Has the Marginalist Anti-Marginalist Controversy Regarding the Theory of the Firm been settled?

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I. Marginalist Thought: Today and Yesterday

The study undertaken in 1939 by R. L. Hall and C. J. Hitch¹ to determine empirically in what way modern businessmen decide what price to charge for their products and what output to produce, has acted as an effective stimulant to recent thinking concerned with the firm's price and output decisions.

As a preliminary generalization, we may consider modern thought on the theory of the firm to branch off in two divergent directions. The defenders of the traditional, neo-classical theory of the firm, the marginalists, have been opposed by a school of descriptive economists whose chief complaint has been that traditional theory has failed to provide a sufficiently useful frame of reference for the factual material uncovered by empirical research.

Traditional economic thought in price theory is based on marginal analysis, that is, on the notion that a firm, when considering adjustments, will pay attention to the effects of small changes in certain variables, or, to use the economist's jargon, the effects of increments at the margin. The fundamental feature of marginal analysis is that it involves a maximization or minimization problem. Fritz Machlup has defined marginalism as "the logical process of finding a maximum"². Let us notice immediately that marginal analysis per se does not necessarily imply the assumption of profit maximization. The latter is merely one possible objective of the firm. The former relates to the firm's behavior, to the method it uses in decision-making.

The great analytical power and attraction of the traditional model of the firm lay in its simplicity and its determinateness. This determinateness is due to the fact that in a market of competitive small-scale enterprises—the typical economic environment perceived by the classical economists—price is considered as the outcome of impersonal market forces. Demand and cost conditions are assumed to be given and outside the control of the individual firm. If, in addition, the assumptions are made that firms can enter and leave the industry freely and that they attempt to maximize profits, then a point of price

equilibrium follows with the logical necessity of a physical law. Given a purely competitive market, the assumption of profit maximization seems not to offend reality.

With the late 19th century trends toward large-scale enterprise, product differentiation, advertising and trade agreements, price could no longer be regarded as the sole outcome of impersonal market forces. In the early 1930's, economists became aware that under so-called imperfect competition, firms have a certain amount of freedom of action with regard to the pricing problem. Neo-classical theorists like E. H. Chamberlin and J. Robinson, while introducing additional variables into the pricing problem, nevertheless attempted to safeguard the traditional model showing a determinate long-run "equilibrium price".3

Recent followers of the neo-classical tradition have found themselves facing once again strong challenges. To the objection that the assumptions underlying the traditional, laissez-faire, competitive concept of the firm have not found support in the empirical evidence4, the defenders of marginalism have replied in a surprisingly evasive way. Their argument is that traditional theory was never "designed to serve to explain and predict the behavior of real firms"5. For them, the theoretical profit-maximizing firm has very little in common with any contemporary, actual business firm. The significance of the traditional view of the firm lies in the fact that it is an important part of a logical system of deductive economic theory. In Machlup's words, «in the theory of competitive price the 'real existence' of firms is irrelevant; imaginary (postulated) agents pursuing a simple (postulated) goal react to assumed changes in conditions and thereby produce (or allow us to infer) changes in prices, inputs and outputs"6. As a writer very elegantly put it, "In economic analysis, the business firm is a postulate in a web of logical connections"7.

The heart of the modern marginalist argument is the idea that the theoretical concept of the maximizing firm does not have to describe actual business practices to be valid. "The value of the postulate 'the maximizing firm' is not testable by simple observation, any more than the laws of gravity are invalidated by flying birds. The postulate of the maximizing firm would have to be


5 F. Machlup, supra, p.9.

6 Ibid., p.15.

abandoned if the theory in which it is imbedded is demonstrated to be useless. The theory cannot be considered useless merely because the postulate does not represent our observations." For Milton Friedman, the only issue in the debate is the question of whether or not marginalist theory can be used to make predictions which are "sufficiently good approximations for the purpose at hand." How "unrealistic" the assumptions underlying the theory are is an irrelevant consideration in the evaluation of the theory. For Friedman, a sound theory only requires a logical and non-contradictory set of derivations from the assumptions on which the theory is built; the assumptions do not have to be supported by empirical verification. If some of the theorems derived from theoretical deductions support an observable phenomenon, then the theory as such is valid.

