and attitudes. A way out from this predicament was to be found in the development of new moral and intellectual attitudes, a change described by Marshall as “ethical progress” and, again, related to his evolutionary view of social development. At an ideal end of the process there was the model of a more advanced utilitarian society in which the dividing line between private and public interests would virtually disappear; there, welfare and social policies would merge, and at the same time the need for both would become less stringent. Marshall’s confidence that such a mutation would come about was supported by the observation of habits and practices fostered by patterns of industrial relations observed in his time. He gave special emphasis to the fact that industrial life educates to internalize externalities, partly through the development of feelings of obligation to society and partly through the application of a principle of universalization strongly reminiscent of the Kantian absolute imperative.

At this point, a fitting question would be – where does Marshall’s approach stand with respect to the main developments of welfare economics over the last century? As far as we can judge from his

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1914 reaction to *Wealth and Welfare* (Bharadwaj 1972), Marshall did not approve of the line Pigou was to follow, firstly for analytical reasons but perhaps also because of deeper dissatisfaction with its ethical background. The gist of his criticism seems to be summarized in the sentence “[Pigou] overrates the possibilities of the statical method” (ibid., 33), which concerns economic method but may also be taken to refer, in the light of the present reconstruction, to the underlying (statical) interpretation of utilitarianism. However that may be, it seems clear that the Cambridge approach to welfare started by Pigou was *not* one that Marshall would have recognized as his own. In a recent assessment of Marshall on welfare economics S. Medema, following an interpretative tradition which goes back to Edgeworth (1913), places Pigou in the wake of Sidgwick instead of Marshall’s (Medema 2006, 640). Yet one of the features which differentiate Cambridge welfare economics from the “New welfare” mainstream, i.e. reliance on the possibility of interpersonal comparisons of utility, will be seen to be one of the pillars also of Marshall’s own approach. In the last decades this idea has been regaining ground due to the apparent barrenness of the distributionally-neutral approach advocated by Robbins and brought to a deadlock by Arrow’s impossibility theorem. Post-arrovian developments have stressed the necessity of broadening the informational basis of welfare judgements if welfare economics is to be a body of useful doctrine in matters of justice, inequality and development (see among others A. Sen’s 1998 Nobel Lecture, in Sen 2002, ch. 2). Marshall’s alertness to these issues bears out Medema’s comment on the existence of a correspondence between “the unsettled nature of welfare economics over the last three-quarters of a century [and] Marshall’s hesitancy about his own contribution” (ibid., 646).

2. Marshall’s economic utilitarianism

The motivation which, at a certain stage in his life, prompted Marshall to become an economist, according to the autobiographical recollections quoted by Keynes in Pigou (1925, 10), was the desire to contribute to the solution of a problem essentially belonging to welfare economics: how to alleviate the distress of the working poor compatibly with the necessities of political economy, that is, without hindering the possibilities of industrial progress of the country. Marshall started in other words from the feeling that there was a potential welfare improvement which the market mechanism had missed, and that for it not to go to waste a better understanding of both the failures and possible correctives of the mechanism was required. “The work I have set before myself is this:—How to get rid of the evils of competition while retaining its advantages” (ibid., 16).

The instrumental role of the utilitarian principle in the enterprise is acknowledged by Marshall in many places. His interest in Bentham and utilitarianism, as evidenced by his early notebooks and also by Mary Paley’s testimony (Marshall, Mary Paley, 1947, 18-9) dates back at least to the late 1860s. As early as 1871 he was teaching Bentham’s moral and political philosophy for students of the Moral Sciences Tripos (Groenewegen 1995, 129, 267-8). There are therefore years of more or less intense brooding behind the few remaining manuscript notes of the early 1880s in which, now a fully-blown economist, he deals explicitly with the doctrine of maximization of “the total amount of happiness” expressed as a sum of individual happinesses (see Whitaker 1975 II, 317-9, 379-82, and also the hints in the review of Edgeworth’s *Mathematical Psychics*, ibid. 265-8). The exact mathematical form of the maximandum is discussed in relation to qualifications clearly reminiscent of issues raised by Sidgwick and Edgeworth; and in the end a mathematical function compounding individual happiness and numbers, plus two dynamical terms which I shall discuss later, is proposed as the standard by which to assess the performance of the economy and the functions of government in matters of taxation (ibid., 318-9, 382). The latter is the field of practical policy in which “there seems to be no way out save that of analyzing by Bentham’s Method” (ibid. 380). Indeed, in various places Bentham is mentioned as an influence of enormous importance in shaping the course of modern economic theory, “the great forming mind after Adam Smith” (Marshall 1961 II, 755). Together with Cournot and von Thünen, he is also mentioned as one of the influences leading him to the notion of consumers’ rent (ibid., 263).

