

Two Manuscripts on Competition

Tiziano Raffaelli¹

Introduction

Marshall's view of competition has often been criticized for its excessive breadth, which, when it comes to economic analysis, means lack of rigour. The main text devoted to this issue, 'Some aspects of competition'², confirms this impression: Groenewegen, by no means an unsympathetic reader of Marshall's work, qualifies it as 'overlong, general, diffuse in its judgements and never clearly focused'³. The two manuscripts here published for the first time do not subvert the picture, they simply show how deeply rooted and persistent was Marshall's preference for a broad non-technical conception of competition. It was his belief that competition was much more than a market form opposed to various types of combination – as could be suggested by a narrow-minded reading of 'Some aspects of competition' - or a form of social intercourse whose nobler opposite is cooperation - as might on first reading appear to be the case in *Principles*⁴. To appreciate its inner, more recondite meaning, it is helpful to start from Mill's discussion of the relationship between custom and competition in Book II, chapter IV of his *Principles*. The contrast between the all-changing action of competition - its innovative energy - and customary 'business as usual' helps characterize the concept as it is presented in the earlier manuscript (Marshall Papers 4/32). It is the evolutionary model which lies behind the interplay of these two forces that sets the stage for Marshall's representation of its energetic action and its context.

Another motive of interest resides in the fact that the two manuscripts belong to the two extremes of Marshall's scientific activity. 4/32 is part of the early set of notes whose main item is the essay 'On value'⁵. Although the manuscript bears no date, it was undoubtedly

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- 1 University of Pisa. I wish to thank Marco Dardi for his comments on the introduction and his help with the transcriptions.
 - 2 'Some aspects of competition' was delivered as the 1890 Presidential Address to Section F – Economics and Statistics – of the British Association for the Advancement of Learning. Originally published in *Journal of the Royal Statistical Society*, 53:1 (1890), pp. 612-43, it is reprinted in *Memorials of Alfred Marshall*, edited by A.C. Pigou, London: Macmillan, 1925. Page references here are to the journal article.
 - 3 P.D. Groenewegen *A Soaring Eagle: Alfred Marshall 1842-1924*, Aldershot, UK: Edward Elgar, 1995, p. 460. Groenewegen's judgement has nothing to do with early critical reactions by Beatrice Potter and others, motivated by Marshall's hostile attitude to socialism, which, on the other side of the political spectrum, earned him the approval of Punch magazine, (*A Soaring Eagle*, pp. 459-60. The cartoon from *Punch* is reproduced as illustration 41 of Groenewegen's book).
 - 4 *Principles of Economics*, eighth edition, London: Macmillan, 1920, pp. 8-9.
 - 5 *The Early Economic Writings of Alfred Marshall*, edited by J.K. Whitaker, Cambridge: Cambridge University Press, 1975, I, pp. 119-64.

written during Marshall's economic apprenticeship⁶. The other manuscript, Marshall Papers 5/1, bears the date 26/9/23, and forms part of the messy notes that Marshall continuously rearranged for the final volume on 'Progress', a project he never fulfilled⁷. Despite the fact that presumably more than 50 years elapsed between the composition of the two texts, they can be read together, as if they were complementary. Their content is different, and whereas the former is devoted to the wide range of historical-evolutionary considerations that characterize many of Marshall's early writings and would settle to become a solid background in later years, the latter is specifically focused on the working of the market mechanism in terms of efficiency and inequality, which more directly belongs to Marshall's mature work as an economist. However, in so far as they cover the same ground, they support similar views (for instance, on the impracticality of the alternatives to competition), and the general drift of the two notes proceeds from the same assumption: that competition is a multifaceted force, which, all things considered, does more good than harm. Therefore, as he wrote in the 'Conclusion' of the Presidential Address, the main task is that of 'eliminating much of the evil effects of competition, while retaining its good effect'⁸.

The early manuscript lays emphasis on the evolutionary action of competition, a theme that was often to reappear in later writings: in 'Distribution and exchange' competition is defined as 'one of the many agencies through which natural selection works'⁹, and in book VI of *Principles* the specific form of competition that Marshall labels 'law of substitution' is said to be 'a special and limited application of the law of survival of the fittest' (*Principles*, cit., p. 597¹⁰).