The writers who have questioned this line of thought have mainly objected to the argument that a theoretical model is valid even though the assumptions constituting its foundations are not empirically verifiable. Paul A. Samuelson bluntly states that "if the abstract models contain empirical falsities, we must jettison the models, not gloss over their inadequacies." These writers would never agree with Sherman Krupp's statement that "the logical function of the postulated maximizing firm of economic analysis is explanation of the economic system, not explanation of the firm." Their position is simply this: if the marginalist theory of the firm does not correctly describe and explain the price-output behavior of real firms, then it cannot be retained as a valid theory of the firm.

Another objection which may be raised to the "Machlup argument" is that marginalist theory was initially developed by 19th century economists to de-

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"My third and final example illustrates how a stubborn fact can kill a pretty theory. Mercury's orbit never quite agreed with Newtonian gravitation. A (Friedman)-twister would have said: 'So much the worse for the fact. The theory is even better for its inadequacy.' That, of course, is rot. One would not jettison Newton's theory until a better one was found to replace it, for the very good reason that Newton did describe many facts correctly. But any specialist on the perihelion of Mercury would prefer to use mechanical extrapolations to reliance on the false theory. Then along came Albert Einstein. His special theory of relativity described well ... a host of facts, including the perihelion of Mercury ... when the factual chips were down, the simpler Newtonian equations had to be replaced by the Einstein-Lorenz equations because the facts called for this."
11 Ibid., "Problems of Methodology-Discussion", supra, p. 236.
scribe and explain the decision-making process in the actual, contemporary economic environment these writers could observe. Marginalist theory in the last century did not purport to build up mental constructs whose main purpose was to reveal cause-effect relationships to academic inquiry. The 19th century marginalists tried to explain the economic events they were able to observe and the assumptions they chose as a basis for their analysis were indeed realistic assumptions in the politico-economic institutional framework of the time. These writers would have certainly disagreed with Machlup's statement that "the firm as a theoretical construct has exactly the kind of information the theorist chooses to endow it with in order to design a good, useful theory." But let them express themselves.

II. Theory and Realism in the 19th Century

Let us begin with the great figure of the Marginalist School, Alfred Marshall. In Appendix C of his "Principles"—"The Scope and Method of Economics", Marshall writes:

"And if we are dealing with the facts of remote times we must allow for the changes that have meanwhile come over the whole character of economic life: however closely a problem of today may resemble in its outward incidents another recorded in history, it is probable that a closer examination will detect a fundamental difference between their real characters. Till this has been made, no valid argument can be drawn from one case to the other."

For those who believe that the 19th century marginalists only revered abstract and deductive reasoning, a more attentive reading of the "Principles" may give them a few surprises. In his Appendix D—"Uses of Abstract Reasoning in Economics"—Marshall warns about the shortcomings of any abstract theory whose postulates are not verified by empirical evidence. A pure mathematician may use economic variables to indulge in the mental exercise involved in the building of a model; although his use of "mathematical economics" may greatly impress the soul innocent of any contact with Calculus, the tools the mathematician employs may still be inadequate to explain actual economic events. This is not the mathematician's fault, for as Marshall remarks, "he takes no technical responsibility for the material, and is often unaware how inadequate the material is to bear the strains of his powerful

machinery”¹⁵. The economist should not ignore the importance of testing empirically the assumptions underlying his theory¹⁶.

The average textbook’s chapters dealing with the theory of the firm exhibit a dogmatic bias when they suggest that the early marginalist concept was that the businessmen always fixes his output at that level at which the difference between his total revenue and his total cost is maximum, that is, at that level where his marginal cost tends to equal his marginal revenue. The idea is that these early theorists regarded cost and revenue as being functionally related only to output and it was through changes in output alone that the businessman was thought to react to changes in production techniques and in factor costs. The textbook interpretation of 19th century marginalist theory usually states that it takes account only of objective monetary magnitudes and that it builds a model on the assumption that the major if not the only aim of the business entrepreneur is to earn maximum money profits.