By accepting Bentham's principle for the purposes of economic analysis Marshall also agreed to its implicit assumption of homogeneity of utility with respect to both the persons who experience it and the objects or situations which engender it. Let us break down this assumption, for the sake of the following discussion, into three distinct assumptions which may be taken as definitory of Benthamite utilitarianism. (i) *Anonymity*: 'who' enjoys utility is socially irrelevant, (ii) *abstraction*: 'what' procures utility is socially irrelevant, (iii) *cardinal comparability*: the 'unit', although not necessarily the 'zero', of the utility scale is the same for all, or, equivalently: affine transformations of utility profiles are socially irrelevant provided individual utilities are multiplied by the *same* positive constant (see Roemer 1996, 18-20). Did Marshall really accept that much? While there can be no doubt about (i) ("all people are equally important", Whitaker 1975 II, 379), we shall see that he had reasons for questioning (ii). But it is (iii) which is most glaringly at odds with explicit statements of his to the effect that it is impossible to compare mental states of different persons, or even those of the same person at different moments. "No one can compare and measure accurately against one another even his own mental states at different times: and no one can measure the mental states of another at all except indirectly and conjecturally by their effects" (Marshall 1961 I, 15). He was quite clear that feelings *in themselves*, that is, feelings considered as "affections of the mind", are unique. And in "The pure theory of domestic values" he had already drawn the logical conclusion that "it is not possible to add together arithmetically any two pleasures without some more or less arbitrary mode of measuring them" (Whitaker 1975 II, 215). His acceptance of the utilitarian principle is therefore to be understood as referring not to states of mind – utility as happiness or pleasure – but only to some outward and objectively measurable manifestation of them. It is to these external phenomena only that the assumptions from (i) to (iii) apply.

Bentham had loosely stated that what he propounded as a guiding principle for the legislator – understand the "value" or "force" of the different pleasures and pains involved in any action or measure – was not "novel and unwarranted" but reflected "the practice of mankind, wheresoever they have a clear view of their own interest", as for example in the assessment of the monetary value of a piece of property (Bentham 1982, 38, 40-1). Marshall offered a more articulated and theoretically structured argument in favour of this point of view in his 1876 essay on Stuart Mill's theory of value (Pigou 1925, 125-6) and in several later occasions up to the *Principles* (e.g. in *ibid.* 157-9, and in Marshall 1961 I, 14-6, 124 ff). However unique each mental state may be, it becomes comparable and therefore measurable at the moment it comes out in the open by providing motives for economic action, that is, action involving money transfers. The money transfer itself measures the "residual motive", i.e. the balance of all the other pleasures and pains implicated, when action is taken "at the margin of doubt" (see Dardi 2008 for a reconstruction of the underlying model of choice). Once this measure is available economic reasoning can start to do its job. But, again, mental states are not involved in the reasoning, only the money measure of their "motor-force" is.

Detailed reconstructions of the successive versions of this doctrine from the early papers to the last edition of the *Principles* (Whitaker 1975 I, 46-7; Aldrich 1996; Martinoia 2003) have revealed a certain irresolution of Marshall's between two interpretations of utility, the force of desires for satisfactions sometimes giving way to utility as the pleasure or the satisfaction resulting from their fulfilment. While admittedly not always abiding by the boundary line he himself had drawn between economics and hedonics, Marshall's intentions were however clear and confirmed in the long run: we have only to look at his reported speech at the 1893 meeting of the BEA (Marshall 1893) and at the long and important footnote at the end of §1 of Chapter II Book I of the *Principles* (1961 I, 17), for a recapitulation of the main points. The economist's object is the study of social problems from the point of view of the incentives to action: if utilitarianism is the right characterization of this point of view, then this is utilitarianism not as an ethical principle but – Bentham's style – as an inference from practices observed in everyday life. It is an inference which affords the application of exact methods of analysis; and it is neutral with respect to differences in mental states which are treated "*primâ facie* as [for the economist's purpose] equal" (*ibid.*, 16). This

does not mean that such differences are not relevant even from the economist's narrow point of view, but full examination of these requires a different kind of research, one which verges on ethics. This is the essence of Marshall's economic utilitarianism or, if I may quote myself (Dardi 2008), of his "utilitarianism without utility" – in the sense in which "utility" was conceived in the hedonic calculus of, among others, Jevons and Edgeworth.

