The Peculiarities of Labor Markets and The Residuum

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The link between Alfred Marshall's central concern about the problem of poverty and the Residuum and the analytical attention he gave to labor market peculiarities is a neglected thread in the development of his work. While it is well known that the poverty problem was central to Marshall's study of economics, the degree of his concern is not evident in the Principles, even though the changes made in successive editions do reflect the continuity and the escalation of his concern. The first (1890) edition makes only a brief and, in fact, exclusionary footnote mention of the Residuum. Specifically, "We have not here to consider the case of Residuum, many of whose are in so unwholesome a condition that they could not live in a long day do the equivalent of two hours of work... The lives of all these people are mistakes for which some more far-reaching remedy is needed than a mere reduction of their excessive hours of labor" (p. 731).

The second (1891) edition, in which alterations were made to address more fully "the distinguishing characteristics of the broad problem of distribution as contrasted with questions relating to the values of particular things..." provides a textual identification of the Residuum (p. 737) in connection with the influence of progress. He observes that progress has done much to ameliorate poverty. Nevertheless, there still remains a great and in consequence a growing Residuum of persons who are physically, mentally or morally incapable of doing a good day's work with which to earn a good day's wage; and...[they] obtain neither for themselves nor their children the means of living a life that is worthy of man" (p. 737).

By the third edition (1895) the problem of the Residuum is given further prominence: it is now specifically identified in the Introduction as the "chief cause" of poverty (p. 2). "Now at last are we setting ourselves seriously to inquire whether it is necessary that there should be any so-called lower classes "at all" that is, whether there need be large numbers of people dosed from their birth to hard work in order to provide for others the requisites of a refined and cultured life; while they themselves are prevented by their poverty and toil from having any share or part of that life" (p. 3)...."the answer [to the poverty question] depends

*Temple University, Philadelphia, Pennsylvania, 1912. The comments of John K. Whittaker and A.W. Coats on an earlier draft are much appreciated. Thanks are also due Professor Coats for calling my attention to literature relating to the endless discussions about the poor throughout the period of Marshall's life which no doubt, affected not only his conception of the problem but also the treatment he accorded it.

in great measure upon facts and inferences, which are within the province of economics; and it is this which gives to economic students their chief and their highest interest" (p. 4). The passage referenced above from the second edition (p. 727) is retained in the third edition (p. 730) while the fourth edition (1907) adds the observation that the Residuum is a class requiring "exceptional treatment" (p. 714) and offers specific proposals in a long footnote (pp. 714-716). Identical passages are carried over into the fifth and subsequent editions where they are located only eight pages before the end of the book's last chapter.

To those unfamiliar with Marshall's early writing and lectures, his consideration of the problem of the Residuum so late in the book, sandwiched between his warnings about the evils of collectivism and the adverse effects likely to follow from "the transfer to the state [of] the ownership and management of land, machinery and other agents of production" for the purpose of achieving a more equal distribution of income, may make his concern about the poverty problem seem almost an afterthought. This textual placement of the concept of the Residuum also obscures the relationship between Marshall's examination of the "peculiarities" of the labor market, to which he initially gave consideration in the second edition of the Principles (Book III, Chapter 4) and his analysis of the poverty problem. This inquiry into labor market peculiarities is a bridge between his concern about the poor on a humanistic and moral level and the analytical consideration which we wish to explore. It is thus an object of this paper to establish that Marshall's inquiry into the peculiarities of labor markets in the Principles is the link between his early concern about the poverty problem and the remedial policies he recommended later in his life. It will also be argued that Marshall's treatment of the problem of poverty reflects his awareness of the methodological difficulties inherent in making a transition from problem analysis to problem solution. The extended section of the Principles in which Marshall emphasized the limitations of his "method of analysis" for addressing the problems of the poor is less well remembered than the analyses of Book V, which Marshall himself was inclined to downplay.

As with the interpretation of the rest of Marshall's work, the task of tracing the development of his ideas about the Residuum is complicated by the inherent difficulty of reconciling changes in his ideas and issues of concern over his intellectual lifetime. However, there is no dispute that the problem of poverty ranked high among his concerns from the beginning to the end of his long professional life. The dispute is about the nature of his thought and the intellectual context in which Marshall considered it. It extends, for reasons that will become apparent, beyond the problem of the Residuum and the necessarily related matter of trade unions and Marshall's attitude toward socialism. Thus it is necessary to touch, at least briefly, on earlier work (Patridos 1975, Tullberg 1975, Coats 1968, 1976), which also notes a change in attitude, or at least in the emphasis of Marshall's work, as manifesting itself around 1885. Tullberg (1975) attributes to J.M. Keynes the view that Marshall's paper to the Industrial Remuneration Council, shortly before he took up his professorship at Cambridge, evidenced "the most important progress of [Marshall's] ideas between 1879 and 1885. She interprets this paper as signaling that "For Marshall all flirtations with Socialist ideas were over" (1976, p. 73).
Costs (1967) emphasizes Marshall's sensitivity to the general lack of estee which was accorded to economics as a discipline at the time of his Cambridge appointment and suggests that the dependence of Universities and colleges generally on financial support might have caused Marshall to exercise care not to offend those who held middle-class values. Patrides (1973) assesses the change in tone as evidence that Marshall had become disenchanted with the greater militancy of the "new unions" which came to dominate the English industrial scene in the 1880's.

