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Principles of Economics: An introductory volume

by Alfred Marshall

1890

Book One: Preliminary Survey

Chapter 1

Introduction

1. Political economy or economics is a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of wellbeing.

Thus it is on the one side a study of wealth; and on the other, and more important side, a part of the study of man. For man's character has been moulded by his every-day work, and the material resources which he thereby procures, more than by any other influence unless it be that of his religious ideals; and the two great forming agencies of the world's history have been the religious and the economic. Here and there the ardour of the military or the artistic spirit has been for a while predominant: but religious and economic influences have nowhere been displaced from the front rank even for a time; and they have nearly always been more important than all others put together. Religious motives are more intense than economic, but their direct action seldom extends over so large a part of life. For the business by which a person earns his livelihood generally fills his thoughts

during by far the greater part of those hours in which his mind is at its best; during them his character is being formed by the way in which he uses his faculties in his work, by the thoughts and the feelings which it suggests, and by his relations to his associates in work, his employers or his employees.

And very often the influence exerted on a person's character by the amount of his income is hardly less, if it is less, than that exerted by the way in which it is earned. It may make little difference to the fulness of life of a family whether its yearly income is £1000 or £5000; but it makes a very great difference whether the income is £30 or £150: for with £150 the family has, with £30 it has not, the material conditions of a complete life. It is true that in religion, in the family affections and in friendship, even the poor may find scope for many of those faculties which are the source of the highest happiness. But the conditions which surround extreme poverty, especially in densely crowded places, tend to deaden the higher faculties. Those who have been called the Residuum of our large towns have little opportunity for friendship; they know nothing of the decencies and the quiet, and very little even of the unity of family life; and religion often fails to reach them. No doubt their physical, mental, and moral ill-health is partly due to other causes than poverty: but this is the chief cause.

And, in addition to the Residuum, there are vast numbers of people both in town and country who are brought up with insufficient food, clothing, and house-room; whose education is broken off early in order that they may go to work for wages; who thenceforth are engaged during long hours in exhausting toil with imperfectly nourished bodies, and have therefore no chance of developing their higher mental faculties. Their life is not necessarily unhealthy or unhappy. Rejoicing in their affections towards God and man, and perhaps even possessing some natural refinement of feeling, they may lead lives that are far less

incomplete than those of many, who have more material wealth. But, for all that, their poverty is a great and almost unmixed evil to them. Even when they are well, their weariness often amounts to pain, while their pleasures are few; and when sickness comes, the suffering caused by poverty increases tenfold. And, though a contented spirit may go far towards reconciling them to these evils, there are others to which it ought not to reconcile them. Overworked and undertaught, weary and careworn, without quiet and without leisure, they have no chance of making the best of their mental faculties.

Although then some of the evils which commonly go with poverty are not its necessary consequences; yet, broadly speaking, "the destruction of the poor is their poverty," and the study of the causes of poverty is the study of the causes of the degradation of a large part of mankind.

2. Slavery was regarded by Aristotle as an ordinance of nature, and so probably was it by the slaves themselves in olden time. The dignity of man was proclaimed by the Christian religion: it has been asserted with increasing vehemence during the last hundred years: but, only through the spread of education during quite recent times, are we beginning to feel the full import of the phrase. Now at last we are setting ourselves seriously to inquire whether it is necessary that there should be any so-called "lower classes" at all: that is, whether there need be large numbers of people doomed from their birth to hard work in order to provide for others the requisites of a refined and cultured life; while they themselves are prevented by their poverty and toil from having any share or part in that life.

The hope that poverty and ignorance may gradually be extinguished, derives indeed much support from the steady progress of the working classes during the nineteenth century. The steam-engine has relieved them of much exhausting and degrading toil; wages have risen; education has been improved and

become more general; the railway and the printing-press have enabled members of the same trade in different parts of the country to communicate easily with one another, and to undertake and carry out broad and far-seeing lines of policy; while the growing demand for intelligent work has caused the artisan classes to increase so rapidly that they now outnumber those whose labour is entirely unskilled. A great part of the artisans have ceased to belong to the "lower classes" in the sense in which the term was originally used; and some of them already lead a more refined and noble life than did the majority of the upper classes even a century ago.