Again, let us observe what Marshall has to say about monetary motivations in economic life¹⁷.

“For a misleading association has grown in people’s minds between that measurement of motives which is prominent in economic science, and an exclusive regard for material wealth to the neglect of other and higher objects of desire ... thus prominence has been given to Mill’s statement, that ‘Political Economy considers man as occupied solely in acquiring and consuming wealth’ ... it is also forgotten that he goes on to say, ‘There is, perhaps, no action of a man’s life in which he is neither under the immediate nor under the remote influence of any impulse but the mere desire of wealth’; and it is forgotten that his treatment of economic questions took constant account of many motives besides the desire for wealth...”

True, the contemporary supporters of the marginalist model of the firm do not view the entrepreneur as acting exclusively like a profit maximizer, motivated only by economic objectives. According to them, marginalism as practiced by the businessman may be based on “subjective estimates, guesses and hunches” and both pecuniary and non-pecuniary objectives may affect entrepreneurial decision-making¹⁸. Yet these same writers will then state that “it is methodically sounder if we do not reduce the non-pecuniary satisfactions and dissatisfactions to money terms and do not try to make them part of the profit maximization scheme”¹⁹. Their conclusion is that both pecuniary and

¹⁶ Ibid. Paragraph 2 of this Appendix starts as follows: “If we shut our eyes to realities we may construct an edifice of pure crystal by imaginations, that will throw side lights on real problems; and might conceivably be of interest to beings who had no economic problems at all like our own.”
¹⁹ Ibid., p.526.
non-pecuniary motives enter into business decisions, but that the marginal calculus cannot be retained as an explanatory device if it takes non-pecuniary motives into account.

The common ground on which modern marginalists stand is the fact that their thinking involves a maximization problem. An example of contemporary thinking along such lines is found in Professor Baumol’s article “On the Theory of Oligopoly” in which the writer concludes that the typical large corporation of our times seeks to maximize not its profits, but its total revenue subject to a minimum profit constraint. In Marshall’s view, however, many firms do not attempt to maximize.

That Marshall was more interested in explaining and evaluating real business behavior as he perceived it than in building a theory of the ‘representative’ firm on the basis of arbitrarily chosen postulates must be obvious to any student of Marshall’s work. In 1907, Marshall published a brief and curious article titled “Social Possibilities of Economic Chivalry”21. In it, Marshall writes about “the new methods of business” and suggests “that there is much latent chivalry in business life”22. Just like warriors developed over time a code of chivalry in war, businessmen, according to Marshall, have developed a code of “chivalry of wealth”,

“Chivalry in business includes public spirit, as chivalry in war includes unselfish loyalty to the cause of prince, or of country, or of crusade. But it includes also a delight in doing noble and difficult things because they are noble and difficult ... It includes a scorn for cheap victories, and a delight in succouring those who need a helping hand...”

And further,

“The most important and progressive business work is scarcely ever without a large chivalrous element, and is often mainly dominated by chivalrous motives.”

One can cite a number of 19th century economists who felt that developing a marginalist model of the purely competitive firm alone, without explaining the firm’s behavior in a less than competitive environment, was not a worth-

20 W.J.Baumol: “On the Theory of Oligopoly”, Economica, August 1958, p.187. See also F.Machlup: “Theories of the Firm: Marginalist, Behavioral, Managerial”, supra, p.23. The author states: “The point should be clear: profit maximization proper may mean a variety of things—several entries apply to money profits—and in addition there are a few other maximanda of possible relevance ... all maximanda are subject to the constraint of some minimum benefits to the owners of the business...”


