

Alfred Marshall

(1842-1924)

We introduced you to Alfred Marshall at the beginning of this book. In this selection, taken from his Principles of Economics, you get a somewhat better feel for the "Marshallian approach" than you did in the earlier selection. The Marshallian approach combines common sense, institutional knowledge, and some broad concepts of economic theory. Thus competition for Marshall is not the perfect competition of Chapter 25 in the textbook; rather, it is the real-world competition of Chapter 28 in the textbook.

The first edition of the Principles came out in 1890, more than a hundred years ago. When you read this selection, you should remember that an Englishman of that time took certain things for granted that we today see as prejudiced or biased. It is not only that he never mentions "she"; it is also that he assumes certain people are "primitive" and speaks of "backward races" and "backward countries," and you may find other references that seem strange to you. This quality in Marshall does not affect the true substance of his character or the strengths of "the Marshallian approach."

Alfred Marshall. 1890 (8th edition: 1920). *Principles of Economics*. London: Macmillan & Co., Ltd., pp. 4-8.

Competition

It is often said that the modern forms of industrial life are distinguished from the earlier by being more competitive. But this account is not quite satisfactory. The strict meaning of competition seems to be the racing of one person against another, with special reference to bidding for the sale or purchase of anything. This kind of racing is no doubt both more intense and more widely extended than it used to be: but it is only a secondary, and one might almost say, an accidental consequence from the fundamental characteristics of modern industrial life.

There is no one term that will express these characteristics adequately. They are, as we shall presently see, a certain independence and habit of choosing one's own course for oneself, a self-reliance; a deliberation and yet a promptness of choice and judgment, and a habit of forecasting the future and of shaping one's course with reference to distant aims. They may and often do cause people to compete with one another; but on the other hand they may tend, and just now indeed they are tending, in the direction of cooperation and combination of all kinds [of] good and evil. But these tendencies towards collective ownership and collective action are quite different from those of earlier times, because they are the result not of custom, not of any passive drifting into association with one's neighbours, but of free choice by each individual of that line of conduct which after careful deliberation seems to him the best suited for attaining his ends, whether they are selfish or unselfish.

The term "competition" has gathered about it evil savour, and has come to imply a certain selfishness and indifference to the well-being of others. Now it is true that there is less deliberate selfishness in early than in modern forms of industry; but there is also less deliberate unselfishness. It is deliberateness, and not selfishness, that is the characteristic of the modern age.

For instance, while custom in a primitive society extends the limits of the family, and prescribes certain duties to one's neighbours which fall into disuse in a later civilization, it also prescribes an attitude of hostility to strangers. In a modern society the obligations of family kindness become more intense, though they are concentrated on a narrower area; and neighbours are put more nearly on the same footing with strangers. In ordinary dealings with both of them

the standard of fairness and honesty is lower than in some of the dealings of a primitive people with their neighbours: but it is much higher than in their dealings with strangers. Thus it is the ties of neighbourhood alone that have been relaxed: the ties of family are in many ways stronger than before, family affection leads to much more self-sacrifice and devotion than it used to do; and sympathy with those who are strangers to us is a growing source of a kind of deliberate unselfishness, that never existed before the modern age. That country which is the birthplace of modern competition devotes a larger part of its income than any other to charitable uses, and spent twenty millions on purchasing the freedom of the slaves in the West Indies.

In every age poets and social reformers have tried to stimulate the people of their own time to a nobler life by enchanting stories of the virtues of the heroes of old. But neither the records of history nor the contemporary observation of backward races, when carefully studied, give any support to the doctrine that man is on the whole harder and harsher than he was; or that he was ever more willing than he is now to sacrifice his own happiness for the benefit of others in cases where custom and law have left him free to choose his own course. Among races, whose intellectual capacity seems not to have developed in any other direction, and who have none of the originating power of the modern business man, there will be found many who show an evil sagacity in driving a hard bargain in a market even with their neighbours. No traders are more unscrupulous in taking advantage of the necessities of the unfortunate than are the corn-dealers and money-lenders of the East.