I share the view that Marshall's later 1885 writings reflect an important change in the progress of his ideas. But the critical piece of this connection is, I think, not the paper on poverty which Marshall presented to the Industrial Remuneration Council, but rather his inaugural lecture entitled "The Present Position of Economics" given after his election to the Professorship at Cambridge, succeeding Professor Fawcett. This paper clearly reflects that Marshall had arrived at a new phase in his intellectual development rather than a new political and social perspective. His first phase as an economist, during which he abandoned the Anglican sermon thought of too much as to so many ends, and suffered the consequences of poverty, was long behind him. He had made substantial headway in perfecting what he termed an "organon" or "machinery of universal application in the discovery of a certain kind of truth" (Memorials, p. 156). He was also becoming fully cognizant of the limitations of his engine of analysis for addressing the problems which brought him into economics. His perception of these limitations is, intellectually speaking, closely related to his recognition of the peculiarities of labor markets and the impediments they present when one undertakes an extension of the straightforward principles of commodity markets to labor markets. Marshall's inquiry into the peculiarities of labor markets in the Principles is thus the link between his earliest inquiries and recommendations about the poverty problem and those which he made later in his life.

Inquiries Before 1885 into the Poverty Problem

Marshall's paper, "The Future of the Working Classes," was read November 25, 1873, to the Cambridge "Reform Club" and was privately circulated in 1874. This was his earliest published work, other than a review a year before of Jevons' "Theory of Political Economy." This paper, which clearly reflects the influence of J.S. Mill, developed the general theme that "it is not only a question of nature that some persons are unable to live in luxury. Even when this lecture was subsequently delivered to women students at Newnham college the same year, the theme was further elaborated and included some consideration of the way in which the distribution of income might be ameliorated by cooperative organizations in which workers own their capital and work under elected managers. Two papers contributed to the socialist journal Bees in 1874 favored the unification of various local groups of farm workers. Economics of Industry (1879), most of which was written in 1877, was a sanguine diagnosis of unions as an unfortunate legislation of competition and conditions of employment, while also serving as appropriate vehicles for strengthening worker self-reliance, discipline and character. This inquiry, following Mill, adopts the concept of a "wages profit fund." The change from the historically older wages fund - led Marshall to the conclusion that a rise in the wages of one group of workers, which he considers unlikely in the absence of a worker combination, need not cause wages to fall in other trades, provided that increases are based on increased worker efficiency so that production is not penalized. He also deplores the poor example set for workers by business men who combine to achieve high profits.

His three lectures on Progress and Poverty, whose title was evidently adopted from Henry George's book, provide an historical perspective about the experiences of the English working class. He notes, in particular, that workers fared badly when "a century ago we took off the last shackles from that fierce monster - competition [which] was necessary for our own freedom" (Marshall 1882, p. 178). The paper class then emerged as the by-product of competition and market freedom. Competition created new wealth in which the working class did not share. In Marshall's words:

"The new wealth was spent at too early an age. The working classes were not for the time being in a position to speak, producing machines.... The unshackled monster (competition) was terrible to deal with; but we are learning fast how to manage his."

There is thus a perceptible change in tone throughout these three lectures, though certainly not in Marshall's attitude, about the urgent need to address the poverty problem. Specifically, Marshall is insistant that recent advances in "knowledge and freedom in vigor and wealth" are reflected in easier access to food and raw material. The point of the first lecture, was thus to evaluate the relative improvement in the real income of working classes of England and Wales.

The paper population, Marshall argued, was no longer one-half as great, in proportion to the whole, as in earlier "dark times." In the average purchasing power of the wages of all classes of labor had become three times as great as it was even in the century. Marshall attributed the improvement which came after 1830 partly to the Factory Acts, the repeal of The Corn Law and the New Poor Law. But even more, he attributed improvement to the self-reliance of working men themselves. There is a letter to a Reverend L. Llewelyn Davies included in the Memorials (p. 373) which particularly emphasizes the essential role of the poor in solving their own problems after "the worker's position had improved at a lecture delivered in 1877 in Tabor at Christ Church which Marshall himself attended (Henry George 1884)."

Marshall's 1885 speech to the Industrial Remuneration Council strikes much the same note as his lectures on poverty in its emphasis on the relative proportion between higher and lower grades of labor. Finally, in
his concluding paragraph, Marshall intoned his oft to be repeated hope for the salutary effect of charity to diminish the number of outcasts in society and increase the number who can earn a reasonable income and have the opportunity of living, if they will, a noble life.

