Perfidious Giffen

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The famous Giffen good ... has created more interest among historical economists trying to identify Mr. Giffen, the unverified discoverer of the phenomenon, than among research economists in the possibility of hoping ever to observe an upward-sloping demand curve."

S. Call and W. Holahan [1980, p.86].

Roger Mason’s new book should be of immense interest to textbook writers such as Messrs. Call and Holahan. As Professor of Marketing at Salford University, Mason has written books on two types of consumption behaviour which are still dismissed or treated as anomalous by the core of microeconomic theory. His first topic was Conspicuous Consumption [Mason 1981] and we now have a treatment of the Giffen Effect (GE), where the quantity demanded of a commodity varies directly with its price. The latest book is interesting and contains a useful history of the treatment of the GE by economists. It should be ordered for all university libraries.

Mason’s account is organised around three principal questions: how did the GE come to Marshall’s attention before he introduced it in the third edition of the Principles (1895)? how have subsequent economists dealt with the GE? what relevance does the GE have today? So far as the second and third questions are concerned, Mason notes that there was little interest in the GE between the early 20th century and the late 1940s, when Stigler queried its basis. (Incidentally, Mason shows that Stigler’s “curiosity as to the nature of the evidence” for the GE [Stigler 1965, p.324], can be traced to a bruising encounter with Samuelson on the topic). Subsequent discussion did little to change one conclusion reached in the late 1940s - that there is no clear evidence that Giffen discussed the GE, thus problematising its purported Marshallian origin. Later work did, however, rework the GE argument for affluent economies (e.g. Lipsey and Rosenbluth) and Mason suggests that the GE is relevant for explaining consumption behaviour in ‘underdeveloped’ economies today.

For readers of this Review, Mason’s discussion of how the GE came to appear in Marshall’s Principles will no doubt be of principal interest. Contrary to the conclusion reached by most historians of economics, Mason presents the revisionist thesis that Giffen was the font for Marshall’s discussion. This conclusion is based on three arguments: (1) Giffen’s role in formulating the GE should be placed in the context of his biographical details, including his statistical work on working class living standards; (2) Giffen observed a GE during the late 1860s; (3) Giffen informed

Marshall of his observations during the early 1890s. Although other reviewers have appeared impressed by the second and third of these arguments, it will be concluded below that they are unconvincing. Mason’s treatment of his material also raises some more general problems about the analytical categories and methods used in writing histories of economics. I should, however, make clear from the outset that I have a ‘vested interest’ in this topic, having argued elsewhere that Giffen was not responsible for Marshall’s GE [White 1990].

The Biographical Details
In Chapters 3-4, Mason provides an interesting discussion of Giffen’s life (1837-1910), including his work as an economic journalist in the City (with the Economist, for example) and editor of the Statistical Society’s Journal. Giffen also played an influential role in the production and presentation of statistics at the Board of Trade. He was appointed Assistant Secretary to the Board in 1882, a position occupied previously by C.R. Porter, the founder of the Board’s program of producing official statistics. From 1883, Giffen produced a series of papers arguing that the standard of living of the British “working classes” had improved by 100% in the fifty years since the 1830s. As Mason notes, at the time this claim was regarded as exaggerated, although he does not bring out all the criticisms which could be made of Giffen’s work, such as its biased statistical base. (See Saville [1968, esp. pp.25-37] for this and the background to the 1880s debates over living standards).

For most of Giffen’s life there were three pillars supporting his approach to economic policy - dogmatic advocacy of free trade, coupled with opposition to bimetallism and to ‘socialist’ proposals for redistributing income and wealth. This was the City orthodoxy, which is not surprising since Giffen was one of its ‘pragmatic intellectuals’ [Parsons 1989, Ch.2; Checkland 1957; Tomlinson 1981, Chs.2-3]. His statistical work on working class living standards was designed to support that orthodoxy, arguing that free trade, the gold standard and minimal government intervention had resulted in an immense increase in material welfare all round.

