

The Marginalist Controversy

Between 1946 and 1953 the *American Economic Review* (A.E.R.) published several papers on the relevance or otherwise of the « marginalist » theory of the firm (the term « neo-classical » was not yet in popular use). The leading articles were by Lester (1946) and Machlup (1946), who took aggressively opposite stands. This collection of papers constitutes the « marginalist controversy » *stricto sensu*. In a broader sense, which will be the sense considered here, the expression « marginalist controversy » also refers to closely related discussions over the theory of the firm that took place for a longer span of time (from 1939 to around 1955), and in a variety of English and American journals and conferences. The « full-cost pricing » (FCP) controversy, which was started by the Oxford economists Hall and Hitch (1939), is the single most important of these related discussions. Although the economics involved in the « marginalist controversy » antedates modern industrial organization and will strike one as both rudimentary and outdated, there are at least two reasons why not only historians, but also methodologists and philosophers of science should be interested in them. For one, they influenced the thinking of those writers, like Machlup and Friedman, who reorganized the methodological defence of orthodox economics around « irrationalism of assumptions ». For another, and more importantly, these debates provide for

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