If this speech and his lectures on poverty reflect a change in Marshall's thinking, I view the change as being chiefly in his choice of language and emphasis—a reflection perhaps of the audience he was addressing. I do not think it can be interpreted as a loss of sympathy on Marshall's part for Socialist causes and concerns, though I doubt he ever harbored a tendency toward socialism in a political sense. The argument (Oates, 1987) that Marshall's elevation in rank made him more circumspect when it came to making public utterances that might offend those on whom universities were financially dependent seems entirely reasonable. But these observations do not, in my view, get to the heart of the intellectual change which Marshall had undergone by 1888. The critical aspect of Marshall's progress by 1888 was in his appreciation of the relevance of epistemology and methodology to the study of economics. Surely, the highlight of his inaugural lecture is his emphasis, first, on the importance to economics of "introducing systematic and organized methods of reasoning" (Memorials p. 164) and, second, his observation that "having done its work [the engine] 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" (p. 164-165).

There is no single problem to which Marshall's caveat about the limitations of his theoretical method apply with greater force than it does to the problem of the Residuum. He identifies the peculiar characteristics of labor markets but never does he undertake to deduce general laws about the way in which they will work themselves out when there is "competition" or "monopoly" or "increase in demand", because progress and evolution are both "likely to alter man's mode of thought and behavior", Marshall considered their impact on wages as lying beyond the scope of his engine of analysis.

It is indeed ironic that the perfection of Marshall's extraordinary engine of analysis, what most readers take to be the essence of The Principles, overshadows and obscures Marshall's own awareness and his efforts to emphasize that there are problems which economic science is incapable of addressing. He emphasizes that as "the science passes through different stages of development, the laws which apply to one stage (of learning) will seldom apply without modification to their later stages. The laws of a science must have a development corresponding to that of the things which it treats" (1885, reprint in Memorials p. 164). It is impossible that Marshall could have reached this level of methodological awareness without carrying its implications over into his treatment of the poverty problem and related questions.

Inquiries After 1888

Marshall's appreciation of the limitations of his engine of analysis for addressing the poverty problem no doubt underlies his cursory treatment of trade unions in the first edition of the Principles. This edition already included his analysis of joint demand, which leads to his identification of the four conditions under which "the supply of a factor can raise its price. Yet, the possible role of trade unions in this connection is passed over with the statement that the Principles is "not a fitting place for addressing this matter. In the fifth and subsequent editions he has the following to say about trade unions: "a full appreciation of their abuses and results lies beyond the scope of the present volume: for it must be based on a study of combinations in general [and] to industrial fluctuation and of foreign trade". (Principles 1:702)

This cursory treatment has been interpreted (Petrides, 1973, p. 175) as reflecting an ambivalence, not present earlier, in Marshall's attitude toward trade unions, possibly attributable to the greater militancy of the "new unionism" of the 1880's. Marshall did, indeed, recognize that unions are often harmful to the interests of working people. But the probable reason for his failure to incorporate an extensive examination of the potential which unions may have for affecting labor market outcomes, either for good or for ill, is in his recognition of the limitations of the static method developed in Book V for addressing changes in man's environment and, possibly, changes in the progress of man's nature, which he regarded as "the centre of the ultimate aim of economic studies." (1888, p. 43).

Marshall's methodological awareness is perhaps most clearly expressed in his 1899 Economic Journal paper "Distribution and Exchange" in which he undertakes to explain more specifically the relationship between his Books V and VI. In explicating his views on the nature and limitations of the so-called "Statical" method he specifically touches, once again, on the problem of poverty and its relationship to progress. He tells us that the essential concern of Book V was to develop theoretical constructs to "order and arrange knowledge" about the prices of flows of goods, labor and capital and their oscillations about a centre of equilibrium. He continues with the observation that Book VI has little to do with examining equilibrium tendencies of a mechanical sort, because it seeks to take into account what Marshall refers to as "progress", "evolution" or "organic growth". Biological analogies are then preferable to mechanical analogies: "The mecca of the economist is economic biology rather than economic dynamics" (1899, p. 23).

The approach of Book VI was intended to reflect economic life at the time it was written. In contrast with the conditions of life that prevailed even up to the time of Mill, the England of the late 19th century was no longer confronted with the difficulty of obtaining raw produce. Thus the "black shadow" of possible famine that still haunted Mill had, Marshall thought, been lifted through the influence of progress. "The chief difficulties of economic science are now in another direction, they arise out of the good (rather than from the evil) forerunners of mankind. The increasing command which progress is giving us over the forces of nature is altering the conditions of work and life rapidly and in many ways." (1899, p. 42).

