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Ekkehart Schlicht:

## Normality as a Theoretical Concept

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# Normality as a Theoretical Concept

Comment on Mehrdad VAHABI

Ekkehart Schlicht\*

## 1 Introduction

KEYNES famously noted that MARSHALL knit in wool. Mehrdad VAHABI's paper congenially maintains that style. As I largely agree with what VAHABI has outlined in his nice paper, it may be useful, as a matter of contrast, to look at MARSHALL's concept of normality from a less congenial, if not alien, perspective. This is what I propose to do.

I feel that this is appropriate, because my knowledge of MARSHALL is more limited than that of a number of persons in this audience. Although I have employed some of Marshall's ideas in some of my own work, and my knowledge is constrained to a limited set topics. So my contribution will be, and can only be, to comment on the topic of normality from my rather specific perspective. I shall be slightly more analytic than Mehrdad VAHABI, however, in an attempt to debunk the "Cambridge didactic style" – so much endorsed by MARSHALL – that lavishes an appearance of triviality on even the deepest insight. Marshallians may appreciate that, but others are sometimes simply vexed.

## 2 Normality as Lawfulness

MARSHALL (1890, I.III.4) conceived the concept of "normality" as equivalent to "following a law that relates a cause with an effect." In order to avoid legal overtones, however, he preferred "normality" over "governed by a law":

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Corresponding to the substantive "law" is the adjective "legal." But this term is used only in connection with "law" in the sense of an ordinance of government; not in connection with "law" in the sense of a statement of relation between cause and effect. The adjective used for this purpose is derived from "norma," a term which is nearly equivalent to "law," and might perhaps with advantage be substituted for it in scientific discussions.

MARSHALL's concept of normality refers, thus, to states of affairs where laws are obeyed.

### 3 Economic Laws as Laws of Tendency

Economic laws, however, are not conceived as laws that fit the facts in any direct manner:

The term "law" means then nothing more than a general proposition or statement of tendencies, more or less certain, more or less definite. (*ibid.*)

In other words, economic laws describe tendencies rather than warrant any perfect fit of actual phenomena with some statement of regularity.

### 4 Normality and Equilibrium

In his *Principles*, MARSHALL analyzes economic laws, as describing tendencies, mostly in equilibrium terms. Economic equilibria (always conceived as moving equilibria) are states toward things are tending.<sup>1</sup>

In equilibrium, each set of forces balances with some corresponding counter-forces. Out of equilibrium, the forces that push toward equilibrium are stronger than their counter-forces, and a tendency toward equilibrium obtains. The market example makes that clear:

When ... the demand price is greater than the supply price, then sellers receive more than is sufficient to make it worth their while to bring goods to market to that amount; and there is at work an active force tending to increase the amount brought forward for sale.

<sup>1</sup> MARSHALL 1890, V.III.6. Note that this differs from the Walrasian equilibrium (market clearing), expectational equilibrium (*ex ante* = *ex post*), game theoretic equilibrium (each strategy being a best reply to the others), or analytic equilibrium (critical point of a dynamical system); see SCHLICHT (1982; 1985, 27 f.).

On the other hand, when the amount produced is such that the demand price is less than the supply price, sellers receive less than is sufficient to make it worth their while to bring goods to market on that scale; so that ... there is an active force at work tending to diminish the amount brought forward for sale. When the demand price is equal to the supply price, the amount produced has no tendency either to be increased or to be diminished; it is in equilibrium. (MARSHALL 1890, V.III.6).

While VAHABI's paper includes interesting observations on the relation between competition and normality, he may think of including more on the relationship between normality and equilibrium.

## 5 The Theoretical Concept

As VAHABI notes, normality is a *ceteris paribus* concept, just as equilibrium is: Normality is always conceived under certain conditions. With given technology, tastes, and incomes, a particular price may be conceived as normal – the equilibrium price. If tastes, or technology, or incomes change, the equilibrium price will change accordingly. We may try to understand the movements of the observed price by linking it to the moving normal price. The observed price will trail the normal price like a missile trails its moving target. Knowing the movement of the target, and the tendency of the missile to close in on the target, enables us to understand the movement of the missile, and likewise for the actual price. This is the essence of MARSHALL's moving equilibrium method.<sup>1</sup>

The point is here, however, that the equilibrium may never be reached since time is required for the underlying causes to work out their effects, but

meanwhile the material on which they work, and perhaps even the causes themselves, may have changed; and the tendencies which are being described will not have a sufficiently "long run" in which to work themselves out fully. (MARSHALL 1890, I.III.5.)