The 'struggle for existence' dimension of the topic gives Marshall the opportunity to reflect on its social component: family affections, devotion to tribe and patriotism make people stronger, and help them survive, a judgement also to be found in *Principles* (cit., pp. 242-43). From social links, Marshall jumps to military strength, needed for survival, calling attention to the exception of the Jews, who can 'succeed within a military nation'. Even if industrial and

6 The Archive description of the set of notes to which it belongs - 'An important early paper on theory of value and other short, early notes' - points to the early 1870s as the date of composition. This is confirmed by archive page numbers (see note 1 to the manuscript).

7 On Marshall's project of a final volume on progress, see Groenewegen, *A Soaring Eagle* (cit., pp. 725-730). Caldari and Nishizawa are currently reassembling the scattered Archive material that Marshall planned to reorganize and publish in the volume on progress.

8 'Some aspects of competition', cit., p. 642.

9 In *Principles*, cit., II, p. 75.

10 See also p. 540: 'The process of substitution, of which we have been discussing the tendencies, is one form of competition; and it may be well to insist again that we do not assume that competition is perfect'.

military qualities 'go together almost always' (4/32, p. 1)¹¹, the Jews' commercial genius can be wholly separated from the exercise of military qualities¹².

Like natural selection, competition does not warrant any long-term optimum. Its action does not take into account many an indirect benefit or disadvantage, as in the paradigmatic case of child labour, examined in *Principles*¹³. The manuscript (4/32 page 3) tells the same story in more general terms: competition 'keeps unable men to easy work and so prevents them from learning'. The evil is cumulative, as Marshall states in Biblical tones 'from him that hath not shall be taken away' (page 3). The subject is left with no indication of the remedy, which however is easily detected in other Marshallian writings, including the later manuscript: education helps to correct this shortcoming of competition as it 'tends to bring exchange value into close relation to [real] cost of production' (5/1, page 3), and to reduce inequalities of wealth (page 2) which, as he would write in 'Some aspects of competition' (cit., p. 635), 'tend in many ways to prevent human faculties from being turned to their best account'. But a child's education 'is largely dependent on the resources of his parents and their intelligent interest in his wellbeing' (5/1, p. 2). This makes the cumulative evil much worse, since, in the more prosaic language of *Principles* (cit., p. 562), 'the less fully their own faculties are developed, the less will they realize the importance of developing the best faculties of their children, and the less will be their power of doing so'.

Besides its intrinsic inability to look at the distant future, and to nurture the latent qualities of the labouring man, four other failures of competition are listed by Marshall, together with the

11 The relationship between military and industrial power is a recurrent theme in Marshall's writings. While they are often seen as concomitant, for example in the Middle Ages, Marshall also notices the contrast between military organization and the spirit of free enterprise that is the basis of industrial success (*Industry and Trade*, London: Macmillan, 1919, p. 588).

12 Marshall's lasting interest in the history and role of the Jews in Europe is proven by his references to the relevant literature and many scattered annotations to be found in his main works. An echo of the opinion stated in the early manuscript is to be found in *Principles* (cit., p. 244): 'a race does not establish its claim to deserve well of the world by the mere fact that it flourishes in the midst or on the surface of another race. For, though biology and social science alike show that parasites sometimes benefit in unexpected ways the race on which they thrive; yet in many cases they turn the peculiarities of that race to good account for their own purposes without giving any good return. The fact that there is an economic demand for the services of Jewish and Armenian money-dealers in Eastern Europe and Asia, or for Chinese labour in California, is not by itself a proof, nor even a very strong ground for believing, that such arrangements tend to raise the quality of human life as a whole. For, though a race entirely dependent on its own resources can scarcely prosper unless it is fairly endowed with the most important social virtues; yet a race, which has not these virtues and which is not capable of independent greatness, may be able to thrive on its relations with another race. But on the whole, and subject to grave exceptions, those races survive and predominate in which the best qualities are most strongly developed'.

13 'Thus the work of very young children in factories, even though paid for in money at the full market rate, is seldom worth its real cost: the satisfactions, which are derived from its contributions to production, are not worth the social cost of child life spent in grievous and depressing toil, and without an adequate education to prepare for the duties of after life' (*Industry and Trade*, cit., p. 183).