Examination of demand and supply as crude forces pressing against one another and tending toward a mechanical equilibrium will not do as a method
for studying these changes. Marshall views the forces at work as organic forces of life and decay which are not appropriately conceived in terms of a mechanical analogy. It was thus the intent of Book VI to explore the difference between the distribution and the exchange side of value which derives from progress which Marshall takes to mean "the growing power over nature". It is Marshall's concern to investigate the general causes which govern the distribution of the ever-larger surplus which man is able to wrest from nature among the people that comprise society.

The Peculiarities of Labor Markets

The conventional wisdom has it that the income shares flowing to the factors of production are, in essence, explainable in terms of the same principles that govern the determination of values in the economy's commodity markets. Whatever its origin, this conventional wisdom is not attributable to Marshall. Much of his intellectual effort is directed toward explaining the uniqueness of factor markets - particularly as they relate to those in which the remuneration for human effort is established. His preliminary survey of distribution, which introduces Book VI, begins with the following statement:

"The keynote of this book is in the fact that free human beings are not brought up to their work on the same principles as a horse or a slave. If they were, there would be very little difference between the distribution and the exchange side of value; for every agent of production would reap a return adequate to its own expenses of production with wear - and tear etc. at all events after allowance had been made for casual failures to adjust supply to demand."

While, Marshall is, of course, concerned with examining the underlying determinants of all the factor shares, he is particularly attentive to explaining laborers' share by examining what he terms "the peculiarities of labor markets." He thereby lays the analytical groundwork for explaining the "perpetuation of the Residual, Marshall's examination of the adverse effect which labor market peculiarities exert on that sector in which the unskilled offer their labor reflects a different level of epistemological discourse with respect to the poverty problem than is evident in Marshall's pre-1885 writings. Much as Marshall rallied against the socialists in his Lectures on Progress and Poverty, because they did not understand economic science, the fact is that his own effort to address the poverty problem proceeded on essentially the same epistemological level. Arguing for the passage of the Education Act of 1870 he noted:

The difference between the value of the labour of the educated man and that of the uneducated is, as a rule, many times greater than a difference between the costs of their education. If the difference between the value of the work done by a good breed of horses and a bad one be much greater than the bad one? But no individual reaps the full gains derived from educating a child, from taking a step towards exploiting a race of uneducated labourers by a race of edu-

cated labourers. Still, if the State works for this end, the State will gain. If we all work together for this end, we shall all gain together. (Memorials, pp. 117-118).

His inquiry was elevated to a higher methodological plane only after he undertook to relate his own organon for discovering knowledge to the problem of explaining the progress of the working class and the special problem of the Residual. His identification of the "peculiarities of the labor market" thus provides the analytical framework that was previously missing.

Chapters 4 and 5 of Book VI of the Principles are concerned with those forces acting on the supply of labor that lead to cumulative disadvantages in labor's bargaining position. Five peculiarities are identified. Section 2 addresses the special influence of the absence of what we would today call a capital market on the supply of labor. It is followed by a section which notes the inseparability of the worker from his services. The implication of this peculiarity is that the persons who assume the expense of raising and educating a worker "receive but very little of the price which is paid for his services in later years." A further peculiarity of the conditions under which labor is sold is that a seller of services has to be physically present in order to deliver them. Because this peculiarity surrounds the labor market peculiarities around the sale of his labor, a worker necessarily subjects himself to working conditions which are associated with his place of employment. His workplace may well be unwholesome rather than pleasant and his associates and his employer may not be to his liking. It is in consequence of the latter factor that section 5 notes that "In those yearly hirings which still remain in some parts of England, the laborer inquires what sort of a temper his new employer has, quite as carefully as what rate of wages he pays" (Marshall, 1924, p. 566).

Section 6 notes that there is a special disadvantage to labor arising from the fact that labor power is "perishable"; the time lost when a worker is thrown out of employment cannot be recovered. Moreover, workers cannot easily withdraw their services from the market because they have no reserve fund. While the advantage in bargaining is likely to be pretty well distributed between the two sides of a market for commodities, it is more often on the side of the buyer than of the sellers in a market for labor (pp. 335-356). "It is ... certain that manual labourers as a class are at a disadvantage in bargaining, and that the disadvantage wherever it exists is likely to be cumulative in its effects" (p. 599).

In short, it is the fundamental unevenness between buyers and sellers of labor - particularly labor of the nearest sort which underlies the existence of the Residual. Contrary to Adam Smith's expectation that because workers respond to the net advantages of their employment, such jobs might be expected to yield higher wages, Marshall argued that if work is such a kind that it can be done by those whose industrial abilities are of a very low order its disagreeableness will have very little effect in raising wages. The progress of science has kept alive many people who are unfit for any but the lowest grade of work. "They compete eagerly for the comparatively small quantity of work for which they are fitted, and in their urgent need they think almost exclusively of the wages they can earn.
they cannot afford to pay much attention to incidental discomforts, and indeed the influence of their surroundings has prepared many of them to regard the dirtiness of an occupation as an evil of but minor importance."