In depicting Giffen’s position in these debates, and hence his potential interest in the GE which applied to the poor, Mason argues that: “Throughout his life [Giffen] was to display a particular prejudice against the landowning interest, holding them largely responsible for the plight of the labouring classes ... Given these values and beliefs, it is a measure of Giffen’s ambition and ability that he was able to rise so high within the Victorian establishment” (p.23).

Examination of a number of Giffen’s arguments, however, does not support this assessment of ‘a particular prejudice against the landed interest’. For example, in the early 1870s there was renewed agitation over the ‘land question’ in England, with the formation of the Land Tenure Reform Association. Dominated by prominent ‘radical liberals’, the LTRA was supported by a number of political economists such as J.S. Mill, Cliffe Leslie, Thorold Rogers and Henry Fawcett. The most contentious part of the Association’s program was the proposal to tax the unearned increment from land [Perkin 1973, esp. pp.198-201; Martin 1981, pp.39-41]. Since the Association was even able to to claim the support of Sir Charles Trevelyan (former of the Treasury and of Irish Famine notoriety), it is relevant to note Giffen’s response. In
an article in the *Fortnightly Review*, Giffen made clear that he did not agree with the hysterical reaction to the LTRA outlined by Bonamy Price [Price 1871]. Giffen argued, however, that taxation of the unearned increment was impracticable and that, despite their ‘imperfection’, “there is much to be said in favour of our present special taxes on land”. Certainly, some modifications could be made. For example, local rates should bear a greater share of taxation revenue. (Giffen had made the same point in the late 1860s when, Mason argues (pp.23,88-90), he “identified with the needs of the poor”). There should also be a special succession duty, although not so large as to threaten the accumulation of capital or “to cause individual suffering” [Giffen 1871, pp.781-3]. Yet this careful distancing from the proposals of the LTRA is hardly the stuff of someone with a particular and unremitting ‘prejudice’ against the ‘landed interest’. Indeed, as Mason notes, Giffen’s first (1883) paper on the standard of living was directed in part against land nationalisers and ended “with a strong endorsement of existing government policy” (p.33).

The one example Mason gives (p.28) of Giffen’s attack on the ‘landed interest’ was motivated by protectionist proposals for agriculture in the 1880s. In this context, it should be noted why the use of the category of a ‘landed interest’ is not particularly helpful for understanding Giffen’s general position. The landed aristocracy was closely tied to the City from the late eighteenth century [Cain and Hopkins 1987, pp.1-5], which meant that it was split over the virtues of protection. That division had played an important role in the demise of the Corn Laws [Moore 1965]. Reference to an amorphous ‘landed interest’ as a uniform single target for Giffen’s ire seems, therefore, to be somewhat misplaced.

Giffen’s approach did not remain completely unchanged throughout his life. After the early suggestion that the wealthy should pay a larger share of taxation, Giffen’s “views on the condition of the poor” became “increasingly reactionary and unsympathetic” (Mason, p.49). Indeed, just before his death, Giffen announced his support for the Unionists’ protectionist (‘fair trade’) policy, abandoning free trade. Consistent with his previous arguments, this new position on protection had some support in the City [Checkland 1957, pp.265,277]. Giffen was prepared to abandon free trade because of the Liberal government’s policies, such as a progressive income tax and a special tax on land [Emy 1971, esp. pp.44-7]. These policies “terrified [the] great territorial magnates” [Stone 1990, p. 14] and, for Giffen, amounted to “Socialism and the practical confiscation of property” [Giffen 1910]. If there was a bedrock from which Giffen did not depart after the early 1870s, it was opposition to any legislative attempts to redress directly the disparities in income and wealth, including the reform or replacement of the punitive Poor Law.