This progress has done more than anything else to give practical interest to the question whether it is really impossible that all should start in the world with a fair chance of leading a cultured life, free from the pains of poverty and the stagnating influences of excessive mechanical toil; and this question is being pressed to the front by the growing earnestness of the age. The question cannot be fully answered by economic science. For the answer depends partly on the moral and political capabilities of human nature, and on these matters the economist has no special means of information: he must do as others do, and guess as best he can. But the answer depends in a great measure upon facts and inferences, which are within the province of economics; and this it is which gives to economic studies their chief and their highest interest.

3. It might have been expected that a science, which deals with questions so vital for the wellbeing of mankind, would have engaged the attention of many of the ablest thinkers of every age, and be now well advanced towards maturity. But the fact is that the number of scientific economists has always been small relatively to the difficulty of the work to be done; so that the science is still almost in its infancy. One cause of this is that the bearing of economics on the higher wellbeing of man has been

overlooked. Indeed, a science which has wealth for its subject-matter, is often repugnant at first sight to many students; for those who do most to advance the boundaries of knowledge, seldom care much about the possession of wealth for its own sake.

But a more important cause is that many of those conditions of industrial life, and of those methods of production, distribution and consumption, with which modern economic science is concerned, are themselves only of recent date. It is indeed true that the change in substance is in some respects not so great as the change in outward form; and much more of modern economic theory, than at first appears, can be adapted to the conditions of backward races. But unity in substance, underlying many varieties of form, is not easy to detect; and changes in form have had the effect of making writers in all ages profit less than they otherwise might have done by the work of their predecessors.

The economic conditions of modern life, though more complex, are in many ways more definite than those of earlier times. Business is more clearly marked off from other concerns; the rights of individuals as against others and as against the community are more sharply defined; and above all the emancipation from custom, and the growth of free activity, of constant forethought and restless enterprise, have given a new precision and a new prominence to the causes that govern the relative values of different things and different kinds of labour.

4. 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 co-operation and Combination of all kinds 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 wellbeing 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 provision, 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 wellbeing. 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 antisocial 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. (1*)

5. This introductory chapter was followed in earlier editions by two short sketches: the one related to the growth of free enterprise and generally of economic freedom, and the other to the growth of economic science. They have no claim to be systematic histories, however compressed; they aim only at indicating some landmarks on the routes by which economic structure and economic thought have travelled to their present position. They are now transferred to Appendices A and B at the end of this volume, partly because their full drift can best be seen after some acquaintance has been made with the subject-matter of economics; and partly because in the twenty years, which have elapsed since they were first written, public opinion as to the position which the study of economic and social science should hold in a liberal education has greatly developed. There is less need now than formerly to insist that the economic problems of the present generation derive much of their subject-matter from technical and social changes that are of recent date, and that their form as well as their urgency assume throughout the effective economic freedom of the mass of the people.

The relations of many ancient Greeks and Romans with the slaves of their households were genial and humane. But even in Attica the physical and moral wellbeing of the great body of the inhabitants was not accepted as a chief aim of the citizen.

Ideals of life were high, but they concerned only a few, and the doctrine of value, which is full of complexities in the modern age, could then have been worked out on a plan; such as could be conceived to-day, only if nearly all manual work were superseded by automatic machines which required merely a definite allowance of steam-power and materials, and had no concern with the requirements of a full citizen's life. Much of modern economics might indeed have been anticipated in the towns of the Middle Ages, in which an intelligent and daring spirit was for the first time combined with patient industry. But they were not left to work out their career in peace; and the world had to wait for the dawn of the new economic era till a whole nation was ready for the ordeal of economic freedom.

England especially was gradually prepared for the task; but towards the end of the eighteenth century, the changes, which had so far been slow and gradual, suddenly became rapid and violent. Mechanical inventions, the concentration of industries, and a system of manufacturing on a large scale for distant markets broke up the old traditions of industry, and left everyone to bargain for himself as best he might; and at the same time they stimulated an increase of population for which no provision had been made beyond standing-room in factories and workshops. Thus free competition, or rather, freedom of industry and enterprise, was set loose to run, like a huge untrained monster, its wayward course. The abuse of their new power by able but uncultured business men led to evils on every side; it unfitted mothers for their duties, it weighed down children with overwork and disease; and in many places it degraded the race. Meanwhile the kindly meant recklessness of the poor law did even more to lower the moral and physical energy of Englishmen than the hardhearted recklessness of the manufacturing discipline: for by depriving the people of those qualities which would fit them for the new order of things, it increased the evil and diminished the good

caused by the advent of free enterprise.