(Principles 1:658)

A further influence on the supply of labor is "the length of time that is required to prepare and train labor for its work and the slowness of the returns which result from this training." Unskilled workers are more limited than those with skills in directing their children into more remunerative trades. The majority of these workers have little perception about the causes that are likely to determine the distant future of the trades they are selecting for their children. "The majority assume without further thought that the condition of each trade in their own time sufficiently indicates what it will be in the future with the result that the supply of labor in any one generation tends to have earnings which conform to those of the preceding generation instead of improving." From Marshall's point of view, the most important of the peculiarities affecting the labor market in the long run is the time required to vary the supply of specialized labor. It is his expectation that not so much less than a generation elapses between the choice of a trade by a young laborer and his ability to reap the full results of their choice. (Marshall, 1924, Chapter 6, Section 2).

Marshall is particularly concerned to emphasize that the disadvantage which the seller of labor experiences derives not from the fact that the particular thing he has to sell is labor. It depends, rather, 'on his own circumstances and qualities' (1924, Bk. III, Chapter IV p. 569). Thus, the highest grades of workers, among them "successful barristers, physicians, opera singers and professionals generally as a rule have an advantage over those persons who purchase their labor." The advantage is shared, though to a lesser extent, by others who have at least a degree of power for concerted action and have been able to accumulate some reserve funds. Accordingly, Marshall observed, the iron law of wages, which was so important to the early English and French economists, generally does not hold in the modern western world. (1924, Bk. VI, Chapter II, p. 521). Wages have risen to sustain a higher level of wants for most workers, partly as a result of the initiative of human agents and partly as a result of their ability and willingness to increase their expenditures on rearing and training.

For a worker who has none of these advantages, the prospect is that he "will have to sell his labor for less than its normal value" (p. 569) ie, for less than the net value of his marginal product. The disadvantage, which is likely to be cumulative, lowers the labourer's circumstances to such a degree that they are lowered into the category which Marshall terms "the Residuum" of persons who are "physically, mentally and morally incapable of doing a good day's work with which to earn a good day's wage" (1924, Bk. VI, Chapter XIII, p. 714).

Even though Marshall postpones introducing the notion of the Residuum to the final chapter of The Principles (almost two hundred pages beyond his discussion of "the peculiarities of the labor market") the two are clearly related - the hiatus in his presentation not withstanding. When he notes in Chapter IV Bk. VI, that "many of the children of the working classes are imperfectly fed, clothed and housed and go to the grave carrying undeveloped abilities and faculties," he really had in mind the Residuum. The evil they experience, says Marshall, is cumulative because generation after generation will fail to realize, or have the power to develop the best faculties of their children. This observation and several others to the effect that "there are not many skilled trades to which the son of an unskilled laborer can get access" bears on the perpetuation of the Residuum.

Marshall's examination of the peculiarities of labor markets makes it clear that his consideration of the poverty problem had moved to a higher level of intellectual discourse than that which characterized his earlier "Victorian moralizing." By 1895 he had not only completed "the abstract reasoning which forms the backbone of the science" (Memorials p. 39) but had moved forward, by 1886, to the work he termed "recasting" because he "was gradually outgrowing the older and narrower conception of my book..." (1b). Thus, his inquiries were elevated to a higher methodological plane only after he undertook to relate his "engineer" for discovering knowledge to the progress of a whole social order. His identification of the "peculiarities of the labor market" provided the analytical framework that was previously missing in his argument with the Socialists and reflects Marshall's concern to achieve the objective, set forth in his inaugural lecture (1885) at Cambridge, concerning the importance of economics of "introducing systematic and organized methods of reasoning." (Memorials p. 164). Yet, by 1886 he was "recasting" in the sense of identifying when it is appropriate for the engine to retire: "Having done its work (the engine) 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 task 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" (1886, p. 164-165).

Methodological Perspectives After the Principles

The change in Marshall's methodology between Books V and VI which is reemphasized in his 1898 Economic Journal paper "Distribution and Exchange" reflects his awareness that the static method of Book V is not equal to the task of addressing changes in men's environment, and possibly changes in the progress of man's nature which are "the centre of the ultimate aim of economic studies." (1898, p. 64) It is impossible to harness the precise and elegant theory of commodity markets, either to address the behavior of

1Marshall's notion of the Residuum has much in common with the modern segmented labor markets concept of disadvantaged workers whose only access to employment is in the sporadically available "bad jobs" of the secondary market. (Doeringer and Piore, 1971)
labor markets or understand the phenomenon of distribution. The lack of symmetry between Books V and VI in the Principles, which the conventional wisdom has largely chosen to ignore, reflects Marshall's recognition of the limitations of the so-called Statical Method. The concept of Book V was to develop theoretical constructs to "order and arrange knowledge" about "the prices of flows of goods, labor and capital and other oscillations about a centre of equilibrium." Book VI, he continued, has little to do with examining equilibrium tendencies of a mechanical sort, because it seeks to take into account how "progress", "evolution" or "organic growth" may temper "the economic evils of our age."