The analytic device which embodies this conception is that rough aggregate monetary measure of the benefits from trade called consumers' rent or surplus. The surplus has all the required properties of anonymity, abstraction and cardinal comparability by definition. Full-scale usage of it in the analysis of problems of welfare economics started quite early in the "Pure theory of domestic values" chapters written in the years 1873-7 (Whitaker 1975 II, 212 ff). Here, as well as in the analogous treatment in §§ 4 ff of Chapter XIII Book V of the *Principles*, reasoning based on changes in consumers' rent leads to propositions having sharp normative implications. The well-known propositions concerning the effects of taxes or subsidies on commodities whose production obeys different laws of returns, joined to the demonstration of the "maximum satisfaction" property of competitive equilibrium (Marshall 1961 I, 470-2), defines a class of market failures which justify public intervention in well-circumscribed areas. Marshall however refused as far as possible to attach any sense of urgency to these propositions and actually gave several arguments to the effect that they "do not by themselves afford a valid ground for government interference" (*ibid.*, 475). The stark contrast between this circumspection and Pigou's lack of inhibitions in matters of fiscal policy gives us a clue to Marshall's evident dismay at the all-pervasive tax/bounty schemes proposed in *Wealth and Welfare* (see Bharadwaj 1972, 45-6).

Marshall has two kinds of objections to government interference even in the cases in which it appears to be welfare-enhancing. First, there are the "semi-ethical questions" (see Marshall 1961 I, 473, and Whitaker 1975 II, 232) raised by all types of intervention of government in economic affairs: in short, new openings for corruption and distortion of incentives which, added to the limited knowledge and forecasting powers of government officials make for socially inefficient results. The justification for public intervention lies always in market failures due to lack of knowledge or foresight or concern for public interest on the part of private agents. These are imperfections of human nature, though, and "human nature is, unfortunately, to be found in government as elsewhere" (Marshall 1885, 174).

The second kind of objection is more specific and goes to the very foundations of consumers' rent. As it is defined, consumers' rent is a measure strongly dependent on the *status quo* with respect to both the distribution of property and the habits and conventions which rule expenditure behaviours. Whatever the stuff measured by the rent may be it is something that people in the market show to desire, and this is the reason why allowing them to have one more shilling of it can be nothing but, *from their historically-local point of view*, an improvement. But that is not enough to say that it is an improvement also from an objective or in any sense less historically contingent perspective. The same objection applies to the maximum satisfaction property of equilibrium. More explicitly still than in the text of the *Principles* (1961 I, 471), in an unpublished manuscript quoted in Becattini (1991, 182) we find the following remarks: "What may be called the 'commercial adjustment' by means of an equilibrium between demand and supply price has not any claim to yield a true maximum satisfaction: it can have no claim to be ideal. All that can reasonably be claimed for it is that *so long as present inequalities of wealth are maintained by existing social institutions* it would not be easy to obtain by artificial contrivance a much better adaptation" (my italics).

Behind the second line of objections we can make out the strain between the choice of a monetary index of aggregate utility and Marshall's conviction that society is not neutral with respect to who gets the surplus and what does it derive from. There are persons for whom an increase or diminution in the means of satisfaction changes the quality of life while others remain unaffected; and there are commodities the production and/or consumption of which raises or lowers the character and mental faculties of those involved in their production/consumption. Redistributing money from the rich to

the poor, or from careless to considerate consumers, or simply altering the directions of expenditure, may make a crucial difference from the point of view of collective long-run interest: yet, it is always “a shilling’s worth of happiness” that is moved from here to there, and the aggregate index will register no change. Ordinary – as opposed to Marshall’s monetary – utilitarianism may account for redistributive effects provided full interpersonal comparability is granted. Edgeworth, to take an example from which, as we shall see, Marshall was somehow influenced, managed to deal with the issue of optimal distribution brilliantly thanks to his belief in the possibility of an objective psychophysic unit of utility (Edgeworth 1877). Marshall, who had no time for such speculations, preferred to circumvent the conceptual difficulty of comparability by resorting to a money index, but got trapped in a system of measurement which guaranteed full comparability only at the cost of wiping out all the effects of distributional changes. As the above mentioned texts reveal, he was fully aware of the extent to which this drawback restricted the scope of surplus-based welfare policies. And he must have realized with some disappointment that these policies left unchallenged that very problem of poverty in the midst of plenty which had been the main impulse behind his choice of a career as an economist.