Again, the modern era has undoubtedly given new openings for dishonesty in trade. The advance of knowledge has discovered new ways of making things appear other than they are, and has rendered possible many new forms of adulteration. The producer is now far removed from the ultimate consumer; and his wrong-doings are not visited with the prompt and sharp punishment which falls on the head of a person who, being bound to live and die in his native village, plays a dishonest trick on one of his neighbours. The opportunities for knavery are certainly more numerous than they were; but there is no reason for thinking that people avail themselves of a larger proportion of such opportunities than they used to do. On the contrary, modern methods of trade imply habits of trustfulness on the one side and a power of resisting temptation to dishonesty on the other, which do not exist among a backward people. Instances of simple truth and personal fidelity are met with under all social conditions: but those who have tried to establish a business of modern type in a backward country find that they can scarcely ever depend on the native population for filling posts of trust. It is even more difficult to dispense with imported assistance for work, which calls for a strong moral character, than for that which requires great skill and mental ability. Adulteration and fraud in trade were rampant in the middle ages to an extent that is very astonishing, when we consider the difficulties of wrong-doing without detection at that time.

In every stage of civilization, in which the power of money has been prominent, poets in verse and prose have delighted to depict a past truly "Golden Age," before the pressure of mere material gold had been felt. Their idyllic pictures have been beautiful, and have stimulated noble imaginations and resolves; but they have had very little historical truth. Small communities with simple wants for which the bounty of nature has made abundant provisions, have indeed sometimes been nearly free from care about their material needs, and have not been tempted to sordid ambitions. But whenever we can penetrate to the inner life of a crowded population under primitive conditions in our own time, we find more want, more narrowness, and more hardness than was manifest at a distance: and we never find a more widely diffused comfort alloyed by less suffering than exists in the western world to-day. We ought therefore not to brand the forces, which have made modern civilization, by a name which suggests evil.

It is perhaps not reasonable that such a suggestion should attach to the term "competition"; but in fact it does. In fact, when competition is arraigned, its anti-social forms are made prominent; and care is seldom taken to inquire whether there are not other forms of it, which are so essential to the maintenance of energy and spontaneity, that their cessation might probably be injurious on the balance to social well being. The traders or producers, who find that a rival is offering goods

at a lower price than will yield them a good profit, are angered at his intrusion, and complain of being wronged; even though it may be true that those who buy the cheaper goods are in greater need than themselves, and that the energy and resourcefulness of their rival is a social gain. In many cases the "regulation of competition" is a misleading term, that veils the formation of a privileged class of producers, who often use their combined force to frustrate the attempts of an able man to rise from a lower class than their own. Under the pretext of repressing anti-social competition, they deprive him of the liberty of carving out for himself a new career, where the services rendered by him to the consumers of the commodity would be greater than the injuries, that he inflicts on the relatively small group which objects to his competition.

If competition is contrasted with energetic co-operation in unselfish work for the public good, then even the best forms of competition are relatively evil; while its harsher and meaner forms are hateful. And in a world in which all men were perfectly virtuous, competition would be out of place; but so also would be private property and every form of private right. Men would think only of their duties; and no one would desire to have a larger share of the comforts and luxuries of life than his neighbours. Strong producers could easily bear a touch of hardship; so they would wish that their weaker neighbours, while producing less should consume more. Happy in this thought, they would work for the general good with all the energy, the inventiveness, and the eager initiative that belonged to them; and mankind would be victorious in contests with nature at every turn. Such is the Golden Age to which poets and dreamers may look forward. But in the responsible conduct of affairs, it is worse than folly to ignore the imperfections which still cling to human nature.

History in general, and especially the history of socialistic ventures, shows that ordinary men are seldom capable of pure ideal altruism for any considerable time together; and that the exceptions are to be found only when the masterful fervour of a small band of religious enthusiasts makes material concerns to count for nothing in comparison with the higher faith.