It is largely because Marshall's recommendations for alleviating these evils are so scattered, not only throughout the Principles but in so many other places, including his correspondence, and interwoven with "Victorian moralizing", that their relationship to his identification of labor market peculiarities is obscured. Further difficulty arises because, after Marshall, economists chiefly embraced the rigorous analyses of Books III and V. Their selective study of the Principles quite neglected Marshall's insistence, clearly repeated in his 1890 Economic Journal paper that "the keynotes of the treatise, [is] the notion that economic problems are not mechanical, but concerned with organic life and growth. In combination with the following chapters on Scope and Method they [the chapters on the Growth of Free Industry and of Economic Science] claim to offer a view continuous with that of the classical tradition, but differing in the stress based on this element of organic life-growth" (p. 44).

It is precisely because Marshall understood the impossibility of a monograph capable of taking account of changes in man himself, his modes of life, thought and work that he did not undertake to knit together the interrelationships between the peculiarities of the labor market and his policy recommendations as they relate to the Residuum. He recognized that to attempt to do this is precisely to exclude not only many of the conditions of real life but also social changes in man himself. The economist thereby runs the risk that the result will be the production of "scientific toys" rather than engines for practical work" (Principles, 480-81). Yet the relationship between Marshall's policy recommendations concerning the Residuum and his inquiry into the peculiarities of the labor market are clear, though the actual connection between these has to be made by the reader.

Marshall's Policy Recommendations

Marshall's earliest writings make clear his awareness that the cycle of poverty persists from generation to generation because nothing effective is undertaken to interrupt it. The education of the children of the poor is clearly relevant; the economist has a clear concern about the practical problems relating to the expense of educating children and how it should be divided between the State and their parents (p. 216) from the national point of view, an increase of wealth in the child of the working man is as productive as an investment in horses or machinery (p. 235).

The human capital aspects of education as a family undertaking is also part of Marshall's thinking, though it is presented in conjunction with his usual Victorian obiter dicta about the place, duties, and sensibilities of motherhood in an industrial society. Specifically:

...in estimating the cost of production of efficient labour, we must often take as our unit the family. At all events we cannot treat the cost of production of efficient men as an isolated problem; it must be taken as part of the broader problem of the cost of production of efficient men together with women who are fitted to make their homes happy, and to bring up their children vigorous in body and mind, truthful and cleanly, gentle and brave (p. 564).

Marshall is at great pains to emphasize that the children of the lowest classes need to be made capable of earning the wages of performing skilled work, while the children of skilled workers need to be made capable of doing still more responsible work, though they are likely to lose by themselves into the ranks of the lower middle class (p. 718). The difficulties of accomplishing this goal are part of the cycle of poverty. Specifically:

...the investment of capital in the rearing and early training of the workers of England is limited by the resources of parents...[(p. 561)...in the lower ranks of society the evil is great...Many of the children of working-classes are imperfectly fed and clothed...they receive a school education which...goes...only a little way; they have few opportunities of getting a broader view of life or an insight into the nature of the higher work of business, of science or of art; they meet hard and exhausting toil early on the way...At least they go to the grave carrying with them undeveloped abilities and faculties...this evil is cumulative (p. 562).

Yet the evil is not insurmountable:

To the abilities of children of the working classes may be ascribed the greater part of the success of the free towns in the Middle Ages and of Scotland in recent times. Even within England itself...progress is most rapid in those parts of the country in which the greatest proportion of the leaders of industry are the sons of working men...the old established families have been wanting in that elasticity and freshness of mind which no social advantages can supply, and which comes only from natural gifts. This spirit of caste, and this deficiency of new blood among the leaders of industry, have mutually sustained one another, and there are not a few towns in the South of England whose decadence within living memory can be traced in a great measure to this cause (pp. 212-13).

Thus, Marshall emphasizes that among the most urgent "first steps"
toward reducing the Residuum is to insist on "regular school attendance in decent clothing and with bodies clean and fairly well fed." Parents should be warned and advised in cases of failure to provide these minimal standards. As a last resort, homes might be closed or regulated with some limitation on parental freedoms. The expense, Marshall notes, would be great, but there is no other need which so urgently requires "bold expenditure." The existence of our present lowest class is an almost unskilled evil; nothing should be done to promote the increase of its numbers, and children once born into it should be helped to rise out of it." (1924, p. 719).

Marshall was even so bold as to suggest that "progress may be hastened by the application of the principles of Eugenics to the replenishment of the race from its higher rather than its lower strata" (p. 248). Such measures are, in a sense, Marshall's ultimate solution to the problems of the Residuum, along with his willingness to see "public money flow freely" (p. 718) to raise the tone of human life.