22 Ibid., p.330.

23 Ibid., p.330.

24 Ibid., p.342.
while endeavor. These writers would have again disagreed with Machlup’s statement that for the purposes of competitive-price theory problems, all the economist needs to do is to postulate a “theoretical construct of the firm”, which either through deliberate marginal calculations, or through an equivalent “as if” behavior, unavoidably finds a short-run or long-run price-output equilibrium. As early as 1838, Antoine A. Cournot indicated that if for a given firm, as output increases marginal cost falls, then the firm’s output will tend to expand, amounting eventually to a sufficient portion of the aggregate market output to have an impact on the latter. In other words, as the output of an initially competitive firm expands because of decreasing costs, the firm eventually faces a downward-sloping demand curve and acquires monopolistic characteristics.

“It is, moreover, plain under the hypothesis of unlimited competition, and where, at the same time, the function (of marginal cost) should be a decreasing one, that nothing would limit the production of the article. Thus, wherever there is a return on property, or a rent payable for a plant of which the operation involves expenses of such a kind that the function (of marginal cost) is a decreasing one, it proves that the effect of monopoly is not wholly extinct or that competition is not so great but that the variation of the amount produced by each individual producer affects the total production of the article, and its price, to a perceptible extent.”

A competitive industry may thus become an oligopolistic one simply because of the presence of decreasing costs. And as Francis Y. Edgeworth went on to show, because of the uncertainty governing the price-output reactions among firms in an oligopolistic industry, no firm may arrive at a determinate price-output equilibrium. Marginalist theory alone cannot explain the endless price oscillation of Edgeworth’s model.

III. Anti-Machlupians and other Anti-Marginalists

Sharp criticisms of Professor Machlup’s defense of the soundness of marginalist theory abound in the literature. Professor R. A. Lester refers to Machlup’s reasoning as consisting “merely of assumptions, presumptions, theorist’s contentions, possibilities, statements of need for investigation, analogies to driving and parking automobiles, and criticism of the empirical research carried on by others.”


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Among the early objections made to the traditional theory, one focuses on a number of problems introduced by the effect of uncertainty. The contention is that the decision-maker does not know with certainty the outcomes of various possible alternative decisions he may take. To use a probabilistic or game-theoretic approach, the decision-maker must be able to assign probabilities to the distribution of outcomes associated with each decision. The marginalist entrepreneur attempts to maximize expected or estimated profits. Profits, and for that matter losses, are usually not realized by the firm immediately upon the taking of the relevant decision, but only after a period of time has elapsed. In Fellner's words, "whatever we choose to mean by expected profits we have to recognize that allowances are made for the possibility that expectations may be wrong and that these allowances are made although it is impossible to tell how probable the correctness of the assumed frequency distribution is" 28. Professor Fellner feels that a larger probability weight will be attached by the average firm to the possibility that the profit expectation will not be realized than to the possibility that it will. Hence, "safety considerations tend to produce a lower rate of output as well as contingency hoarding" 29. This is so, because the firm is likely to follow a policy based on the idea that the disutility to the firm resulting from a possible loss connected with a miscalculation of expected profits outweighs the utility obtained by the firm should the estimate of future, expected profits prove to be correct 30. 

While traditional theory assumes that the businessman knows his demand situation with certainty, anti-marginalists have pointed out that in reality he lacks this certainty. Strong objections to the maximizing model of price and output determination have arisen because of the traditional marginalist assumption of costless, perfect knowledge of the firm regarding the value of any variable it may want to consider. Information is not costless and may not always be available. It has further been suggested that the number and the range of variables a real firm must consider are far larger than the theory would imply. The traditional theory tends to oversimplify the decision-making process by describing the effects of the change of only one variable at a time; the real firm, it is pointed out, must adjust to frequent and simultaneous changes in several of its parameters, making marginal adjustment difficult in spite of the availability of computers' services and the use of programming methods 31.

29 Ibid., p.154.
30 Ibid., pp.148–149.
Professor Machlup has recognized that these contentions are meritorious. But Machlup argues that a distinction should be made between a simple adjustment on the part of the firm to a given change in the value of a key variable—the process explained by marginalist theory—and "coordinated, integrated alterations of the whole" of the firm's activities which go beyond simple price changes in response to a given change in a relevant variable. This distinction is highly artificial. An adjustment to a change in the value of a single variable or parameter may indeed affect the entirety of the firm's activities.