It is not surprising, then, that Giffen became a member/creature of the ‘Victorian establishment’, a position signalled by his knighthood in 1895. Any suggestion by him that the wealthy should pay a larger share of taxation revenue had been discreetly abandoned well before that date. Later, and consistent with this, Giffen’s Preface to a volume comprising a number of his reprinted essays, stressed his early adherence to free trade, an “argument ... complete both theoretically and experimentally” [Giffen 1904, p.ix]. If we are looking for a figure to represent Giffen, it is not that of a trenchant critic of the landed aristocracy, but rather Tom Nairn’s member of the English ‘literary intelligentsia’: “While still in the nursery he engaged in a certain amount of outrageous graffiti aimed at the rest of the house. But a gradual
introduction to the pleasures of the drawing-room removed his temptation, and he now prefers to dwell on other early exploits” [Nairn 1977, p.60].

Giffen’s ‘Observation’

Mason has located (p. 62) a clear reference to a GE by the London corn merchant, E. Power, in 1880. Power’s observation was first made at a meeting of the London Statistical Society, at which Giffen was present, and then printed in the Society’s journal, which Giffen edited. At first sight, this could be the prime candidate for the later marginalist version of the GE, with Marshall reading Power’s paper and subsequently ascribing it to Giffen. For Mason, however, that option is ruled out since the basis of the GE lay in Giffen’s own ‘observation’. Moreover, this had to occur before 1880, since the GE applied to the “very poor” (those in “extreme poverty”). By the time of Power’s statement, the conditions for a GE were no longer present, at least on a broad observable scale.

Mason argues that Giffen “became aware” of the GE during the difficult years of 1865-8 when it would have been possible to observe it in the behaviour of “many thousands of people living in acute poverty in the East End of London”. Indeed, James Caird had “come across” the GE in 1868 and inadvertently referred to it in a paper reprinted in the Journal of the Statistical Society (pp.87,92). Nevertheless, Mason has been unable to locate any statement of a GE from Giffen himself. This is important to remember since, after suggesting how Giffen ‘could’ have observed a GE, Mason’s account treats this as an established ‘fact’ (pp.95,99,101,105).

Mason’s account of the plausibility of Giffen observing a GE thus relies to a significant extent on the argument by Caird (c.f. p.92). But here there are substantial problems. When he addressed the Statistical Society in 1867, Caird announced that he concurred with the opinion of William Newmarch (“lately expressed in this room”) that “the consumption of bread is very constant ... everything is given up before bread ... [since] being the staff of life it must be had by the people whatever the price may be.” Caird had questioned London bakers “in a district entirely inhabited by the working classes. Their testimony is that the consumption of bread is very large, for, although dear, it is still the cheapest food within reach of the poor, the next substitute, potatoes, being scarce and very dear.” Caird was “persuaded”, however, that, despite the ‘constancy’ in demand, there was an inverse relation between the price and quantity demanded, an increase in price of 100% being followed by fall in quantity demanded of 10% [Caird 1868, p.134]. In an address on the same topic the following year, he argued that the 1868 statistics on bread consumption supported his previous claim that the “consumption of bread is very constant ... the very severe pinch of an increase of price of fully one-half diminished the use of it by only one-twentieth” [Caird 1869, p.62]. This argument seems fairly clear. Caird was suggesting that the quantity demanded of bread by the poor accounted for a significant proportion of their expenditure and tended to remain unchanged (the ‘large’ consumption). Nevertheless the demand would respond to some extent in an inverse manner to a marked change in price. As Caird noted, the argument was not unusual and a similar account can be found in G.R. Porter’s Progress of the Nation (1847) [White 1987;1988].
Mason argues that the phrase “the consumption of bread is very large” in Caird’s first paper (see above) was a statement of the broad GE, but that his manner of expressing the argument “only served to hide” the effect (p.86). But the context and Caird’s own statements belie this reading. In any case, it would have been virtually impossible for a GE to have been observed in 1868 since Caird noted that, with the series of adverse harvests, the total available supply of corn had fallen since 1864, the 1867 harvest being “the worst but one for twenty years” [Caird 1868, p.133]. To attribute a GE here is reminiscent of the myth of the Irish Famine being the basis for the GE, a myth which Mason rightly criticises elsewhere in the book.