Hence I agree with VAHABI that "normal" and "average" price are different things, but I am somewhat at a loss to decide whether normality, so conceived, is "predictive," as VAHABI's reference to KORNAI suggests. This may depend on how we use the term, predictive.

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<sup>1</sup> see SCHLICHT (1985, Ch. 3; 1997).

The theoretical nature of the concept is highlighted by another thought, related to what I have termed the “Principle of Hicks-d’Alembert.” (SCHLICHT 1982; 1985, 45 f.). Consider a falling stone. As long as it has not reached the ground, we may conceive it as not being in equilibrium, *viz.* having not attained its normal position of lying inert on the lawn. Yet while falling, its speed is determined by an equilibrium between the force of gravity that pulls it down, the force of inertia that opposes acceleration, and air resistance that opposes movement. If air resistance were smaller, the stone would fall faster, for instance. In this sense, the stone can be considered as always being in equilibrium, and hence in its “normal” state – even if still falling. Its acceleration will be determined such that resisting and propelling forces balance. In physics, this is known as “d’Alembert’s Principle.”

The same may be said about economic quantities: If a price moves with a certain speed, this is the case because obstacles prevent it from moving faster. Hence the same price movement may be conceived as an approach from disequilibrium to normal equilibrium (if we disregard the determination of speed) or as always in normal equilibrium (if we include the determinants of speed).

In consequence, normality is a theoretical concept: What is normal depends on the model chosen. As far as I see, MARSHALL was aware of that problem but was concerned that theory may all too easily detach from reality, and he worked against that danger by endowing even his theoretical concepts with a “realistic” touch.

## 6 Some Grumble

As a consequence of the above interpretation, and notwithstanding general agreement, I feel some uneasiness with some of VALHABI’s statements.

**Expectations.** VAHABI suggests that Marshallian normality differs from some Neo-Ricardian center of gravity because expectations play a role. I tend to disagree because (as VALHABI correctly points out) Marshallian normality refers to aggregates, too. Yet aggregates do not possess any conscience of their own and it does not make sense to attribute expectations to aggregates.

Further, we may think of a Marshallian equilibrium between bulls and bears on the stock market, where the optimists just balance the pessimists, as in KEYNES. Under these circumstances, it does not make sense to talk about fulfilled expectations, as we have contradictory expectations,

which cannot all simultaneously be satisfied.<sup>1</sup>

*Ex ante and ex post.* By the same token, Marshall seems to me not to fit easily into any kind of *ex ante-ex post* schema, if this is meant to refer to the difference between planned and realized quantities, because an aggregate cannot make plans, and plans of sundry individuals cannot usefully be aggregated into some kind of macro plan. It may be of interest to note that KEYNES was rather skeptical regarding the *ex ante-ex post* juxtaposition and did not embrace it (ROBERTSON 1955, 476). I am not sufficiently an expert on MARSHALL, but VALHABI has not yet convinced me that KEYNES deviated from his teacher in this respect. It appears to me that recasting MARSHALL in *ex ante-ex post* terms is akin to re-framing MARSHALL in game-theoretic terms. It could be done, but nevertheless appears strange to me. What would be the possible use of doing so?

This remark does not, of course, minimize the importance of expectations, neither in KEYNES, nor in MARSHALL. There cannot be any doubt that both heroes emphasized them greatly. But this emphasis refers to the *subject-matter* of economic theory, rather than to the *concept* of normality which does, after all, not relate to anything specific. It relates to form, rather than substance. It is a theoretical concept.

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<sup>1</sup> For a more careful analysis of the expectational equilibrium concept, see SCHLICHT (1982).

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