Writers like R.A. Lester have declared that unlike economists, businessmen tend to think of costs as dependent on the rate of output, rather than the rate of output being dependent on cost as expounded in the traditional view. The conclusion is that economists and businessmen do not pair up the same variables and do not consider similar functions.

Finally, an interesting anti-marginalist argument attacks the traditional theory on the basis of two separate indictments. First of all, it has been stressed that both non-pecuniary and semi-pecuniary considerations play an important role, together with pecuniary objectives, in determining the firm's price and output policy. Professor Fellner, in taking this position, repeats in effect what Alfred Marshall said long ago. Secondly, it is suggested that firms are in fact organizations considerably more complex than the "firm" described by traditional theory and that it may be erroneous to impute consistent goals to the 20th century firm. Behavioral analysts question the relevance of marginalist theory at a time when the "representative" business firm is the contemporary corporation in which the decision-making function is shared by a large number of persons. The firm is a "coalition" composed of a large number of individuals with diverse and potentially conflicting interests.

32 F.Machlup: "Theories of the Firm: Marginalist, Behavioral, Managerial", supra, p.25. The author states: "As a matter of fact, the interesting distinction made between 'satisficing' and 'maximizing' or 'optimizing' behavior ... had its origin in precisely the same issue; management, realizing the complexity of the calculations and the imperfection of the data that would have to be employed in any determination of 'optimal' decisions, cannot help being satisfied with something less ..."

33 Ibid., p.25.


35 W.Fellner: "Competition Among the Few", supra, p.145. The author writes: "It seems appropriate to draw a distinction between two kinds of 'qualification to the profit-maximization principle'. The first group consists of qualifications which should be made because economic activities are influenced not only by the objective of realizing economic advantage but also by other incentives, and because these other incentives—or other 'standards'—may become partly 'competitive' with the economic..."

The way a consensus of the firm’s objectives is reached by the members of the coalition reveals that the bargaining necessary for the formation of this consensus prevents the formulation of a major, pre-determined goal; the development of the consensus itself is vital for the determination of the goal or goals agreed on by the decision-makers\textsuperscript{37}. To reconcile differences in outlook and interests of the various decision-makers, the objectives may be stated in vague, ambiguous, non-operational terms. The implementation of these objectives by sub-units of the organization is likely to be accompanied by policy inconsistencies which may never be fully reconciled.

It follows that the firm as an organization or coalition of persons cannot be said to possess a consistent preference ordering as has been attributed to the “rational” entrepreneur of the traditional theory. It is no longer very meaningful to say that the firm’s behavior is motivated by the desire to maximize something. If Professor Arrow’s reasoning about the inappropriateness of postulating the existence of a general welfare function for society applies in the context of the firm, the only way of passing from individual’s preferences to a consistent joint preference ordering for the firm as an organization of individuals is through the use of dictatorial policy formulation, applicable perhaps to the 19th century “representative firm”, but not to the 20th century “organization” model\textsuperscript{38}.

This is why some behavioral theorists have argued that the firm ought to be understood as a “satisficing” organism whose problem-solving is motivated by the desire to meet certain minimum levels of performance. Conflicting objectives are treated as constraints and given these constraints, a wide range of results can be considered to be “satisfactory” from management’s point of view. If the firm cannot meet the minimum desired level of performance, the latter will fall until actual performance satisfies desired performance\textsuperscript{39}.

Anti-marginalists have thus noted the fact that various and often changing aims determine the firm’s price policy. These aims may not involve any maximization whatsoever\textsuperscript{40}. The firm may aim at the stabilization of prices and of the profit margin in the industry; it may follow a pricing policy that will assure it of a target market share; it may price in such a manner as to achieve a given return on investment or in a way which will allow the firm to meet or prevent competi-


