

ECONOMICS OF INDUSTRY

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Economics of Industry by A. Marshall & M. P. Marshall

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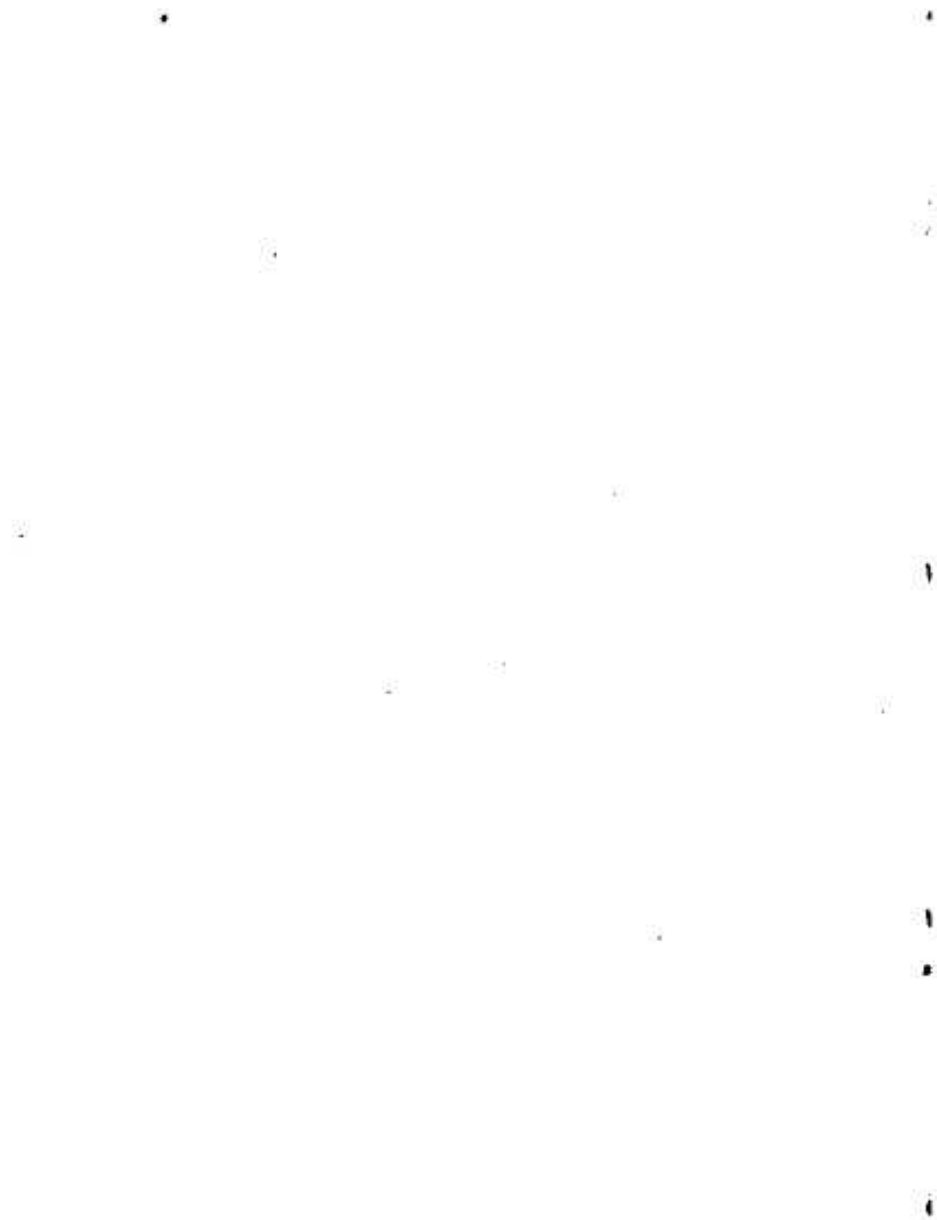
PREFACE.

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D.K. THIS book was undertaken at the request of a meeting of Cambridge University Extension lecturers, and is designed to meet a want which they have felt.

It is an attempt to construct on the lines laid down in Mill's *Political Economy* a theory of Value, Wages and Profits, which shall include the chief results of the work of the present generation of Economists. The main outlines of this theory have been tested during many years in lectures at Cambridge, and more recently at Bristol.

An inquiry into the subjects of Banking, Foreign Trade and Taxation is deferred to a companion volume on the "Economics of Trade and Finance."

The authors wish to acknowledge their obligations to Mr H. Sidgwick, Mr H. S. Foxwell and the Rev. W. Moore Ede for suggestions and aid in preparing the book for the press.



PREFACE TO THE SECOND EDITION.

THE present volume contains an outline of the theory of Value, Wages and Profits. This theory, as it was left by English Economists of the last generation, made too great pretensions to finality; and by a natural reaction their work has been severely criticised. But on the whole the progress of inquiry has tended to vindicate it, and to show that while most of it is very incomplete, there is but little in the careful exposition of it given by John Stuart Mill which is not, when properly interpreted, true as far as it goes.