It is possible, of course, that GE behaviour did occur in London before the 1880s. The problem with Mason’s account, however, is that, even though there is no evidence for it, he insists on attributing such an observation to Giffen. Moreover, he does not give serious consideration to evidence which might contradict his argument. In the case of Caird, Mason claims, with no textual evidence, that Giffen would have been sceptical of Caird’s conclusion of the inverse relation between quantity demanded and price, since Giffen “would not have been prepared to accept anything other than disaggregated statistical data before agreeing to any universal law of demand” (p.92). Not only does this depend on reading a GE into Caird’s analysis, but it seems inconsistent also with Mason’s previous observations that, while the GE applied “specifically to the poorer labouring classes within the working class itself”, Giffen “was no admirer of family budget studies and such material is not commonly seen in his statistical work” (pp.11,57). Such studies would, however, have provided the kind of disaggregation required to identify a GE. (The same approach to disaggregation can be seen in Giffen’s 1883 paper on living standards where he paid no attention to the distinction between the skilled, the semi-skilled, and the unskilled [Saville 1968]).

Giffen and Marshall

Mason has found no evidence of communication between Marshall and Giffen on the GE. He insists, however, that having become “aware of the paradox ... [Giffen] would then have been able to challenge Marshall some [25] years later, when the controversies surrounding the ‘universal’ law of demand were being discussed” (p.93). Giffen and Marshall were associated with a number of Royal Commissions and Select Committees, were members of “the same clubs, and would meet frequently ... to discuss matters of mutual interest”. Mason then suggests that the GE was “raised in discussion as a special case, with regard to utility theory. Giffen ... would have relished the thought of having been able to puncture any careful measured theory of economic behaviour” (p.59).

This picture of Giffen in deep discussion over arcane matters of marginal utility theory is rather odd. Giffen’s approach to economic theory was that he knew what he liked and he did not like any careful specification of the analytical underpinnings of the laws of supply and demand:

There is a great deal in theoretical books of Political Economy on the general question of supply and demand as regulators of price, and what is meant by the alleged tendency of the one to equal the other. In the following pages I
propose as much as possible to keep clear of this discussion, which tends to
degenerate into mere logomachy [Giffen 1877, p.1].

This was the opening statement in a book explaining stock exchange prices in
terms of supply and demand. For Giffen, the theory could be taken as correct without
further discussion. Three years later, he referred to the “angry quarrel” between the
“abstract” and “historical” schools of political economy, making clear his support
for the ‘abstract’ approach:

the assumptions of English political economy [such as perfect mobility] are
approximately true in the concrete as well as in the abstract. We are in an
economic age, and the leading assumptions of political economy are applicable
with comparatively little friction, so that the abstract doctrines can be applied
to a concrete world [Giffen 1880, pp.559-60].

It might be admitted that it was “most difficult” to provide precise evidence of
the manifestation of the theory in the concrete, but this was no real problem. One
could simply gesture toward the metaphorical power of mathematics to dispel all
doubt. In the case of the the quantity theory of money, for example, “the theory in
the abstract is a mere mathematical expression and can hardly be disputed” [Giffen
1877, p.8]. No logomachy here. Granted, this was no worse than Lionel Robbins’
declaration some fifty years later that belief in the quantity theory “is an acid test of
a man’s capacity to become an economist” [Robbins 1930, p.16]. But Giffen’s ap-
proach to economic theory makes it difficult to imagine him discussing the relevance
of changes in the marginal utility of money with Marshall.

Mason, however, has another arrow for his bow. This is that, when Giffen was a
member of the Royal Commission on the agricultural depression between 1893-7, he
argued that agricultural protection would reduce the living standards of the poor
by increasing the price of food. Drawing on his previous knowledge of the GE,
“Giffen would have had every incentive to ‘broadcast’ this observation” as part of
his anti-protectionist program. Hence, he drew Marshall’s attention to it between
1893 and 1895 (p.60).