\textsuperscript{40} R. F. Lanzillotti: “Pricing Objectives in Large Companies”, American Economic Review, December 1958, p. 94.
tion. Prices may be determined by what competitors are charging for similar products, by what businessmen estimate "the market will bear", by figures established by convention or custom and by the current state of stocks\textsuperscript{41}. Pricing may be computed by the "full cost" method as formulated in the study of Hall and Hitch, or by the principle of "market price minus a fixed percentage". True, these findings are not easily integrated into a logical economic theory, but anti-marginalists claim that if a neat and determinate theory of pricing in the traditional fashion may charm economists by its logic, simplicity and mathematical precision, pricing in reality follows a much more complex pattern which does not lend itself so readily to mathematical generalizations and diagrammatical simplification. In regard to output policy, these writers claim that their empirical findings have shown that businessmen believe price and output to be unrelated. They point out that firms usually try to keep the whole of their existing plants in operation at all times, except where such policy would force the firm in the long run into bankruptcy. This normal production at full capacity is held to be due to psychological as well as to economic reasons.

IV. Has the Controversy been solved?

There is a marked difference between the position Professor Machlup took, over twenty years ago, in his interpretation of marginalist theory\textsuperscript{42} and the reasoning underlying the renewed defense of the theory he presented in 1967\textsuperscript{43}. His 1946 argument emphasizes again and again that the traditional theory does indeed validly explain the price-output policies of real firms\textsuperscript{44}. His main criticism of the anti-marginalist position was then that the opposition to the traditional theory was due "to a failure to understand it, to faulty research techniques, or to mistaken interpretations of 'findings'"\textsuperscript{45}. Machlup in 1946 argued that the average, real businessman acts on the basis of margi-

\textsuperscript{42} F. Machlup: "Marginal Analysis and Empirical Research", supra.
\textsuperscript{43} Ibid.: "Theories of the Firm: Marginalist, Behavioral, Managerial", supra.
\textsuperscript{44} Ibid.: "Marginal Analysis and Empirical Research", supra, p. 526, "It seems to be methodologically sounder if we do not reduce the non-pecuniary satisfactions and dissatisfactions (utilities and disutilities) of the businessman to money terms and do not try to make them part of the profit maximization scheme of the firm. If whatever the businessman does is explained by the principle of profit maximization ... the analysis acquires the character of a system of definitions and tautologies, and loses much of its value as an explanation of reality." (Emphasis added.)
\textsuperscript{45} Ibid., p. 520.
nalist principles, whether or not he is conscious of it. In Machlup’s words, “in order to make up his mind whether to take or reject the order, the businessman ordinarily needs no arithmetic, mental or written, and indeed needs no concrete figures. Yet his reasoning or his routine behavior is most conveniently analyzed in terms of marginal revenue.”

The argument presented in 1967 is quite different. Defending traditional theory once again, the writer now states that “the model of the firm in that theory is not, as so many writers believe, designed to serve to explain and predict the behavior of real firms.” The validity of the theory is now limited to the analysis of the firm acting in a purely competitive economic environment. The descriptive, explanatory value of the theory in the contemporary economic environment was thus considerably lessened by Machlup. His plea on behalf of marginalist theory is that although its postulates may be highly artificial and unrealistic, it still gives us a model useful for predictive purposes. Behavioral analysts no longer appear in the article as just so many fools. Machlup simply states that the behavioral or managerial study of the firm is not concerned with the same problems marginalists try to explain.

The distinction made by Machlup between the scope of marginalist analysis and that of behavioral research seems to be a highly artificial one. Why should only marginalists be concerned with the impact of a given change in a key variable on the firm’s price-output policy?

The reader of Machlup’s 1967 article will also probably ask himself what proof do we have that the marginalist model does in fact turn out good predictions? For someone who easily criticized the empirical research of others, Machlup offers practically no empirical verification for his conclusions. In fact, Machlup has failed to refute the basic charge of the anti-marginalist writers, that is, that marginalist theory cannot explain the behavior of real, modern firms and that it is inadequate as a descriptive and as a prescriptive tool of analysis.