No doubt men, even now, are capable of much more unselfish service than they generally render: and the supreme aim of the economist is to discover how this latent social asset can be developed most quickly, and turned to account most wisely. But he must not decry competition in general, without analysis: he is bound to retain a neutral attitude towards any particular manifestation of it until he is sure that, human nature being what it is, the restraint of competition would not be more anti-social in its working than the competition itself.

We may conclude then that the term "competition" is not well suited to describe the special characteristics of industrial life in the modern age. We need a term that does not imply any moral qualities, whether good or evil, but which indicates the undisputed fact that modern business and industry are characterized by more self-reliant habits, more forethought, more deliberate and free choice. There is not any one term adequate for this purpose: but *Freedom of Industry and Enterprise*, or more shortly, *Economic Freedom*, points in the right direction; and it may be used in the absence of a better. Of course this deliberate and free choice may lead to a certain departure from individual freedom when co-operation or combination seems to offer the best route to the desired end. The questions how far these deliberate forms of association are likely to destroy the freedom in which they had their origin and how far they are likely to be conducive to the public weal, lie beyond the scope of the present volume.

John Stuart Mill

(1806-1873)

The textbook emphasizes that reality is influenced by three invisible forces—the invisible hand, the invisible foot, and the invisible handshake. Various economists combine these three forces in various ways.

John Stuart Mill was the dominant figure in mid-19th century British political economy. He took the formal classical economics of earlier economists and made it into a broader, more humanistic economics, in which the invisible handshake was given a much greater role to play than it had played earlier. He was a progressive thinker and a person who, while he believed in liberty for the individual, understood that historical circumstances can place individuals in positions where they have no liberty.

In this selection Mill discusses the role of the invisible handshake, giving it significant importance: it limits competition and the competitive process can only be understood given an understanding of a society's culture and customs.

John Stuart Mill. 1849 (1909). *Principles of Political Economy*. London: Longmans Green, pp. 242-47.

Competition and Custom

It would be a great misconception of the actual course of human affairs, to suppose that competition exercises in fact unlimited sway. I am not speaking of monopolies, either natural or artificial, or of any interferences of authority with the liberty of production or exchange. I speak of cases in which there is nothing to restrain competition; no hindrances to it either in the nature of the case or in artificial obstacles; yet in which the result is not determined by competition, but by custom or usage; competition either not taking place at all, or producing its effect in quite a different manner from that which is ordinarily assumed to be natural to it.

Competition, in fact, has only become in any considerable degree the governing principle of contracts at a comparatively modern period. The farther we look back into history, the more we see all transactions and engagements under the influence of fixed customs. The reason is evident. Custom is the most powerful protector of the weak against the strong; their sole protector where there are no laws or government adequate to the purpose. Custom is a barrier which, even in the most oppressed condition of mankind, tyranny is forced in some degree to respect. To the industrious population, in a turbulent military community, freedom of competition is a vain phrase; they are never in a condition to make terms for themselves by it; there is always a master who throws his sword into the scale, and the terms are such as he imposes. But though the law of the strongest decides, it is not the interest nor in general the practice of the strongest to strain that law to the utmost, and every relaxation of it has a tendency to become a custom, and every custom to become a right. Rights thus originating, and not competition in any shape, determine, in a rude state of society, the share of the produce enjoyed by those who produce it.

Prices, whenever there was no monopoly, came earlier under the influence of competition, and are much more universally subject to it, than rents: but that influence is by no means, even in the present activity of mercantile competition, so absolute as is sometimes assumed.

The wholesale trade, in the great articles of commerce, is really under the dominion of competition. There, the buyers as well as sellers are traders and manufacturers, and their purchases are not influenced by indolence or vulgar finery, but are business transactions. In the wholesale markets, therefore, it is true as a general proposition that there are not two prices at one time for the same thing: there is at each time and place a market price, which can be quoted in a price-current. But retail price, the price paid by the actual consumer, seems to feel very slowly