Mason does provide some evidence that Giffen was keenly interested in the
existence of the ‘residuum’ of London’s slums at this time. And it was certainly in
the slums of the East End that a GE could occur. But this evidence of Mason’s has an
interesting twist. He argues that, in the Board of Trade Blue Book on the earnings
of manual labourers published in 1895, Giffen suppressed the publication of the
estimates of the extent of labourers earning less than £1 per week. (This figure was
taken by most contemporary observers as an indication of dire poverty). What
Mason’s account then entails is that, shortly before Giffen suppressed statistics about
the extent of poverty, he drew Marshall’s attention to the relevance of the problem
for discussion in the Principles ! If Giffen had supplied Marshall with the evidence
for the GE in the 1890s, his behaviour can at best be described as meretricious.

**Marshallian Scrabble**

It should be clear from the above that I am not convinced by Mason’s arguments that
Giffen observed a GE and that he communicated this to Marshall. The problems with
Mason’s account seem to stem from two general sources. The first is the assumption
that the analysis should be conducted within the framework of an author who observes ‘facts’ and then communicates the observation to another. To this extent, Mason’s explanation of the ‘knowledge’ of the GE is dominated by an empiricist epistemology. (It should be noted, however, that, when discussing Giffen’s ‘observation’ of the GE, Mason violates the requirements of that epistemology).

The second problem is an apparent dependence on Stigler’s observation that Marshall is “famous for the generosity of his acknowledgements” [Stigler 1965, p.329]. An examination of recent Marshallian literature, however, suggests an alternative premise - that Marshall’s statements of attribution need to be treated with a good deal of scepticism since they were often misleading. Sometimes this was apparently just a matter of forgetfulness on Marshall’s part [Whitaker and Kynan 1976]. At other times, the misleading attributions had a wider import. Marshall claimed, for example, that it was ‘loyalty’ to Ricardo which explained his hostility when reviewing Jevons’ Theory of Political Economy. The evidence suggests, however, that it was Mill whom Marshall was defending, since it was the former’s Principles which Marshall had attempted to turn into mathematics [Groenewegen 1985]. The purported direct lineage from Ricardo was important for the argument that, while it had become more ornate, the fabric of nineteenth-century British political economy had been spun with an unbroken thread. This claim formed part of Marshall’s attempt to restore the image of political economy as a secure ‘organum’, following the disruption from the 1860s through to the 1880s, when political economy was seen as having fallen into some disrepute [cf. Coats 1967].

Other attributions or, rather, denials of attribution by Marshall were more immediately self-serving, particularly when his originality might be called into question. For example, there was his quite misleading claim that he had used a marginal utility theory before reading Jevons’ Theory [Schabas 1989; White 1990]. The extent of the old fox’s disingenuousness even extended to his dating of when he had read Fleeming Jenkin’s supply and demand diagrams [Mirowski, 1990, pp. 82,86-7]. In the same vein, and with some piquancy here, Marshall was unwilling to acknowledge the importance for his own work of Giffen’s discussion of the linkage between changes in the money supply and the general price level, linked by changes in the discount rate [Eshag 1963, pp.9-10,15-6]. Mason does not pursue the significance of this point, although he refers approvingly to Eshag’s discussion, noting that Marshall was “less than honest” on the matter (p.132).

By considering Marshall’s motives and tactics, however, a different avenue can be opened up to explore why Marshall referred to the GE in 1895. As Mason rightly points out, the GE was introduced to the reader of the Principles in response to J.S. Nicholson’s argument that changes in the marginal utility of money (MUM), following a change in the price of a commodity, would undermine the claims that Marshall had made about welfare maximisation in consumption. Clearly, the GE was a striking case of the effects of changes in the MUM on material welfare. It then becomes important to examine how Marshall presented the significance of the GE in the context of Nicholson’s critique. Some comments of John Maloney are relevant here. He doubts if economists’ qualifications of their own theories does anything to dislodge them from their readers’ minds. Faced with ... a standard account of ... neoclassical theory ... with a few half-hearted ‘real-life’ exceptions tacked on
to it, the reader may merely congratulate the writer on his realism, open-mindedness and intellectual honesty, and take the paradigm as being all the more authoritative [Maloney 1985, p.215].