3. The “utilitarian” and the “evolver” join forces

When talking of increasing total satisfaction through redistribution from the rich to the poor (e.g. in 1961 I, 19, 474; Pigou 1925, 366) Marshall is leaving his monetary utilitarianism behind and lapsing into modes of speech of classical utilitarianism loosely employed. In fact, it is not utility as satisfaction Marshall is concerned with in this context, but the importance of the satisfaction of different wants in a plan of life in which wants respond to functions classified and ordered according to a hierarchy going from the basic bodily needs to the formation of character and up to luxuries and “extravagances” of dubious functionality. Redistributing property between social classes means changing the qualitative mix of the wants which society can satisfy on average. Marshall focuses on comparisons between *marginal* needs, those the satisfaction of which is on the margin of doubt for the rich and the poor. His examples confront us with asparagus versus tea (Whitaker 1975 II, 215-6), a bus ride under light rain versus the same under heavy rain (Marshall 1879, 70), an expensive cigar versus a provision of tobacco lasting one month (Marshall 1961 I, 19); finally, in a surprisingly radical contrast, “luxuries [...] the most extravagant of which is war” versus “investment of human capital” (Whitaker 1975 II, 382). There can be no doubt as to the relative scale of importance for a plan of life of the items in each pair. Thus the loose expression: “increase in aggregate satisfaction resulting from changes in distribution”, must be understood as meaning not greater happiness but qualitative elevation of the average standard of life and of the potential for growth of the human capital of the country. The contrast between the two interpretations is rendered more graphically still in Marshall’s deprecation of “the futility of philanthropy which cares only for increasing happiness and diminishing misery, and pays little regard to the effect of its action on character” (letter to the Editor, *The Times*, 1885, in Whitaker 1996 I, 193).

The idea that satisfactions are not all on a par contradicts assumption (ii) of section 2 so glaringly that, if we were to stop here, we should concur with Whitaker’s assessment of Marshall’s position as on the whole non-utilitarian (see above). In the manuscripts on utilitarianism and the lecture notes on taxation, however, written in around 1880, Marshall indicates a way of qualifying the utilitarian principle which allows him to subsume the above-mentioned qualitative effects of distribution under it. Two surviving letters to Edgeworth of February-March 1880 (Whitaker 1996 I, 124-5) make it clear that the encounter between the two, with Marshall reading the *Methods of Ethics* and reviewing the *Mathematical Psychics*, represented a crucial episode in precipitating his ideas on this point. Edgeworth had formulated the issue of the utilitarian assessment of redistributions among persons endowed with different “capacities for pleasure” in an elegant formal framework, stressing the relations (here apparently drawing upon Spencer’s *Principles of*

Psychology) between capacities and the position of the “individual sentient” in the order of evolution (Edgeworth 1877, 221 ff and 234 ff, reprint 2003). He had also pointed out the possible intertemporal trade-off between present wealth redistributions and the amount of wealth available in the future by shifting the utilitarian’s attention from the classical (metaphorical) problem of “what lamps shall be lit, and how much material shall be supplied to each lamp, in order to produce the greatest quantity of light” to the “conception more appropriate to the real phenomena [...] that a large portion of the material to be distributed is applied not to be burned by the lamp, but to construct and to repair it” (ibid., 235).

Marshall saw the importance of Edgeworth’s point about the association between “capacity for happiness” and “capacity for work” and the relevance of evolutionary thinking to it (Whitaker 1975 II, 268). In the manuscript on utilitarianism he goes on to ask

How much are we to concede to Edgeworth’s principle that most wealth is to be given to those most capable of pleasure? And again, how much to the principle that larger shares should be given to those most capable of so using it as to pioneer new ways? And again, how far do these two principles in reality cover the same ground? (ibid., 319)

Marshall’s remarks in the above mentioned letters indicate that he thought that Edgeworth had not been sufficiently alert to the dynamic impact of these points for utilitarian thinking: “As to the interpretation of the Utilitarian dogma [...] I have still a hankering after a mode of exposition in which the dynamical character of the problem is made more obvious; which may in fact represent the central notion of happiness as a process rather than a statical condition” (Whitaker 1996 I, 124), and in the next letter “I think there is room for question whether the Utilitarians are right in assuming that the end of action is the sum of the happiness of individuals rather than the vigorous life of the whole” (ibid. 125). It is at this juncture that in the manuscript Marshall introduces the “evolver” to rescue the “utilitarian” from the statical deadlock. Is average happiness multiplied by the number of individuals the aim, Marshall wonders, or instead “to develop the highest ideal of humanity, the number who enjoy it being of second rate importance”?

The highest ideal may be taken to mean the highest capabilities of action, ‘highest’ being taken as defined according to the ‘evolver’ theory; and this may bring with it happiness so much more intense than can be got in any other way that the pursuit of the aim [max happiness multiplied by number] may really give the same results (Whitaker 1975 II, 317)

The task of the evolver is to help shift focus from the quantity to the quality of satisfactions by taking account of their impact on the evolutionary potential of society. The compromise between utilitarianism and evolutionism suggested by Marshall at this point consists in modifying Edgeworth’s formulas for the social maximandum so as to make room for the way total utility grows through time (ibid. 318-9, and 381-2). The function to be maximized is still a compound of numbers and average happiness, but two terms are added to it which measure the velocity of growth and the acceleration of this aggregate of happiness through time. Each dynamic term is multiplied by a coefficient intended to keep account of intertemporal preferences, the exact value of the multipliers being deferred to “when we have decided how far the happiness of [the] present may give way to that of future” (ibid. 318).