An evaluation of the findings and conclusions of writers in both groups must necessarily rest on a weighing of the evidence upon which such findings and conclusions are based. Analyses that rely mainly on logical and philosophical reasoning and that are not backed by a serious attempt to reconcile the ex ante with the ex post models of firms in a contemporary institutional environment should be looked at with suspicion. The reader should never allow himself to be overwhelmed by the brilliance of a philosophical argument or by the magic and elegance of intricate mathematical formulae whenever empirical data in the support of the axioms of these arguments are absent.

46 Ibid., p. 525.
48 Ibid., p. 10.
Most anti-marginalist writers and many marginalist authors have attempted to justify their views by relying on empirical observation. It seems however that the anti-marginalists have made a larger effort to study business practices, while the marginalists, even though occasionally referring to empirical findings, have established their case mostly on pure and simple logical reasoning, on deductions from a set of unverified postulates, drawing at times challengeable inferences from the empirical evidence in order to support their views.

In spite of the possible shortcomings of the empirical research achieved to the present time, credit should be given to the non-marginalist writers for having based their conclusions on empirical research to a much larger extent than have done the marginalists. It seems that the defenders of marginalist theory have attempted to save the dogma by claiming that their opponents misunderstood the theory, by charging them with a misuse of empirical research, trying in this manner to place on the behavioral writers the burden of proving their case. To use a legalistic term, they have played the role of the defense only and have failed to prove their case by a preponderance of the evidence.

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Summary

Has the Marginalist/Anti-Marginalist Controversy Regarding the Theory of the Firm been settled?

Have modern defenders of marginalist theory as it explains the behavior of the firm succeeded in proving the validity of the marginalist approach for our contemporary business environment? When defenders of marginalism write about the “firm” in the 1960s, do they define it as they did in the 1940s? Modern thought on the theory of the firm branches off in two divergent directions. The defenders of the traditional, neo-classical theory of the firm, the marginalists, have been opposed by a school of descriptive economists whose chief complaint has been that traditional theory has failed to provide a sufficiently useful frame of reference for the factual material uncovered by empirical research. The criticisms of contemporary anti-marginalist writers and the positions taken by some great figures of the nineteenth century Marginalist School are studied in the light of recent arguments presented by Professors Friedman and Machlup. It appears that Professor Machlup’s most recent argument, i.e., that the theory of the firm does not purport and does not need to describe or prescribe the behavior of actual firms, is inconsistent with arguments presented by the same scholar in the late 1940s in defense of marginalist theory. It seems that recent defenders of the marginalist approach have failed to establish final proof of the soundness of their theory.

Zusammenfassung

Ist die Kontroverse um die Gültigkeit der Grenzanalyse beigelegt?

Ist es den modernen Vertretern der Grenzanalyse, die das Verhalten der Unternehmen erklären will, gelungen, die Gültigkeit des «marginal approach» für die
heutige Wirtschaft nachzuweisen? Sprechen die Verfechter der Grenzanalyse heute über dieselbe Sache wie in den vierziger Jahren?


Résumé

La controverse sur le bien-fondé de l’analyse marginale s’est-elle éteinte?


La théorie moderne de l’entreprise se scinde en deux directions. Les adeptes de la théorie traditionnelle et néo-classique de l’entreprise, c’est-à-dire les marginalistes, ont été attaqués par certains économistes de tendance descriptive ; ceux-ci déploraient que la théorie traditionnelle n’offrit pas de cadre suffisamment acceptable pour les faits avancés par l’analyse empirique. Les critiques des antimarginalistes d’aujourd’hui et les assertions de quelques grands marginalistes du dix-neuvième siècle sont opposées aux arguments développés par Machlup et Friedman. A cette occasion il apparaît que l’opinion avancée aujourd’hui par Machlup et selon laquelle la théorie de l’entreprise ne prétend pas (elle n’a nul besoin de le faire) de décrire ou de prescrire le comportement des entreprises, que cette opinion est inconsistante, avec des arguments identiques à ceux qui furent avancés par cette même école dans les années « quarante ». Il semble que, jusqu’ici, les plus jeunes représentants de l’analyse marginale n’aient pas réussi à administrer la preuve définitive du bien-fondé de leur théorie.

Bibliography