This was precisely the effect Marshall intended the GE to have on his reader(s). It was introduced as a special case to argue that Nicholson’s critique was of negligible general importance. Moreover, Marshall’s language and mode of argument were designed to denigrate Nicholson. The GE was, in other words, the fulcrum of a superb example of Marshallian rhetoric when dealing with a critic [White 1990, pp.5-7]. But this point is lost in Mason’s account of the episode:

Having learnt of the existence of such exceptional behaviour from Giffen (a man he much admired and respected) Marshall would then have felt obliged to concede the point to Nicholson ... stressing that it was a rare exception which proved the general rule of utility and value (p.59).

Marshall is thus reinstated as the open-minded, intellectually scrupulous academic, forced to focus on the ‘facts’ by Giffen, while carefully illustrating the limited importance of the new information. But the ‘facts’ were of little relevance for Marshall. That this was the case, and that he used the GE as a rhetorical device, is indicated by the way in which he then ignored the argument until 1903 when he reintroduced it to attack the protectionist analysis of A.S. Hewins [White 1990, pp.7-10]. In 1895 the role of the GE had been to deny the general significance of changes in the marginal utility of money. In 1903, however, when according to Mason the conditions for its existence had long since vanished, Marshall claimed not only that changes in the MUM were important but also, mirabile dictu, that the GE applied to a significant percentage of the population. (Of course, if that was the case, a large part of the supply and demand explanation of prices could be in jeopardy because of the ‘peculiar’ demand schedule).

Although any attempt to discover the precise ways in which Marshall produced the GE argument now seems a hopeless task, some points can be made. Marshall was familiar with the work of political economists who had argued that it was possible to have a positive relation between quantity demanded and price. And he could have read Fower’s statement of the GE, which Mason has identified (see above). At the same time, having obtained a marginal utility theory from Jevons, it would be surprising if Marshall had not thought of how a marginalist analysis might explain a positive relation between quantity demanded and price. Forced to respond to Nicholson in 1895, Marshall then attempted to give the GE the imprimatur of a prominent statistician who was knighted in the same year.

Left as an anomaly, as a remnant of the debate with Nicholson, the GE was ignored by other economists. It was only when Marshall attempted subsequently to generalise the argument in the tariff debates that the claim was queried by Edgeworth. As Mason notes, Marshall’s defence when replying to Edgeworth was “distinctly unimpressive” (p.7), beating a disorderly retreat on the statistical basis of the argument. Giffen’s role was reduced to the provision of a ‘hint’ and Marshall then resorted to casual empiricism and a hypothetical example similar to that used by Pareto. With the farce of a statistical basis for the Marshallian GE exposed, the episode appears akin to a game of scrabble in which all of Marshall’s counters were blanks and where he changed the rules as required.
This is not, of course, to suggest that historians should not look carefully for the way(s) in which economists may rely on the work of others. Nor is it meant to suggest that the conditions in which theories are produced are not relevant for explaining their appearance and significance. Rather, the point is to suggest that the structure of a particular argument should be examined carefully so as to understand the ways in which and why it was formulated to produce a particular effect. What is missing from Mason’s account is any consideration of the complexity of discourse, of the unevenness, for example, which can be produced in a text by the necessity to qualify the narrative so as to buttress its apparent veracity. Ultimately, it is that absence which explains why this book’s account of the appearance of the GE in Marshall’s work is unconvincing.

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While the usual caveat applies on responsibility for the final product, I would like to thank John Creedy, Owen Covick, Peter Groenewegen, John King and Judith Rich for helpful comments and suggestions.

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Press, New York.