Thus, the problem of the quality of satisfactions is turned into that of the dynamic effects of redistribution of property and of expenditure on the development of labour’s capacities and on the incentives to accumulation and invention. Admittedly, the mere mathematical formula of the maximandum does not solve any of the underlying conceptual difficulties, perhaps it even contributes to concealing them – on how to compound individual happinesses and intertemporal weighs “there is of course unlimited room for difference of opinion [...] though the vagueness may be covered over” (ibid., 319). In effect, Marshall will never use it either explicitly or implicitly in later writings. One of the major themes of his whole work, however, that of the relationship between wants and activities in all its ramifications – the building of character, the standard of life/standard of comfort distinction, the incentives to invention and entrepreneurship (on all this see

for example Becattini, 1991, Raffaelli, 2006) – boils down to a trade-off between the pattern of present satisfactions and the future evolutionary prospects of society as a whole, a trade-off which in these manuscripts is set in the precise shape of a maximum social welfare problem. The method devised here by Marshall shows that he certainly saw no opposition between his main line of research and the utilitarian agenda. It also gives us a clue to the early controversy on the interpretation of utilitarianism between Marshall and Sidgwick, of which we have no more than a glimpse in a well-known letter of Sidgwick to Marshall of 1871: “I certainly do not think it the *special* function of the Philosophy of Jurisprudence to develop dynamical conceptions” (Whitaker 1996 I, 13), Sidgwick wrote. But extending utilitarianism to enclose social dynamics was precisely what Marshall was aiming at, and what he meant by it found a well-defined, although perhaps only temporary expression in the years around 1880. It may be a strained association, but also the note of grievance at Pigou’s overly stactical approach to welfare (referred to in sect. 1 above) seems to acquire greater depth if seen in this light.

4. *Security, a relievable constraint on welfare policies*

In a sense the dynamic extension of the utilitarian principle introduces a wider class of externalities of an intertemporal or intergenerational kind: the utilities enjoyed by present individuals affect the utilities available to future individuals – be they the same individuals or their descendants. Differently from the externalities connected with the way expenditure is distributed between commodities produced under different regimes of returns, Marshall never suggests that this kind of intertemporal externalities could or should be subjected to fiscal correction. This asymmetric treatment seems at first sight odd: although his tax/bounty schemes for increasing/decreasing returns industries inevitably imply some amount of interpersonal redistribution, he never goes as far as to suggest that taxation should have *explicitly* redistributive aims. Looking for an explanation, we have to go beyond Marshall’s generic concern for the unfavourable side effects of intrusive fiscal policies which has been recalled above. In the 1880 manuscripts emphasis is placed on a specific argument which, although not strictly utilitarian in itself, was put forward by such a utilitarian as Bentham – the argument of *security*, to which Marshall devotes considerable attention both in these notes and elsewhere (for example in the *Principles*, Marshall 1961 I, 197; 226, 229-30, and in the 1893 article “On rent”, *ibid.* II, 497).

Security means for Bentham immunity from pains and is, therefore, a necessary complement to pleasure (“Happiness consists of [...] enjoyment of pleasures, security from pains”, Bentham 1982, 74). Protection of security extends to everything which is instrumental in affording it, property included:

In the present period of existence, a man's being and wellbeing, his happiness and his security [...] are all dependent, more or less, in the first place, upon his *own person*; in the next place, upon the *exterior objects* that surround him. These objects are either *things*, or other *persons*. [...] Now in as far as a man is in a way to derive either happiness or security from any object which belongs to the class of *things*, such thing is said to be his *property*, or at least he is said to have a *property* or an *interest* therein: an offence, therefore, which tends to lessen the facility he might otherwise have of deriving happiness or security from an object which belongs to the class of things may be styled an offence against his property (*ibid.* 191-2).

The reason why this theme is so important in Bentham’s political thought is because it gives rise to a problem of balance between protection of security, hence of property, and the aims of equality on the one side, and of liberty – itself “a branch of security” – on the other (see Guidi 1991, 101, 111-4). Marshall is fully aware of this complex trade-off and makes it his own. “I care for security for property chiefly as a means to security for liberty, and I might be willing to give up a very little of it, if necessary, in order to increase a great deal the security of the well-deserving persons against extreme want” (1961 II, 497).