It seems however necessary to go a good way apart from Mill with regard to one important question. He never worked out fully the applications of his own principles to the problem of Distribution: his last utterance on the question in his review of Thornton, left part of it avowedly in an unsatisfactory state; he gave indeed some hints as to the direction in which a solution was to be looked for, but he did not pretend to work it out himself. In this volume an attempt is made to supply the solution, and to show that there is a unity underlying all the different parts of the theory of prices, wages and profits. The remuneration of every kind of work, the interest on capital, and the prices of commodities, are determined in the long run by competition according to what is fundamentally the same law. This law of Normal Value has many varieties of detail, and takes many different forms. But in every form it exhibits value as determined by certain relations of demand and supply; and Cost of Production as taking the chief place among the causes that determine supply. The Second Book begins with a general statement of this law as applied to commodities. This is followed by a discussion of some peculiarities that are found in the laws of supply of unskilled

labour, of skilled labour and of business power. The ground is thus cleared for the inquiry how Normal demand and supply determine first the share of the joint produce of capital and industry which goes as interest to capital, and secondly how the share that goes to industry is divided among its different ranks. The volume ends with a discussion of the way in which the Normal action of economic forces is hindered, or even overridden, but never destroyed by friction, by combination or by those passing events which exercise a restless influence on Market values.

By an oversight no formal definition of the term *free competition* has been given in the text; and as, the book being stereotyped, there is some difficulty in introducing it at the proper place, it may be given here. A man competes freely when he is pursuing a course, which without entering into any combination with others, he has deliberately selected as that which is likely to be of the greatest material advantage to himself and his family. He is not supposed to be selfish: in fact the Normal supply of all grades of industry, except perhaps the lowest, depends on the unselfish sacrifice by parents of their own pleasures for the benefit of their children. But he is supposed to be consulting his own material advantage and that of his family to the comparative neglect of the welfare of others. If every one always found his greatest happiness in trying to do that which was best for others, the world would have no theory of Normal values as it is described in this volume: some such Communism as that which prevailed among the early Christians would be the basis of economic theory. But in this world, as it is, the chief *active* principle in business is the desire of each man to promote the material interests of himself and his family. Normal results in Economics are therefore those which would be brought about in the long run by this active principle, if it had time to overcome—as it necessarily would in sufficient time—custom, inertness, ignorance, and all the other *passive* elements which make up economic friction. It has been urged that as custom is often more powerful than competition it ought not to be spoken of slightly as a mere friction. But this is entirely to misapprehend the meaning of the term friction. A friction is not necessarily a small

thing, but it is a passive resistance; and an active force, however small it is, acting on a material that is not perfectly rigid, will in the long run overcome any amount of friction. Human nature is never absolutely rigid; and custom never holds its own in opposition to a strong active economic force working for many generations persistently in the same direction.

Normal results are those which competition would bring about *in the long run*. The periods to which they relate must be sufficiently long to give time for the active forces of competition to overcome the passive resistances of ignorance, prejudice, custom, etc. They must be sufficiently long to enable us to neglect temporary fluctuations of supply and demand, the influence of good or bad harvests, etc., and to regard these alternating changes in opposite directions as neutralizing one another. We must be able to see standing up in clear outline the broad effects of the constant action of the forces of competition.

It must however be admitted that there are several difficulties in the way of a precise definition of the period of time to which normal results apply, a great deal must be left to the judgment in each case. In particular it is impossible to lay down general rules as to the time that must be allowed for the spreading of knowledge with regard to new inventions, and to changes in the markets for goods and for labour. Every one has a tendency to seek the most advantageous occupation for himself and for his children, and this active tendency will in the long run overcome the passive resistance of ignorance. But ignorance may act as a drag for a long time, and the advantages of different occupations may vary rapidly. One of the most important of the unwritten chapters of Economics is that on the time that elapses between economic causes and their effects in consequence of the slowness with which knowledge diffuses itself.

The first chapters were printed at a time when it was proposed to give the volume a more elementary character than was ultimately found advisable; and the difficulties which surround the definition of economic terms were ignored as far as possible; but in this edition some further discussion is given of the definitions of wealth and

capital. There is however no really satisfactory meaning to be given to these terms without departing too much from precedent.

In particular the account which ordinary English usage compels us to give of capital when looked at from the point of view of the individual is not well suited for scientific purposes. Not only is it indefinite in many ways; but it compels us to say that if a boat builder has rented his carriage from a carriage builder who meanwhile has rented a boat from him, the capital of each would be diminished if each were to buy the things that he had been hiring.

We are thus brought to a fringe of difficulties which it would be out of place to discuss in a treatise such as the present. They are not merely verbal; but yet they are of such a nature that we can pass by them. For it will be found that none of our reasonings depend on our being able to give an exact list of the things which we regard as capital.

The notion of providing enjoyment for the future rather than for the present is that which underlies all the uses of the term Capital; and the property of providing for the future admits of all degrees and suggests no precise dividing line. The direction in which we ought to look for a solution of the difficulty seems to be a classification of all kinds of wealth according to the extent to which they possess this property.

French writers have always used the word Capital in a broad sense, sometimes as practically synonymous with wealth. Some German writers have also developed a hint of M. Say's as to the division of capital into productive capital and capital for consumption. But their suggestions, though not without value, do not seem to go to the root of the matter.

It may be mentioned that the phrase Net Income is used in several senses in different parts of the book. "Net" in each case means that which remains after making the deductions described in the context.