proposed remedies. The first two failures have to do with combination. Oddly enough, if one thinks of combination simply as the opposite of competition, the failure is double-sided: not only is competition conducive to combinations that check supply (4/32, p. 3) – the tendency to monopoly that is naturally pursued by business enterprises –, but it also hinders combinations that would increase consumers' rent 'without much loss to producers'. This ambivalent attitude towards combinations was to persist over the years, and would find its definitive formulation in *Industry and Trade* (cit., pp. 100-101), where the term 'combination' is sometimes used to denote constructive forms of association, as distinct from “combinations” in the dyslogistic sense of the term'. There is no clear-cut divide between the two, in the sense that monopolistic combination easily follows from 'constructive' association, an outcome which Marshall was to denounce in *Industry and Trade* (cit., p. 518). The range of remedies that could encourage constructive combination and discourage its negative variant goes from the businessman's 'high morale' to 'more knowledge, stronger public opinion, diffusion of information by government', and other forms of State intervention (4/32, p. 5). The third failure concerns the instability of prices that can be induced by the 'unstable structure of credit' and can also be remedied by strong public opinion, knowledge and information. The fourth and final failure stems from the possibility of entering 'into the fruits of a man's labour'; that is, of exploiting his discoveries and inventions without due reward. Alongside with direct governmental 'purchase or reward of discovery', patents are called forth as a remedy, not without some concern because they 'have great evils', presumably in slackening the diffusion of discoveries and innovations and leading to monopoly¹⁴.

The manuscript concludes by classifying the remedies under three heads: private, social and governmental.

If the dating is correct, as everything suggests, it bears witness to Marshall's early unwillingness to identify competition with a market form akin to what is known as perfect competition and to take competitive prices as normal prices towards which market prices gravitate. This identification was provisionally accepted in *The Economics of Industry*¹⁵, to be later rejected¹⁶, opening the way to a different conclusion (*Principles*, cit., pp. 347-48).

14 Patents are the subject of a late manuscript of 25 pages (Marshall Papers 5/27), which was part of the planned volume on progress. On account of its wide implications, patent administration is said to be a delicate task of Government intervention.

15 A. and M.P. Marshall, *The Economics of Industry*, London: Macmillan, 1879, p. 77. Reprint, Bristol: Thoemmes Press, 1994.

16 *Early Economic Writings*, cit., I, p. 73, and n. 21. Whitaker regrets the change: 'This switch to a very

Competition as so neatly characterized in 4/31 is more similar to 'economic freedom', the term he later put forward as a substitute for competition that had acquired a more restricted and ethically negative meaning, being the opposite of any form of combination, association, and co-operation (*Principles*, cit., pp. 9-10).

Taken together, the two manuscripts reinforce the feeling that Marshall's competition is substantially different from its General Equilibrium Theory homologue. This involves wide-ranging theoretical and practical consequences. Far from being the refined tool which, left to itself, adjusts means to ends and brings about maximum satisfaction, it is a less crystal-clear but more powerful device that moulds the economy, with no guarantee as to the long term outcome, like any other evolutionary device. Human intervention is required to watch over its functioning and avoid the shortcomings inherent in any evolving system, set in motion by short term drives and tending to reinforce any initial anomaly and irregularity on which it has grown.

Texts

Competition¹⁷

Struggle for existence

Enablest strongest to survive

In even brute beasts the family affections are an important element of race strength

In human races strength depends on

- i. power of obedience, order, strength of will; fidelity to tribe
- ii. family affections: and in any tolerably high civilization this is a necessary condition
- iii. higher powers of organization, 'patriotism', strength of mind which generally goes with strength of body

Then comes within the nation a different class of causes leading to success

Thus a trading and trafficking nation as the Jews could succeed within a military nation.

relativistic use of the term "normal" appears to be one of the less felicitous features of the *Principles*, and it is to be regretted that Marshall did not refine and elaborate his early approach' (*ibid.*).

¹⁷ [Marshall Papers 4/32/71-75. Page numbers start here from 1 on the upper left hand side. Ff 71-75 was later inserted on the upper right hand side by someone in charge of the material, following the numeration of the essay 'On value' (ff 1-67), and of three more pages of loose notes on the same subject (ff 68-70).]

[page 2]

By their special aptitudes they thrive diverting others from this class of work;

But perhaps their presence does not add to the strength of the nation as a whole: and those nations which combine industrial with military qualities will beat in the long run others; but only in the very long run.

(Industrialism and military prowess go together almost always: always if the industry is enterprising. Commerce and military prowess not always)

Generally however if the race is homogeneous competition does good

i. by exercising function and thus increasing strength

ii. by putting right men in right place

but this has two sides

a it puts able men to difficult work and so increases total amount of difficult work done

[page 3]

but (b) it keeps unable men to easy work and so prevents them from learning

Or to look at things in another way – It leads anyone to do anything when by so doing he can confer a greater service than he could by any other means to those of the same fortune: i.e. a service of which the economic measure is higher.