One of the central questions in the manuscript on utilitarianism is: “How far is Bentham right in regarding the secondary influence of security to be so great that it may not be made to yield to equality at all: indeed what is security?” (Whitaker 1975 II, 319). The link to taxation is straightforward. “Taxation [...] is a question of the relation in which the state’s right of property stands to the individual’s. Thus really the fundamental notion is that of property. [...] Any interference with property is *prima facie* unjust which will disappoint just expectations i.e. expectations which must be satisfied at the penalty of causing a feeling of insecurity of greater evil effects than the good that can arise” (ibid., 380). In the subsequent discussion security is made to operate through the dynamic terms of the social maximandum, as the alarm following on the announcement of taxes on large property and “the notion that they might be voted by people who escaped them – and so recklessly and perhaps corruptly” (ibid., 381), is argued to depress the incentives to accumulation and enterprise. Echoing a similar argument in Edgeworth (1877, 236), Marshall here comes to the conclusion that equalization of wealth through taxation would be inexpedient, as it would lead “to an increase in population, but no increase in happiness, and a diminution of (i) capital saved by the rich (ii) the means of pioneering on the part of the rich” (ibid., 381-2).

Yet, the constraint to equalization put by security is not absolute, but depends on historical circumstances. Marshall insists that it rests on the condition “that men are what they are, that they will not work energetically and accumulate [property] unless they have some privileges with regard to it” (ibid., 380-1). If Bentham asserted that the proprietary privilege must be absolute, Marshall observes that he was unusually “timid” on this point and relates his “extravagant dread of insecurity” to the fact that he was writing in a pre-revolutionary era. “Now we may reopen the question with more fortitude”, Marshall confidently asserts (ibid., and 1961 I, 760 n; II, 756). Although undeveloped in the 1880 manuscripts, this hint to a possible way out of unfavourable historical contingencies is enough to direct us back again to that major Marshallian line of thought which explores the plasticity of the ruling moral, legal and customary attitudes in connection with changes in economic conditions and in the organization of work and industry. Here again it is the task of the evolver to throw light on the tendencies, if any, conducive to that “ethical progress” which can loosen the constraint of security and give wider scope to the utilitarians of a more advanced age.

Probably the clearest statement of what Marshall exactly means by ethical progress is found in the lectures on American industry presumably read to the Cambridge Moral Science Club in 1875 (Whitaker 1975 II, 352 ff). Here ethical progress is described as the gradual discovery that rules that were thought to be as absolute as “rules of duty and of law” actually “had their origin in temporary exigencies of society”, so that with changing social and economic conditions they may become superfluous and, if they remain in force at all, change their status to that of dispensable “rules of etiquette and customs”. Differently said, Marshall saw ethical progress as a process of emancipation from “unreasoning obedience” to particular rules to an understanding of the “spirit which underlies them”, emancipation which leads to a higher power of discriminating between the truly ethical and the occasionally expedient (ibid., 373-4). There are hints that he believed property to be one of those apparently absolute rules which in a conceivable future state of society might become obsolete as the role they play in contributing to the keeping of social order is no longer required. This too is a theme which he may have derived from the utilitarian tradition, as exemplified by Edgeworth’s remark on “the utilitarian proprietor [who] holds his property as tenant-at-will only of the general good” (1877, 236), and even by the practice of life of a committed utilitarian such as Sidgwick who, according to Marshall’s testimony, “held all in trust” (Whitaker 1996 II, 441). It comes as no surprise, then, that Marshall too agrees that “every right-minded man must regard himself rather as the steward than the owner of what the law calls his property”, but immediately adds that any proposal for weakening proprietary rights on the basis of this principle would be premature in the present conditions (Marshall 1885, 173).

More generally, it seems clear that for Marshall it is only through the rooting of a principle of social responsibility in the private individual's conscience that the constraint of security can be loosened and utilitarianism carried forward to a more advanced stage in which policy plans aiming at substantial amelioration of the living conditions of the working poor would no longer hinder the capacity for growth of the country but on the contrary reinforce it. In fact, welfare and social policies would at this advanced stage merge into each other. Marshall's well-known utopia of the "economic chivalry" (Pigou 1925, ch. XVII) by and large corresponds to the foreseeable outcome of such an advancement: it is an ideal society in which the main incentives to economic activity are in the form not of property of material wealth but of visible signs of the public acknowledgement of a person's social merits. This utopic world is still utilitarian – "in such a world there may be a treatise on economic theory very similar to the present" (*ibid.*, 159; reproduced verbatim in *Principles*, App. D) – chivalry simply meaning the prominence of public interest among the private individual's motives for action, the internalization of all visible externalities. A straightforward consequence of this is also the reduced space left to public intervention. Marshall's utopia of a society based on advanced utilitarianism is also the utopia of a society in which the role of government and recourse to welfare policies would be much diminished. Individual responsibility would mend those market failures for which present-day imperfect society needs the government to enact welfare policies while at the same time confining these within narrow constraints of acceptability. Not so paradoxically after all, Marshall uses the utopistic model to argue that the more radical welfare policies can be, the less urgently are they needed.