And yet the time at which free enterprise was showing itself in an unnaturally harsh form, was the very time in which economists were most lavish in their praises of it. This was partly because they saw clearly, what we of this generation have in a great measure forgotten, the cruelty of the yoke of custom and rigid ordinance which it had displaced; and partly because the general tendency of Englishmen at the time was to hold that freedom in all matters, political and social, was worth having at every cost except the loss of security. But partly also it was that the productive forces which free enterprise was giving to the nation were the only means by which it could offer a successful resistance to Napoleon. Economists therefore treated free enterprise not indeed as an unmixed good, but as a less evil than such regulation as was practicable at the time.

Adhering to the lines of thought that had been started chiefly by medieval traders, and continued by French and English philosophers in the latter half of the eighteenth century, Ricardo and his followers developed a theory of the action of free enterprise (or, as they said, free competition), which contained many truths, that will be probably important so long as the world exists. Their work was wonderfully complete within the narrow area which it covered. But much of the best of it consists of problems relating to rent and the value of corn: - problems on the solution of which the fate of England just then seemed to depend; but many of which, in the particular form in which they were worked out by Ricardo, have very little direct bearing on the present state of things.

A good deal of the rest of their work was narrowed by its regarding too exclusively the peculiar condition of England at that time; and this narrowness has caused a reaction. So that now, when more experience, more leisure, and greater material resources have enabled us to bring free enterprise somewhat under

control, to diminish its power of doing evil and increase its power of doing good, there is growing up among many economists a sort of spite against it. Some even incline to exaggerate its evils, and attribute to it the ignorance and suffering, which are the results either of tyranny and oppression in past ages, or of the misunderstanding and mismanagement of economic freedom.

Intermediate between these two extremes are the great body of economists who, working on parallel lines in many different countries, are bringing to their studies an unbiassed desire to ascertain the truth, and a willingness to go through with the long and heavy work by which alone scientific results of any value can be obtained. Varieties of mind, of temper, of training and of opportunities lead them to work in different ways, and to give their chief attention to different parts of the problem. All are bound more or less to collect and arrange facts and statistics relating to past and present times; and all are bound to occupy themselves more or less with analysis and reasoning on the basis of those facts which are ready at hand: but some find the former task the more attractive and absorbing, and others the latter. This division of labour, however, implies not opposition, but harmony of purpose. The work of all adds something or other to that knowledge, which enables us to understand the influences exerted on the quality and tone of man's life by the manner in which he earns his livelihood, and by the character of that livelihood.

NOTES:

1. They occupy a considerable place in the forthcoming volume on Industry and Trade.

The Substance of Economics

1. Economics is a study of men as they live and move and think in the ordinary business of life. But it concerns itself chiefly with those motives which affect, most powerfully and most steadily, man's conduct in the business part of his life. Everyone who is worth anything carries his higher nature with him into business; and, there as elsewhere, he is influenced by his personal affections, by his conceptions of duty and his reverence for high ideals. And it is true that the best energies of the ablest inventors and organizers of improved methods and appliances are stimulated by a noble emulation more than by any love of wealth for its own sake. But, for all that, the steadiest motive to ordinary business work is the desire for the pay which is the material reward of work. The pay may be on its way to be spent selfishly or unselfishly, for noble or base ends; and here the variety of human nature comes into play. But the motive is supplied by a definite amount of money: and it is this definite and exact money measurement of the steadiest motives in business life, which has enabled economics far to outrun every other branch of the study of man. Just as the chemist's fine balance has made chemistry more exact than most other physical sciences; so this economist's balance, rough and imperfect as it is, has made economics more exact than any other branch of social science. But of course economics cannot be compared with the exact physical sciences: for it deals with the ever changing and subtle forces of human nature.(1*)

The advantage which economics has over other branches of social science appears then to arise from the fact that its special field of work gives rather larger opportunities for exact methods than any other branch. It concerns itself chiefly with those desires, aspirations and other affections of human nature, the outward manifestations of which appear as incentives to