Outrageousest communists would strive to make each man do the greatest service he can; but this is the function of duty alone, competition is against this and this can't be done so long as the majority of men think more of their own interests than of those of others (outside their own families): but we may go someway in this direction see further on pp 4.

But it does harm, inevitably even among people with a high moral standard by causing those who fall short of the highest work, to abandon the search after the higher

From him that hath not, from him shall be taken away

[page 4]

But besides there are other failures which come under four heads

i. free competition when it does not lead to combinations sometimes does not cause as great an increase of consumers' rent as is possible without much loss to producers

ii. free competition often leads to free combinations and checking [of] supply

iii. free competition though it diminishes variations in prices in many ways, yet by leading to building up of unstable structure of credit which is now up now down leads to variations; and these are in interest of rich versus poor, of trader versus producer, of those who have the speculative instincts versus the sturdy trader. Corners etc. chiefly hurt speculators; but non speculators injured by changes of value.

iv. free competition often enables others to enter into the fruits of a man's labours so that it is not his interest to undertake them

[page 5]

Remedies proposed for these evils are
for evil i. high morale in some traders
special companies formed for the purposes of philanthropy
communal or imperial action

1. in undertaking
2. in controlling business

for evil ii., iii. more knowledge: stronger public opinion: diffusion of information by
government (changes of fashion an evil, not a very great one)

for evil iv. patents (which have great evils) or government purchase or reward of discovery

Or better classify them

remedies are

- i. private: moral
 - ii. social[:] publicity and public opinion
 - iii. government
 - undertaking
 - controlling
 - (giving patents)
 - subsidizing
 - collecting information

26.9.23

Constructive and restrictive influences of competition¹⁸

The fair price of a thing may be said to be one which yields appropriate rewards to each class of producers engaged directly or indirectly in producing it.
“Appropriate” here means almost the same as “normal”

Competition tends generally to set up fair level of prices; because

I among employments that are of the same grade; i.e. are of about equal difficulty and incidental disadvantages; and require equally long and expensive preparation it tends to equality of remuneration

II when the demand for a particular skill or other trained faculty is greater than had been foreseen, it raises remuneration above the normal level; and therefore makes the flow of labour into it to be greater than usual.

An absolute autocrat, with boundless knowledge, insight, power of work and long experience might adjust the remuneration of any work to the benefits it conferred; so far as the country's resources would reach; while, in a similar State, more richly endowed, remunerations for

18 [The first sentence of the manuscript is here given as its title.]

different castes might be arranged in similar proportions, on a higher scale.

[page 2]¹⁹

Nevertheless high natural faculties and alert inclination to work indeed might fail of due recognition: time would generally bring a remedy for this; but it might be brought slowly and not certainly. Also each individual's life is short; and he will get but little consolation from the reflection that, if his fortune had been better, his energies and abilities would have naturally obtained a higher reward.

Also for those born in lowly estate, ability and industry combined may fail to yield a due return. This inequality is a chief thing to be envisaged, and reduced. The work has gone far chiefly by aid of cheap and yet fairly good general education and therefore though it may be true that each man's reward is approximately proportionate to the social value of his work, it is largely dependent on the resources of his parents and their intelligent interest in his wellbeing.

An open field and no artificial favour gives the best opportunity for the action of these beneficent forces: no doubt, unless supplemented by insight and foresight it may yield but moderately good results: and no better arrangement has been yet suggested, which could be worked under existing conditions. These conditions have changed for the better; but they may yet be further advanced.

[page 3]

Economic Progress

Concluding Observations

Gradual development of close relations between real cost of production and value.
The changing relations between real cost of production and exchange value.

The domination of caste prevents the close adjustment of exchange value to real c. of p. [cost of production].

Inequalities of wealth even in a modern State tend in the same direction.

Education tends to bring exchange value into close relation to c. of p. [cost of production].

And, although the share that goes to the owner of dead capital is governed by influences of the past, and partly of the very distant past, yet on the whole there is an improvement in the adjustment.

The relations between e. of m. [earnings of management] and simple earnings are made closer by J.S.Cs [Joint Stock Companies] etc.

But the faculty for taking risks rightly is "heaven born" very much as is that of the Sacred bard.²⁰

19 [No page numbers in the original.]

20 [The text is followed by half a page which deals with the way of ordering some material for publication in the book on progress.]