It is because Marshall recognized that the price of labor is itself one of the determinants of the market value of its output, that he agonized about the so-called marginal productivity theory of wages. While he was prepared to grant that this theory threw "into clear light the action of one of the causes that govern wages" he nevertheless had major reservations about the doctrine that...

the wages of every class of labour tend to be equal to the net product due to the additional labour of the marginal labourer of that class....This doctrine has sometimes been put forward as a theory of wages. But there is no valid ground for any such pretension. The doctrine,...has by itself no real meaning, since in order to estimate net product, we have to take for granted all the expenses of production of the commodities on which it works, other than his own wages (p. 518).

Thus, Marshall comes very close to rejecting what became conventional economic doctrine on the ground that "wages are not governed by demand price or by supply price, but by a whole set of causes which govern demand and supply" (p. 522). Clearly on the supply side, these causes reflect the labor market peculiarities that underlie the lack of bargaining capability on the part of poor workers. Marshall was thus willing to consider the introduction of a minimum wage fixed by the authority of Government below which no man may work," and, typically, "another below which no woman may work" and that there be appropriate adjustments for the requirements of the family rather than the individual (p. 715). This recommendation is clearly related to his recognition that, given the peculiarities of the market for unskilled laborers, the central influence on the price of their labor is the size of the competing labor pool on which a strong employer, or several employers acting in concert, can draw.

Even though the assurance of a minimum wage raises the possibility of malingering and other abuses, Marshall expected compensatory benefits. This can perhaps be inferred from his observation that happiness in life, if so far as it depends on material conditions, begins when income is at least sufficient to yield the barest necessities. Subsequent increases beyond that minimum will increase happiness by about the same amount, wherever the income. This rough hypothesis leads to the conclusion that an increase by (say) "a quarter of the wages of the poorer class of benefit...would add more to the sum total of happiness than an increase by a quarter of the incomes of an equal number of any other class."

Marshall also looked with favor on the social gains which might flow from alternative arrangements for producing goods, he anticipated "valuable guidance...if some private persons, or joint-stock companies, or cooperative associations, would take a few careful experiments of what have been called "factory farms." In this plan...the machinery would be specialized and economized, waste of material would be avoided, by-products would be utilized, and above all the best skill and managing power would be employed, but only for its proper work (p. 652).

...as a rule the relations between employers and employed are raised to a higher plane both economically and morally by the adoption of the system of profit-sharing, especially when it is regarded as but a step towards the still higher but much more difficult level of free cooperation (p. 627).

Yet it is quite clear that Marshall is less than optimistic that one can rely on the free market system to undertake these alternatives. Indeed, he notes that..."the struggle for survival tends to make those methods of organization prevail, which are best fitted to thrive in their environment, but not necessarily those best fitted to benefit their environment..." (pp. 596-97).

No consideration of the poverty problem would be complete, without considering his much touted "economic chivalry" as a way of addressing the problem of the Residuum. His sentiment is well captured in his observation that the rich may do much, if they are devoted to public well-being; "to help the tax gatherer in turning the resources of the rich to high account in the service of the poor, and may remove the worst evils of poverty from the land" (Marshall, 1924, p. 719). Marshall entertain great hope for the social improvements that can be achieved as chivalrous rich men take up "industrious work for the public wealth." The country will flourish, says Marshall, if we can educate the wealthy to become more chivalrous persons. But, progress in this direction remains handicapped by the fact that "Unfortunately human nature improves slowly." Marshall believes it is easier for human beings to work well than to use wealth and leisure well.

When he wrote his essay on chivalry in 1907 he seemed less apprehensive

*Analogueously, Marshall maintains that the poorer classes have derived a greater real benefit from the economic progress associated with technology then is suggested by wage statistics. In Marshall's judgment the increase of well-being attributable to mechanical progress is obtained at a low cost (p. 717 footnote).*
about a positive role for government in social matters, both on the central and local level; though he remained vehemently opposed to collectivism; that is, to state ownership and management of the agents of production. His confidence in the abilities of government to perform effectively was greatly influenced by John Stuart Mill's commitment to the essential principles of Socialism while at the same time holding to those of individual freedom (Marshall, 1907, p. 357). Looking back to an earlier time he notes the corruptness of government appropriately led Smith "to look with suspicion on those who invited the government to new enterprises for the public welfare: for their real motive was generally to increase their own gains, or to provide easy and well-paid posts for themselves or their relatives." But since Smith's time, "Parliamentary reform, the spread of education and the Wesleyan revival have "cooperated with technical progress to enlarge the scope for the beneficial intervention of government..." The public is now better able to check abuses of power and privilege in ways which were impossible in the days before general education was widespread and when the time required to earn a living left little surplus energy. Thus, says Marshall, "the public can now wake up into many public undertakings which would, in bygone days, have been unworkable or been subjected to selfish and corrupt purposes. The range of opportunities for successful public undertakings is perceived as being so great that Marshall offers a new interpretation of laissez-faire. "Let the state be up and doing" (Marshall, '87, p. 356). Most of all let the government "arouse itself to do that work which is vital, and which none but Government can do efficiently (p. 356).