5. Industrial relations as agents of ethical progress

While utopia is a long way off, any change in the ruling moral attitudes which reinforces the sense of social responsibility may be evidence of a step in the direction of the emancipation of welfare policy from its present constraints. For Marshall, however, changes of this kind are beyond anybody's power of control: philosophers and the intellectual elites cannot possibly steer them. Ethical progress is basically conceived as an unintentional product of evolution, the "understanding of the masses" slowly reacting to changing circumstances in ways which scholastic education can affect only slightly (Whitaker 1975 II, 374). It is a characteristic tenet of Marshall's that the education of character is to a large extent a side-product of the individuals' dealing with the ordinary business of life: "the influences of association and habits of action to which a man is subject during most of his waking hours during at least six days in the week, are, generally speaking [...] incomparably more powerful in the formation of his character than any other influences". Thus, the mass of workers form their ways of thinking under the influence of their daily work, reflecting both its technical content and the web of human relations connected to it. If there is such a thing as a potential for ethical progress, this must in the end be found in "the character and conditions of the industry of the country" (*ibid.*, 354, 357, 374, 376-7; see also 1961 I, 1-2).

Given this gradualist ethical perspective, founded on the concrete institutions of the industrial society, one understands why, in all his enquiries into the British system, Marshall always keeps an eye on those features which seem likely to affect the ruling attitudes of the working population in the direction of relenting the grip of proprietary egoism and preparing the way for an advanced utilitarianism. Two signals noticed in the context of the discussion of the role of trade unions and of labour disputes stand out in this connection. They both point to the formation of habits of utilitarian calculus corrected for the consideration of other people's utility, and indicate that a tendency towards the internalization of externalities is setting in, at least in certain sectors of industrial society and for certain kinds of transactions.

The first signal is the supposed acceptance of the principle according to which one should not want to reap a benefit if a consequence of this is the inflicting of greater damage on others. This is mentioned as one of several arguments in an imaginary dispute between workers and employers in a

mid-1870s manuscript on trades unions (Whitaker 1975 II, 347-8). It is then framed in utilitarian language in a passage of the *Economics of Industry* (Marshall 1879, 211-1) substantially reproduced in the *Elements of economics of industry* about fourteen years later. To quote from the latter text:

The world is not ready to apply in practice principles of so lofty a morality, as that implied in many socialistic schemes, which assumes that no one will desire to gain at the expense of an equal loss of happiness to others. But it is ready, and working men among others are ready, to endeavour to act up to the principle, that no one should desire a gain which would involve a very much greater loss of happiness to others. (Marshall 1894, 410)

“Readiness” to apply this principle means that the internalization of a class of negative externalities related to market power may be expected to become common practice among organized workers. It also means that interpersonal comparisons of utility are within their reach, and that Marshall expects these comparisons to be made according to the same rules that he as a professional economist follows in discussing the effects of wealth redistributions (see sect. 3 above): for example, “it would not be reasonable to ask working-men to abstain from a measure which would give them a net gain of £1 at the expense of a loss of 30s. to profits” (ibid.). The nature of this principle is definitely ethical. In a similar example, with the workers determined to initiate an action which threatens to bring about a negative externality for future workers, there is a sharp contrast between “prudence”, which advises the workers to reap the immediate pecuniary gain, and the “sense of duty” which instead advises them against in consideration of the “ultimate and permanent interests of the union” (the latter may stretch beyond the life span of the individuals, Marshall 1879, 211). Yet this truly ethical principle makes of each individual who applies it the like of a utilitarian social planner in the limited circle of his or her social milieu: this is a step towards that ideal utilitarian society in which public concern becomes each individual’s private concern. It may be noted that Marshall’s concept of “compromise benefit” in the theory of monopoly (Book V, chapt. XIV § 7 of the *Principles*, anticipated in manuscripts of the early 1870s, see Whitaker 1975 II, 285) provides a similar example of a private individual acting as a social planner in a completely different context.

