12 Degeneration in the Marshallian Research Programme

Since first examining the nature of the Marshallian research programme and suggesting some inherent factors which could ultimately lead to its collapse, in Chapter 5, subsequent chapters have followed the development of Cambridge macroeconomic analysis up until the late 1920s. What this development shows is an increasing, but implicit, rejection of the basis of the Marshallian microeconomic schema (the substantively rational part of the programme). As suggested in Chapter 5, it is to be expected that this should have exacerbated the problems of inconsistency within the overall Marshallian research programme. In reviewing Robertson’s *Banking Policy and the Price Level* (1926) it has just been shown that when Harrod suggested dropping the concept of justifiable fluctuations Tappan’s defence was to explicitly link this part of Robertson’s theory to the Marshallian marginal analysis. In this sense, as well as in retrospect, *Banking* took explicitly Marshallian macroeconomic analysis about as far as it could go. If the theory was to make further substantial steps forward, some elements of the Marshallian system had to be abandoned. Of course the Cambridge Tradition did not suddenly end with a blinding flash in the Keynesian revolution, nor was the period from the late 1920s solely concerned with the transition directly to the *General Theory*. But, in terms of the development of a strictly Marshallian macroeconomic theory, there was little new. For example Pigou’s *Theory of Unemployment* (1933) mainly expands on Marshall’s work and his own in *Industrial Fluctuations* (1927) – it is perhaps most interesting for its treatment of what we would now call the natural rate of unemployment. It is typically Marshallian even to the extent of teasing out all the ifs, buts and other things which are equal – but in the end sees unemployment as a complex interaction of short-term factors which ought to be eliminated by the market in a sufficiently long (and stable-state) period.

If, then, the Marshallian programme had reached the point of no return, we should expect to find mounting criticism and even possible rejections of the less progressive, even degenerative, aspects of the
programme. There might also be some drawing away from the brink in the development of the macroeconomic theory in order to avoid confrontation within the programme (such as in Tappan’s defence against Harrod’s suggestion about appropriate fluctuations). Thus there might be a shift of emphasis away from a simple extension of Robertson’s analysis towards an alternative approach attempting to minimise, or dispose of, the problems posed by the unwanted part of the Marshallian programme. Robertson’s *Banking Policy and the Price Level* was also clearly not an easy work for everyone to understand at the time as Kahn’s (1984) comments make clear (pp. 62, 171 and 175).

This chapter attempts a brief review of these other issues: the impact of the First World War on the climate of opinion about economics and the problems of reconstruction; attitudes to *laissez-faire* and marginal analysis in the late 1920s (much of which is already well known and thus need not be dwelt upon); and the theoretical developments after the publication of *Banking*, especially Keynes’s work towards the *Treatise* (1930).

12.1 THE IMPACT OF THE FIRST WORLD WAR

The War had a very great disturbing effect on society, both in its social and economic relations. On the social side the most obvious effect was the massive loss of life, the waste of a generation. There were Zeppelin raids and rationing. In the City there was a moratorium of debts and a suspension of the gold standard: these were considered by Keynes in two articles for the *Economic Journal* (1924i and ii). And of course there was much greater state control over industry and capital.

Thus in the preface to his *Study of Industrial Fluctuation* (1915) Robertson felt able to state:

public opinion is perhaps likely to be in some ways more receptive now than ever before to a searching analysis of industrial problems, and less suspicious of drastic change. Necessity has destroyed many shibboleths and torn down many veils. One of the most formidable obstacles to currency reform – the alleged impossibility of persuading the well-to-do Briton to live without clinking gold sovereigns in his pockets – vanished in a weekend. The sacred machine of high finance has been shown at once infinitely vulner-