Concluding Comments

This paper has been concerned chiefly with establishing the analytical relationship between Marshall's inquiry into the peculiarity of the labor market and the Residuum. Their relationship offers the opportunity to further explore "the concealed crevices" of Marshall's "rounded globe of knowledge," chiefly with a view to understanding Marshall better, but also with a view to learning how the effectiveness of our discipline might be improved by studying the Principles in the context which he intended, and by adopting his own caveats against constructing models that are merely "scientific-toys." Thus the change which becomes apparent in Marshall's work around 1885, and which others have interpreted as reflecting a shift in his attitude toward trade unions and as marking the end of his earlier sympathy for socialism is here attributed to his own greater appreciation of the change in the mode of knowledge acquisition that must occur as a discipline moves forward.

It was through the analytical tools developed in Book V, which was the kernel from which the rest of the Principles grew, that Marshall was able to achieve a rigor of thinking that other well-intentioned reformers lacked. His identification of labor market peculiarities is, essentially, a recognition of the way in which supply principles relate to various classes of labor market participants: the Residuum among them. The ability to harness the precise and elegant theory of commodity markets to make it serve in understanding labor markets was clearly apparent to Marshall and repeatedly emphasized by him. He recognized that he was dealing here with problems that lie beyond economic analysis. Given Marshall's background and outlook he fell back on moralizing where analysis could not reach. But it is important to note that he never substituted moralizing for analysis; for Marshall moralizing filled the vacuum created by the limitations of theory. We are not obliged to follow suit. We are obliged, however, to respect his caveat about the use to which his engine can be put, and that the really critical problems of economics may well lie beyond the grasp of the static method - what we today call equilibrium analysis.

When viewed from a policy perspective, Marshall's approach to the poverty problem was essentially the same after 1885 as before 1885 with emphasis being given chiefly to measures like education, housing, sanitation and other measures which would help the lower classes help themselves. The significant change after 1885 in his approach to the poverty problem lies in his enhanced methodology of awareness concerning the power of economic analysis to address "present evils" the greatest of which is lowering the character of workers. The solution to the cycle of poverty is recognized as lying outside the economic system itself, in the engine of analysts on which we rely to approach the simpler problems of commodity markets will not serve when it comes to addressing the problems of poverty. The former is that, in discarding Marshall's moralizing as inappropriate to our discipline, one has been lost of the fact that moralizing was injected only where theory was powerless to reach.

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Eastern Economic Journal, Vol. XII, November 2, April-June 1986


"What is capitalism?" is a big question, and it takes intellectual courage to tackle it. Robert Heilbroner's answer is widely interdisciplinary, drawing on anthropology, history, psychology, political science and sociology, as well as on works by myriad economists. Yet its focus remains sharp, and the various parts fit together well. There is no trace of the looseness which may have been expected to beset so ambitious a project. Heilbroner describes himself as "only interpreter, or perhaps synthesizer" (p.11). He certainly is that, but the "only" is unnecessarily modest. This book presents that extremely rare commodity: synthesis of social science at its incisive, tight-knit best.

What constitutes the "nature" of any social system? Chapter one discusses the notion of a core of determinative forces and behavior-shaping relationships, forces and relationships that are essential for a certain type of society. Obviously definitions don't go very far with this kind of broad image. The concept is concretized through examples of pre-capitalist societies; along the way the reader gets a reasonably clear idea of what the nature of a social form means. In this context the word "logic" describes the trajectory of change generated and guided by the nature of the system. The object of the book, then, is to analyze the inner order of capitalist society and to delineate the path which, in accordance with this order, it traverses.

The whole argument is held together by a conceptual framework that comes from the classical school of economics, a line of thought that encompasses Adam Smith on one end, Karl Marx on the other. Years ago Professor Heilbroner explained and evaluated classical economists in his popular Worldly Philosophers. In his current work he uses their approach as his theoretical basis, and in doing so shows how fruitful it can be. At the center of classical thought is the idea of surplus: the difference between total net product and that part of it necessary to maintain the workforce employed in producing it. The specific form that the appropriation and utilization of surplus takes is a key element in understanding a social order. This methodological premise underlies Heilbroner's investigation.

What gives capitalism its peculiar orientation is the endless drive to extract surplus from productive activity. Money capital is transformed into commodity capital, which turns back into money by being sold. "Capital" is neither the fund, nor the commodity, but rather the continuous expansive process as a whole. Under capitalist rules of the game, accumulation in and of itself is a goal for individuals. More capital can of course translate into additional consumption for the owner, but Heilbroner disputes the claim that this is enough to explain the inestimable quest for ever larger amounts of capital. He points out that the prestige and distinction attached to ownership of capital is due not so much to its command over commodities as to its command over human beings. The relationship between owner and non-owners involves a certain one-way dependency: the latter depend on the former for their living, but not vice