A slight modification of the previous examples of trades unions behaviour prepares the transition to the second signal noticed by Marshall. Independently of the damage inflicted on others, one may reflect that if an intended line of action, from which a gain is expected, were to become the universal practice, the ensuing state of affairs would be worse than the present one both for oneself and the others. In the above mentioned texts the examples relevant to this case are those of aggressive or restrictive practices undertaken by particular unions, and liable to bring about generalized losses in wages and employment in the long run if all trades were to adopt them. Now trades unions are learning through their own experience, Marshall maintains, to submit their policies to a principle which, although presented in words which deliberately echo the Kantian categorical imperative, is only partly of an ethical nature: indeed, trying to conform to this principle is qualified as “an exercise of a far-reaching *wisdom which verges on morality*” (Whitaker 1975 II, 366, my italics). Here is its full formulation:

Every ethical school admits that if not a source, yet at least a powerful aid, of the moral sentiment is the reflection by the individual that there must be something amiss with any course of action the general adoption of which by those around him would cause him injury greater than the direct benefit that he would derive from adopting it himself (Whitaker 1975 II, 366)

Here, no stark contrast between pecuniary interest and sense of duty but, instead, an appeal to rational thinking (a “reflection”) based on a more thorough and far-reaching view of one’s own interest, a view which leads the agent to understand that desisting from an individually profitable action now may contribute to avert universal future evil in the future. Yet an ethical element is still there, as nothing guarantees that the others will exercise the same self-restraint. The situation would nowadays be classified as a typical prisoner game situation: what Marshall is saying is that responsible players should refrain from adopting the dominant strategy not on grounds of any explicit or implicit agreement to that effect but because the disaster which would result from

everybody adopting it is sufficient evidence of its not being the “right” thing to do. Rational thinking and sense of morality converge to the conclusion that private interest is not worth being pursued when it is self-defeating.

Agents able to act in accordance with this principle are utilitarians in an even more refined sense than those who simply internalize externalities: they can internalize *virtual*, not only actual externalities, helped in this by the rational consideration that if they did not do so they would be their own victims. Seen as a recommendation for a social planner, the principle operates in a way similar to a compensation principle, in the sense that the choice between two states of affairs – A in which one person does action *a*, and B in which nobody does it – is decided by the preference between B and a third state C in which everybody does *a*. The rule is, if B is preferred to C then B should be chosen instead of A, no matter what the preference between A and B is. We may note in passing that this rule obviously violates Arrow’s condition of independence of irrelevant alternatives (and possibly others, e.g. the Pareto principle – if everybody prefers A to B). But then, also the interpersonal comparisons which take such an important part in Marshall’s discussion of welfare problems do not find any room among the conditions which an admissible social welfare function should satisfy according to Arrow. And this is simply evidence of the fundamental divergence of purpose between Marshall’s attempt to extend the scope of utilitarian reasoning to qualitative and ethical considerations and Arrow’s program of “informational austerity” in founding a theory of social choice.

The merit for the supposedly widespread acceptance of the two principles is attributed by Marshall to trades unions’ success in self-discipline and in instilling the impulse to act in harmony with “the actions, the sympathies, and the interests of the society amid which [the individual worker] spends his life” (ibid., 375) into their members. What little bit of ethical progress this represents is therefore the product of the British model of industrial relations, a well-organized and efficient institutional body which serves also as a training ground for moral education. Marshall however was too imbued with evolutionary ideas to fall into the trap of thinking that there exists such a thing as a best model for governing the complex interaction between mental attitudes and external conditions. During his visit to America in 1875 he came into direct contact with a radically different model of social and industrial organization, an experience which prompted a profound meditation (in the above mentioned lectures on American industry) on the factors of ethical growth acting through the institutional patterns of the two countries. “The American working man is almost debarred” from the education to joint action and social responsibility provided by the English unions, and yet the way life and labour are organized in America provides him with other lessons of moral worth, in particular the somewhat opposite impulse to put the judgement of independent reason before the tendency to conform to the surrounding habits and customs (ibid., 366, 375-6). Thus, the factors of ethical growth may run one against the other and any comparison between different ways of combining them into institutional systems is better left open.

In bringing this line of reasoning to a conclusion Marshall makes an intriguing remark on how “a discussion of the relations in which the industrial phenomena of a country stand to its ethical [...] may bring forth [...] suggestions of deeper interest for the Utilitarian” (ibid., 377). In the light of the reconstruction we have attempted in this paper, we are justified in reading this passage as an abstract of a sophisticated position on welfare economics and utilitarianism which we may express, still briefly but more explicitly, as follows. The interaction of industry and morality brings about continuous gradual changes in both the means to utility and the capacity to sense it; it is this – should we say – co-evolutionary path which should be the concern of a utilitarian wishing to emancipate welfare-enhancing policies from the minor role they inevitably play in present-day social organization.

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